

July 2022

Innovation fund consultation decision document – approach for 2022-25

ofwat

About this document

This document sets out the headline decisions on the approach we will take for the innovation fund for 2022–25. Our decisions have taken into consideration the feedback provided by stakeholders in our recent consultation and wider feedback we have received during the pilot period of the innovation fund.

We have published the headline decisions primarily to ensure the water sector has clarity on, and therefore can plan towards, the opening of our next competition, Water Breakthrough Challenge 3, which will launch in October 2022.

We expect to publish a consultation decision companion document in autumn 2022, which will set out further information on the headline decisions, including more detail and decisions on the new open access competition, which requires development and consultation with the sector.



Executive summary

We received 40 responses to our consultation from a range of respondents, including water companies, supply chain organisations, innovators and representative bodies. The vast majority of responses were positive about the proposals set out. As a result we have made the following decisions about the innovation fund in 2022-25:

Open access competition – opening early 2023

We will launch a new open access competition to reduce barriers to access the fund. We will make circa £4m available each year and invite entries up to the value of £500k. Anyone can enter*.

See page 5 for further information.

Water Breakthrough Challenge 3 – opening October 2022

Catalyst stream

Catalyst will run annually. Circa £8m will be made available in 2022-23. Individual entries can bid for between £500k and £2m. Lead entrants must be water companies and background IP can be licensed.

See page 6 for further information.

Transform stream

Transform will run annually. Circa £30m will be made available in 2022-23. Individual entries can bid for between £2m and £10m. Lead entrants must be water companies and background IP can be licensed.

See page 7 for further information.

We will continue to evaluate progress and our competition processes (including how we can streamline entry requirements), and will adapt our approach if that supports better outcomes.

Supplementary information

Consultation decision companion document – provides full analysis of consultation responses and more detail on decisions. We expect to publish this document in early autumn 2022.

[Innovation fund consultation – approach for 2022-25](#) – the consultation document which was live in April and May 2022.

[Innovation fund consultation – approach for 2022-25 appendices](#) – provides more detail on the proposed approach for 2022-25.

<https://waterinnovation.challenges.org/> – provides all information on the competitions we've ran so far.



We have been operating the fund for 18 months as a pilot. During this time any organisation could partner with one or more of the [25 water companies¹, including eight NAVs, in England and Wales](#) who would lead an entry to a competition.

We have been encouraged by the level of interest, collaboration and the quality and range of entries we have seen. Water companies have entered the fund in partnership with 275 different organisations so far.

In the consultation (published April 2022) we identified a number of key areas where further evolution of the fund would be beneficial over the next three years (2022-25). The key areas were:

- supporting more early-stage ideas through the innovation fund;
- allowing innovators to have greater access to the fund;
- encouraging a wider range of innovations to come forward, including from other sectors;
- reducing barriers to involvement with the fund; and
- facilitating new relationships and collaborations across the sector and from other sectors.

The proposals in the consultation aimed to address these areas.



We receive 40 written responses to our consultation from a broad spectrum of stakeholders, with 16 of the 40 respondents representing innovators or supply chain bodies. Other respondents include 15 water companies (including one NAV) and a number of representative bodies such as Future Water Association, Spring, National Energy Action and the Consumer Council for Water.

In the consultation we proposed to:

- split the remaining £120 million of the fund into three annual award amounts of approximately £40 million between 2022 and 2025;
- introduce a **new competition** targeted primarily at innovators to support earlier stage idea development, see Section 3 and Appendix 2 for more detail;
- allocate a portion of the funding (about £4 million) available for 2022-25 to this **new competition** and remove barriers to involvement;
- allow anyone to be a lead entrant in partnership with any organisation for the **Water Breakthrough Challenge** Catalyst stream;
- allow owners of background IPR to charge a licence fee at a fair, reasonable and non-discriminatory rate for entries to the **Water Breakthrough Challenge** Catalyst and Transform streams; and
- maintain all other elements of the **Water Breakthrough Challenge** Catalyst and Transform streams.

¹In this document, reference to a 'water company' means a water and/or sewerage undertaker holding an appointment under Chapter 1, Part 2 of the Water Industry Act 1991.

We have received overwhelming support for the introduction of a new ‘open access’ competition. We will be working up the detail of the new competition in the coming months, we can currently confirm the following:

- the competition will launch no earlier than January 2023 with a straightforward entry process that is proportionate to the value and risk of these initiatives;
- there will be no requirement for organisations to partner and / or receive sponsorship from a water company to enter the competition;
- the competition will primarily target early-stage innovation, allocating circa £4 million annually;
- up to £500,000 will be available for individual entries;
- there will be no mandatory 10% financial contribution requirement;
- there will be no IPR licensing requirements applied to winning entries in the competition;
- entries to this competition will need to align with one or more of the four innovation themes outlined in this document.

We will review the success of this competition before making a decision on the format and frequency of future open access competitions.

We will provide more detail on how the new competition will run in early autumn 2022. We expect this to include:

- An overview of the entry process and timings.
- An outline of the eligibility criteria, critical legal information and an overview of assessment criteria to help people to consider if they would be interested in entering.
- A clearer definition of how entries will need to demonstrate alignment to the innovation themes and/or if the first competition will focus on particular themes.
- Confirmation of the role water company stakeholders will play in supporting the delivery of the new competition.

Respondents reacted positively to our proposals to retain many of the existing features of the Catalyst stream whilst making some amendments to remove barriers to entry. As such, we confirm our decision to:

- make circa £8 million available in 2022-23, with entrants able to bid for between £500,000 and £2 million;
- require lead entrants to be a water company. Any organisation can be a partner. Lead entrants can devolve project management responsibilities to partners;
- require a 10% mandatory financial contribution;
- allow background IPR to be licensed and require that foreground IPR must be shared with water companies in England and Wales ([see 4.5 of Breakthrough 2 terms and conditions](#));
- maintain the option for entrants to propose an alternative IPR approach;
- maintain a similar entry process and timeline to Breakthrough 2 ([see 5.1 in Breakthrough 2 Catalyst stream entrant handbook](#)).

The Catalyst stream of the Water Breakthrough Challenge will run annually in autumn 2022, 2023 and 2024. This annual approach ensures adequate time between competitions to better support innovation planning and partnership development.

For Water Breakthrough Challenge 3, the Catalyst stream entry period will open at 12 noon BST on Monday 3 October 2022 and close at 12 noon GMT on Thursday 8 December 2022.

We will provide more detail on how Catalyst will run when the Challenge opens.

For the Catalyst stream, activity relating to the project management of the entry (including drafting the submission) can be shared across the project partner team. The lead water company should agree with partners how these activities are shared and ultimately remains accountable for all aspects of entry delivery.

Our proposed changes to Transform were designed to maintain the core approach entrants have been used to, while relaxing the IPR conditions in line with the Catalyst stream. The majority of respondents agreed with this approach. As such, we confirm our decision to:

- make circa £30 million available in 2022-23, with entrants able to bid for between £2 million and £10 million. We are exploring an option to allow bids over £10m. More information on this will be provided in early autumn 2022;
- require lead entrants to be a water company. Any organisation can be a partner;
- require a 10% mandatory financial contribution;
- allow background IPR to be licensed and require that foreground IPR must be shared with water companies in England and Wales ([see 4.5 of Breakthrough 2 terms and conditions](#));
- maintain the option for entrants to propose an alternative IPR approach; and
- maintain a similar entry process to Breakthrough 2 ([see 5.1 in Breakthrough 2 Transform stream entrant handbook](#)).

The Transform stream of the Water Breakthrough Challenge will run annually in autumn 2022, 2023 and 2024. This annual approach ensures adequate time between competitions to better support innovation planning and partnership development.

For Water Breakthrough Challenge 3, Stage 1 of the Transform stream entry period will open at 12 noon BST on Monday 3 October 2022 and close at 12 noon GMT on Wednesday 9 November 2022.

We will provide more detail on how Transform will run when the Challenge opens. For example, the funding outcomes possible in Round 3, more clarity on funding linked to milestones and potential opportunities for follow on funding.

For the Transform stream, it is important that water companies play a leading role in all aspects of the development of entries and the delivery of projects. This supports the fund's ambition to embed innovation practices and knowledge within water companies (and the sector) for the long term.

Entries submitted to the innovation fund must align to one or more of the innovation fund themes. These themes are intended to highlight key areas where innovative thinking is needed in the water sector.

We have reflected on the feedback we received during the pilot period and have revised our themes to align more closely to the [2050 water innovation strategy](#), the Welsh Government’s [Strategic Policy Statement and objectives](#) and the updated UK Government [Strategic Policy statement](#). We confirm the use of the following four innovation fund themes for 2022–25:

 1. Responding and adapting to climate change including achieving the sector ambitions of net zero carbon, zero waste and zero leakage	 2. Protecting and enhancing the environment and natural systems, to protect current and future customers from the impacts of extreme weather and pollution	 3. Delivering long-term operational resilience and understanding infrastructure risks to customers and the environment, finding solutions to mitigate these in sustainable and efficient ways	 4. Testing new ways of conducting core activities to deliver the services customers and society need, expect and value both now and in the future
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While no longer explicitly referenced in the themes, enabling activities are still very important to drive innovation in the sector and have a key role to play in helping the fund achieve its outcomes. We invite entries in this important area as they will support the fund’s ambition to embed innovation practices and knowledge within water companies (and the sector) for the long term.

We also no longer explicitly reference **open data** or **vulnerability** in the themes – however both would be implicit in theme 4 (and others), and both would easily be a means to fulfil this theme. We have also published more detailed policy statements on Ofwat’s position around both [Open Data](#) and [customer vulnerability](#) since the start of the competitions. We believe that the breadth of the broader theme allows for greater freedom in proposing improved ways of working and could deliver greater benefits..

We are not presently proposing to develop more specific, **targeted challenges** for future competitions. We had feedback suggesting that this could stifle other innovation by focussing limited innovation resource at a single issue. However, we retain the flexibility to do this if there is a clear need for it, and would work with the sector to develop such challenges. We will continue to review how we might incentivise underrepresented entry types and thematic areas.

Over the coming months we will work with the water sector and other innovators to look at how the fund can continue to stimulate innovation in the next price review period (2025-2030).

This will include:

- The size of the fund
- How it could operate
- Whether it could be delivered in partnership with other innovation funds and other sectors

In the consultation we asked if the innovation fund should continue beyond the current price review period.

The majority of responses were in favour of the fund continuing beyond 2025 as this would:

- create certainty to further invest in innovation;
- help build long term partnerships;
- continue to create a pipeline of new ideas;
- stimulate greater levels of innovation; and
- help the sector to meet the strategic challenges it faces, such as reaching net zero by 2030.

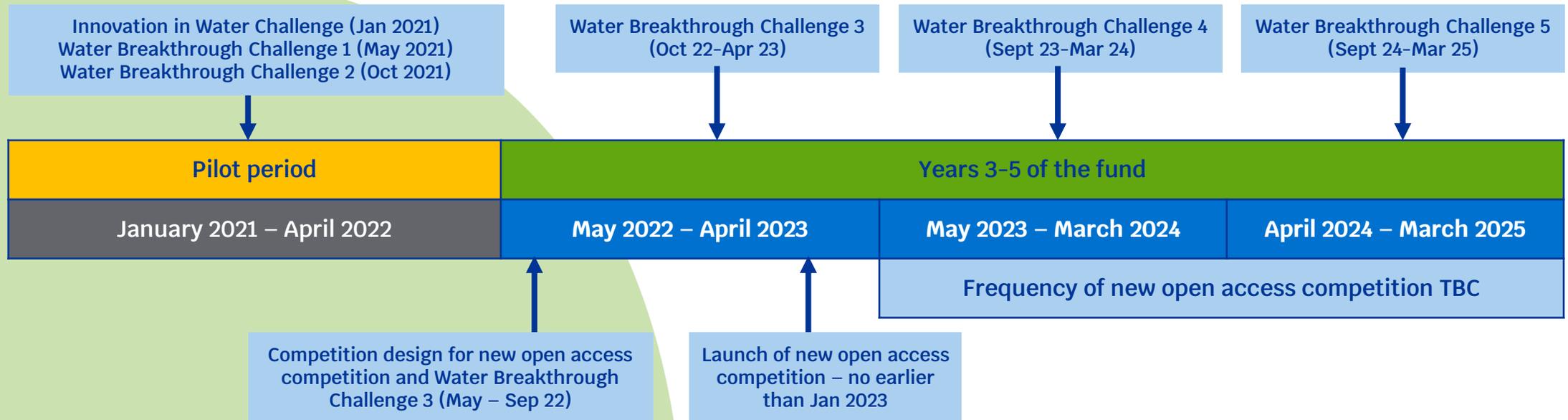
The PR24 draft methodology [<link>](#), published 7 July 2022 signalled that the innovation fund would continue into the next price review period, which would extend its lifespan up until March 2030.

Innovation fund 2022–25 timetable

Over the next three years we will be looking to award circa £120 million to innovative initiatives. The timetable below sets out how we expect to structure our competition delivery.

We will run three rounds of the Water Breakthrough Challenge up to March 2025. We expect the Water Breakthrough Challenge in 2022–23 to run on a similar schedule to Water Breakthrough Challenge 2, launching on 3 October and concluding by April of the following year. For 2023–24 and 2024–25 we will aim to launch the competition in September of each year and conclude by March of the following year. The first open access competition will open no earlier than January 2023. We will review the success of this initial competition before making a decision on the frequency of future open access competitions.

We will consider adjusting competition design parameters, including competition scheduling, if this will improve fund outcomes. This may include the introduction of targeted, challenged-based competitions across this period. In the event that this happens, we will provide sufficient notice to stakeholders. We will also bear in mind as we design future competitions the 2024 price review and the impact it will have on the sector.



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Ofwat
Centre City Tower
7 Hill Street
Birmingham B5 4UA
Phone: 0121 644 7500

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