

April 2022

Innovation fund consultation – Approach for 2022-25

ofwat

About this document

What is this document about?

This consultation sets out our proposed approach for the innovation fund over the next three years (2022-25) and asks key questions to capture your views to help shape and evolve our approach.

Who should respond?

We would like to hear from anyone who may be interested in applying for the fund or is interested in the outcome of the fund such as: academia, charities, consultancies, customers, customer representative bodies, industry bodies or associations, manufacturers, new appointment and variations (NAVs), non-governmental organisations, other regulators, start ups, supply chain organisations, technology providers, water companies and water retailers.

Why should you respond?

You have an opportunity to shape the future of the Ofwat innovation fund. Your views can influence the approach we take to competition design, competition access, funding award levels and support services.

How can you respond?

You can respond to this consultation [online](#), by email to innovationconsultation@ofwat.gov.uk or by post (see section 4 for more details). We welcome your response by **17 May**.

Look out for our numbered questions in boxes like this throughout this document.

These are the areas where we most need your feedback.



Structure of this consultation

We provide a high-level summary with key information about the fund, what types of projects we are looking for and what this consultation is about.

Section 1: Overview of the innovation fund

This section provides the innovation fund timeline. We outline our fund objective, aims and outcomes. We also provide an overview of the projects funded to date.

Section 2: Proposed innovation fund themes for 2022-25

This section outlines the innovation fund themes we propose to align future competitions to. We are seeking your thoughts on these themes.

Section 3: Proposed competition approach for 2022-25

This section outlines the approach we propose to take for the next three years of the fund. This is the area where we are seeking your thoughts to shape our approach.

Section 4: Responding to this consultation and next steps

This section outlines how you can respond to this consultation and what we will do next.

Supplementary information

Appendix 1: Proposed innovation fund themes for 2022-25 – provides more detail on the evolution of the innovation fund themes.

Appendix 2: Proposed competition approach for 2022-25 – provides more detail on the evolution of the competition approach for 2022-25.

Appendix 3: Consultation questions – provides a collated list of all consultation questions.

Appendix 4: Progress during the pilot period – provides details of the winning projects along with a summary of progress against the fund aims and outcomes.

Appendix 5: Insights from the pilot period – provides an overview of the feedback we received during the pilot period along with some key insights.



What is the innovation fund?

The innovation fund was set up to enable the **water sector to better meet the needs of, and create long-term value for, customers, society and the environment through innovation.**

The money for the fund is collected via household water customer bills (£1.50 per household per year).

All projects must therefore demonstrate a benefit to household water customers, which could be either directly or indirectly.



Awarded **£43 million to 33 projects** since January 2021

Circa £34 million to be awarded by end of April 2022

Circa £120 million available to award by 2025

We are looking for projects that:

- spark **ambitious innovation** to enable new ways of working that go beyond business-as-usual;
- equip the water sector to **address the big challenges** it faces ([2050 water innovation strategy](#) and [innovation priorities](#));
- drive far-reaching and **long-lasting benefits** to customers, society and the environment;
- will help to develop and strengthen the sectors **innovation enabling activities**;
- increase and improve **collaboration** and build **partnerships** both within and outside the water sector; and
- are at any stage of innovation maturity.

We have been operating the fund for just over a year as a pilot and are encouraged by the level of interest, collaboration, as well as the quality and types of entries we have seen to date.

During the pilot period any organisation could enter the fund in partnership with one (or more) of the [17 water companies or eight NAVs in England and Wales](#). We saw water companies working in partnership with other water companies, water retailers, supply chain and a range of innovators both within and outside the water sector. Nearly 100 organisations have been involved so far.

However there are key areas where we think further evolution of the fund would be beneficial over the next three years (2022-25). The key areas are:

- 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.

We welcome your views on the approach proposed for 2022-25 by 17 May 2022.

You can respond online, by email to innovationconsultation@ofwat.gov.uk or by post (see Section 4 for more details).

In this consultation we propose to:

- split the remaining £120 million of the fund into three annual award amounts of approximately £40 million between 2022-25;
- 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, see Section 3 and Appendix 2 for more detail.

Section 1: Innovation fund overview

We have been engaging with the water sector and wider stakeholders on the development of the innovation fund since 2019. The feedback we received has influenced our pilot period approach. Over the last 12 months we have run three competitions and have awarded [£43 million to 33 projects](#). We will be awarding a further circa £34 million by the end of April 2022.

Over the next three years we will be looking to award circa £120 million to innovative projects.



The overarching objective of the fund is that the **sector can better meet the needs of, and create long-term value for, customers, society and the environment through innovation.**

The fund **aims** to achieve this objective through driving impact in three key areas:



During the pilot period, we believe we have made progress on all three of the fund aims. However, we believe there is more we need to do in particular to accelerate the creation of innovative products, services and concepts and to grow the capacity and capability of the sector.

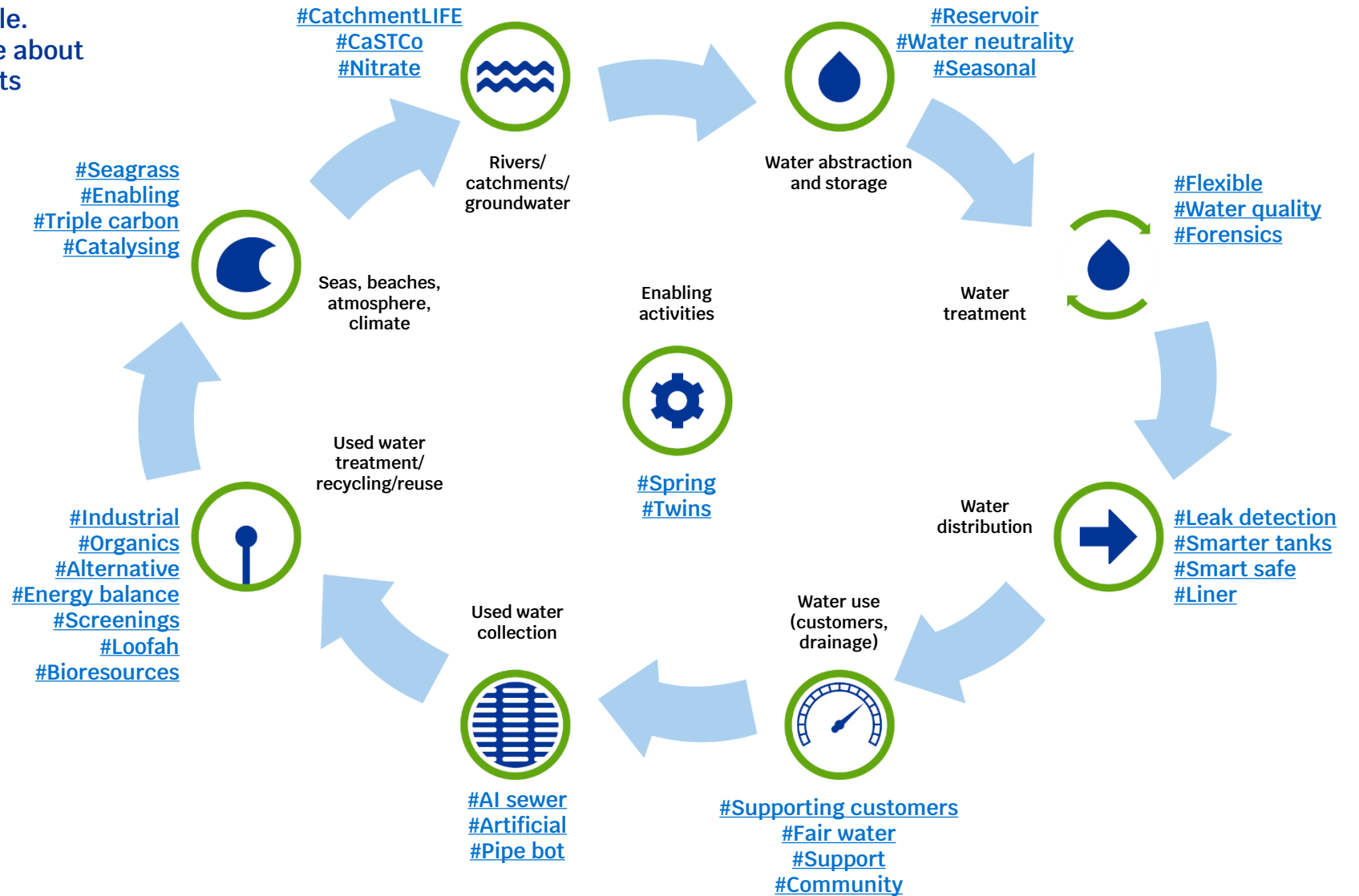
In relation to the seven intended outcomes of the fund, we have made progress against all of these, however, as with the aims there is more we need to do to achieve these outcomes. See Appendix 4 for more detail.

The seven intended outcomes of the fund

- **Outcome 1:** The industry understands and values the role of innovation in solving long-term problems.
- **Outcome 2:** More partnerships and collaboration across companies, the supply chain and outside the water sector.
- **Outcome 3:** Projects supported or motivated through the fund are innovative and deliver benefits and learning even if they fail.
- **Outcome 4:** More openness to sharing data, insights and ideas to support innovative practices within the water sector and with other sectors.
- **Outcome 5:** Barriers reduced to scaling up and rolling out proven innovations within the sector.
- **Outcome 6:** The sector has increased and embedded new innovation skills into their ways of working.
- **Outcome 7:** Ofwat understands how to better direct and enable innovation in the water sector.

Section 1: Innovation fund overview

So far, we have seen a range of projects across the water cycle. Click on the # to find out more about each of the 33 winning projects we've had so far.



Section 2: Proposed innovation fund themes for 2022–25

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](#) and the updated UK Government [Strategic Policy statement](#). We propose to use the following four innovation fund themes for 2022–25:

 1.	 2.	 3.	 4.
<p>Responding and adapting to climate change including achieving the sector ambitions of net zero carbon, zero waste and zero leakage</p>	<p>Protecting and enhancing the environment and natural systems, to protect current and future customers from the impacts of extreme weather and pollution</p>	<p>Delivering long-term operational resilience and understanding infrastructure risks to customers and the environment, finding solutions to mitigate these in sustainable and efficient ways</p>	<p>Testing new ways of conducting core activities to deliver the services customers and society need, expect and value both now and in the future</p>

We provide more detail on the evolution of our innovation fund themes in Appendix 1.

Within the four innovation fund themes we could develop more specific, **targeted challenges** for future competitions. We are mindful that [SPRING](#) is currently running specific and open challenges and that others in the sector have successfully run competitions using targeted challenges.

To develop targeted challenges for the innovation fund, we propose to engage with water companies and wider water stakeholders at least three months in advance of a competition opening for entries. We will co-create the challenge(s) to ensure they are specific enough to identify innovative ideas that will have the most impact for the water sector.

Q1. Do you have any comments on our themes for 2022–25 of the fund?

Q2. Do you have a view on if we should use specific, targeted challenge(s) for future competitions? If you think we should, do you have a view on how we should create them and which future competitions we should apply them to?



We have considered the feedback and insights we have gained so far during the pilot period and believe there are key areas where we can evolve the fund for 2022–25, see Appendix 5 for more detail. The key areas are:

- 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.

All other elements of the with Water Breakthrough Challenge Catalyst and Transform streams will be maintained for 2022–25. See Appendix 2 for more detail.

We propose to split the remaining £120 million of the fund into three annual award amounts of circa £40 million between 2022–25.

We welcome your views on our proposed approach for 2022–25.

To address these key areas we propose to:

- introduce a **new competition** targeted primarily at innovators to support earlier stage idea development;
- allocate a portion of the funding (circa £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.

New competition

Our pilot period competitions have not easily enabled early-stage ideas to come forward, and we see innovations in this area as important in helping the fund to meet its long term aims and outcomes. To support more early-stage ideas and encourage direct involvement of innovators with the fund, we are proposing to:

- allocate a portion of funding (circa **£4 million a year**) to a new competition focused on enabling and supporting earlier stage idea development (**entries up to £250,000**);
- allow anyone to put forward a bid without the need for a water company to lead an entry;
- have minimal eligibility criteria, for example no IPR conditions or mandatory financial contributions; and
- have a streamlined entry process.

We want to ensure that there is a clear pathway for ideas and projects to progress beyond the new competition, either through the Water Breakthrough Challenge or through direct development/adoption by water companies or the supply chain. Therefore, water company and wider water stakeholder (for example supply chain bodies) involvement in the new competition is important to ensure early-stage ideas gain sufficient exposure and steer.

We have identified some ways we think water companies and wider water stakeholders could support this new competition and innovators:

- work collaboratively with Ofwat to shape **targeted competition challenges**;
- provide **data** to aid the development / testing of early stage ideas;
- **role in selecting winners**, either in assessing feasibility of ideas or providing representation on the judging panel (or both); and
- **role in developing solutions**, by potentially choosing to champion a challenge (and subsequently working with all winning entrants), or by partnering with individual entries.

Q3. If we introduce this new competition focused on earlier stage innovations, would innovators consider entering? Please explain your answer.

Q4. Do you have any views on how we could structure the new competition? We have provided indicative figures above but would welcome your thoughts on entry value limits, the amount of the overall fund allocated to this new competition, the frequency of this new competition (for example annually)?

Q5. Is there anything else we should consider if we introduce this new competition?

Q6. How could water companies and water stakeholders most effectively support and engage with this proposed new competition?

Q7. Do you have any views on the areas we have identified for potential water company and water stakeholder support?





During the pilot period we introduced the Water Breakthrough Challenge to fund a broad spectrum of innovation projects. In the second Water Breakthrough Challenge we ran two different funding streams: Catalyst and Transform.

We are encouraged by the level of interest, collaboration, quality and types of entries we have seen through these two streams. We propose to maintain the Water Breakthrough Challenge Catalyst and Transform streams for 2022–25.

See Appendix 2 for more detail.

Catalyst stream aims to encourage new ways of working that go beyond business-as-usual innovation practices in the water sector, in particular, increasing and improving collaboration and building partnerships from within and outside the water sector.

Transform stream aims to spark ambitious innovation and enable new approaches and ways of working, equipping the water sector to address the big challenges it faces, driving far-reaching and long-lasting benefits to customers, society and the environment across England and Wales now and into the future.

Catalyst stream

We are proposing to:

- make circa **£6 million** available for entries between **£250,000 to £1 million**;
- allow anyone to be a lead entrant in partnership with any organisation;
- require a 10% mandatory financial contribution to enter; (see 1.3 of Breakthrough 2 [terms and conditions](#) and Appendix 2.2.2);
- allow background IPR to be licensed, plus maintain the option for entrants to propose an alternative IPR approach. Foreground IPR must be shared with water companies in England and Wales (see 4.5 of Breakthrough 2 [terms and conditions](#) and Appendix 2.2.2);
- maintain a similar entry process to Breakthrough 2 (see 5.1 in Breakthrough 2 Catalyst stream [entrant handbook](#)); and
- run this competition annually (likely to run between October and March).

Transform stream

We are proposing to:

- make circa **£30 million** available for entries between **£1 million and £10 million**;
- require lead entrants to be a water company or a NAV. Any organisation can be a partner (see 1.2 of Breakthrough 2 [terms and conditions](#));
- require a 10% mandatory financial contribution to enter (see 1.3 of Breakthrough 2 [terms and conditions](#) and Appendix 2.2.2);
- allow background IPR to be licensed, plus maintain the option for entrants to propose an alternative IPR approach. Foreground IPR must be shared with water companies in England and Wales (see 4.5 of Breakthrough 2 [terms and conditions](#) and Appendix 2.2.2);
- maintain a similar entry process to Breakthrough 2 (See 5.1 in Breakthrough 2 Transform stream [entrant handbook](#)); and
- run this competition annually (likely to run between October and March).

Q8. Do you have any comments on our proposed approach for the Catalyst stream for 2022–25? We have provided indicative figures but would welcome your thoughts on award amounts, entry values, entry requirements, entry process and frequency of competitions?

Q9. Do you have any comments on our proposed approach for the Transform stream for 2022–25? We have provided indicative figures but would welcome your thoughts on award amounts, entry values, entry requirements, entry process and frequency of competitions?

Q10. Should we enable any organisation to enter the Transform stream without needing to be in partnership with a water company? Please explain why.



Section 3: Proposed competition approach for 2022–25

Having seen the proposed approach for 2022–25, we would appreciate your thoughts on a few further questions.

Q11. Does the proposed competition approach for the innovation fund for 2022–25 make you more or less inclined to enter? Please explain your answer.

Q12. Are there any barriers you can see with our proposed competition approach for 2022–25?

Q13. Are there other ways or approaches you think we should consider for the innovation fund for 2022–25 that may better enable new innovations to come forward and / or make future competitions more appealing to innovators?

Q14. Do you have any further comments on either the proposed approach for 2022–25 or your experiences from the pilot period?

Q15. The innovation fund was set up to run between 2020–25, we would welcome your thoughts on if we should consider running the innovation fund, or an adapted version of the fund, beyond 2025.

Q16. To help us improve in future, we would welcome any thoughts you have on this consultation.



Section 4: Responding to this consultation and next steps

We welcome your comments on this consultation by **17 May 2022**. You can respond [online](#), by email to innovationconsultation@ofwat.gov.uk or by post:

Innovation fund April 2022 consultation response
Ofwat
Centre City Tower
7 Hill Street
Birmingham B5 4UA

If you wish to discuss any aspect of this consultation, please email innovationconsultation@ofwat.gov.uk and we will be in touch.

We will publish responses to this consultation on our website at www.ofwat.gov.uk, unless you indicate that you would like your response to remain unpublished. See Appendix 3 for more details.

We will consider all responses and plan to publish a decision document in summer 2022. We intend to open the next round of the Water Breakthrough Challenge for entries in October 2022.

We will shortly be launching StreamLine, a new service provided by the Drinking Water Inspectorate, the Environment Agency and Ofwat that aims to make it easier for innovators to get advice to navigate regulatory barriers in the water and wastewater industry.

Ofwat (The Water Services Regulation Authority) is a non-ministerial government department. We regulate the water sector in England and Wales.

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

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