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# Speech

Given by John Russell, Senior Director of Strategy and Planning  
Utility Week Live 2022  
Wednesday 18 April 2022

## Regulation for innovation

Good morning all,

Can innovation and regulation truly go hand in hand? The answer to that is yes, they can, but both sides of the equation need to work hard at it for the sector to go further and faster.

To me, innovation is not all about new widgets and infrastructure, it can be about new ways of working and investing in people. It can also be about evaluating how we use a process, product, or idea, assessing the value it brings, and improving its efficiency using creative and collaborative methods.

For regulators it can be about using a range of tools from our toolkit. Regulatory carrots and sticks as well as sometimes just getting out of the way. Using all these approaches is essential if we are to provide better and more sustainable solutions for customers, society, and the environment.

Reflecting back, though there have been good pockets of progress the water sector has not always been on its front foot when it comes to adapting to what is needed, and that has left us lagging behind on many occasions. But I now see a lot of change happening.

Some is driven by necessity. Innovation is no longer a nice to have, it should be at the core of companies. It is a must if we are to truly clean up the environment as the public rightly demand, as well as making sure that high standards of supply are maintained and bills are affordable at a time when households are under real pressure.

Today, I'll explore how the industry has evolved to make this change, as well as how we as a regulator are helping to catalyse innovation to drive progress.

We are working to tackle some of the biggest challenges that face us such as population growth, environmental pressure, and climate change.

The powers given to us within the Water Industry Act and Environment Act and steer from our new Strategic Policy Statement allow us to build regulatory frameworks and tools that'll help the industry set the standard to address these challenges.

But saying that, I also recognise that the nature of water industry regulation does not always make it straightforward.

### Setting the new standard for a better sector

#### Setting the standard for a better sector



Added innovation to our regulatory toolkit



Developed a more outcomes-focused and totex-based regime

Worked closer with other regulators to remove barriers in the sector



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Ofwat previously focused on the outputs companies delivered which many found rigid and inflexible. We've also heard from the sector that more alignment was needed between regulators to provide better clarity of what was required.

To reduce these barriers, we redeveloped our regulatory framework and introduced the outcomes and totex regimes - this is the structure we used in the last two price review and will continue to use for the next price review. This change has given companies more flexibility to choose better solutions and deliver better outcomes.

We've seen improvements in how we as regulators can collaborate together. We've established the RAPID unit, with a joint team drawn from Ofwat, EA and DWI to accelerate the development of new strategic water resource options. This is making a real difference to the pace a scale of ambition of work on vital infrastructure.

We are also using targeted challenges on areas of traditionally poor performance. We put an emphasis on tackling leakage in PR19 and seeing 13 companies achieve their

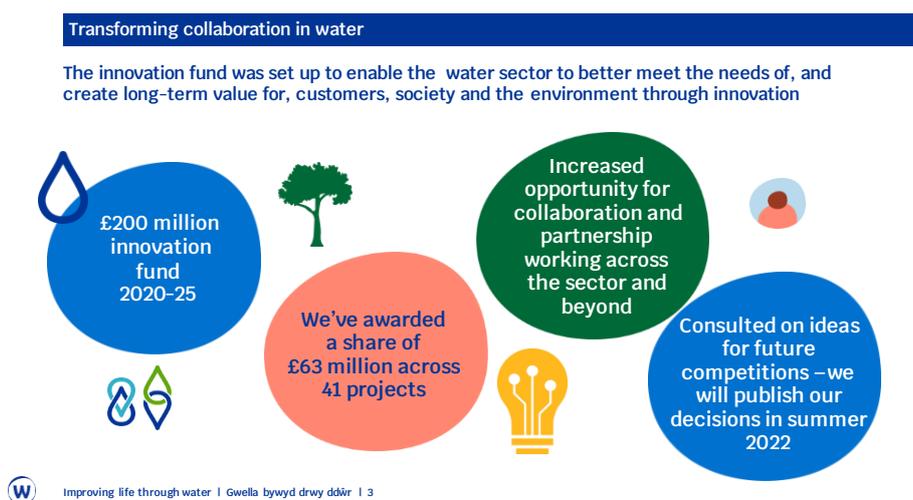
targets in 2020/21 shows how focused regulation can drive real company improvements.

Looking to future ways of regulation, we want to ensure the programme is more outcomes focused, more systems and catchment orientated, and better value for money. To do this, we are also working with companies and regulators to:

- tackle the adverse impacts of storm overflows through the cross-sector taskforces in both England and Wales,
- collaboratively redesign the Water Industry National Environmental Programme (WINEP) framework and deliver bigger improvements in the quality of the water environment, with a stronger focus on outcomes and use of nature-based solutions.
- improve the sector's approach to open data. We are pleased to see the progress that is being made in areas such as sharing data and data analytics that can unlock huge gains in service and environmental protection.
- build frameworks to enable our transition to net zero and more nature-based solutions

As an essential public facing industry, there is always more to learn and we should always look to innovate, collaborate, and share best practice between sectors to continue to remove barriers. Reflecting on what has been achieved so far, I am pleased to see so many companies challenging their own ways of working to do this.

## Transforming collaboration in the sector



Now, I would like to reflect on how we are supporting the industry on innovation.

Our £200m innovation fund competitions are becoming an important catalyst for the water sector. With the support of our partners, we invited the sector to provide entries that strengthen the sector's ability to innovate, to address the big challenges, and encourage the development of strategic, and hopefully long term, partnerships both within and outside of the sector.

Since January 2021, we have awarded a share of 63 million pounds across 41 projects ranging from community-based rainwater management to accelerating the progress of open data in the sector. Over 100 organisations have entered partnerships with a combination of water companies and NAVs. There is real appetite for change and we believe the fund is beginning to galvanise new ambition and drive in the sector.

I wanted to highlight some projects that may interest you all here today, though all projects have been chosen for their potential to drive real change in the sector:

- Severn Trent will lead a project to support customers in vulnerable circumstances that'll use behavioural science to improve engagement with hard-to-reach customers and communities, including help to manage bills and understanding which forms of communication customers prefer.
- The Spring Centre of Excellence has shown real potential to provide the sector with the enabling architecture to facilitate greater collaboration and innovation. It's encouraging to see that Spring has secured substantial support across the water sector and has taken steps to bring water companies together.
- Northumbrian Water has partnered with several organisations to unlock the potential of open data in the sector. The project titled 'Stream' will look to deliver data-sharing infrastructure and an open data platform with support for external stakeholders to use and create value from sector data.

There has also been significant opportunity for more cross sector collaboration. For those of you who work in energy, you'll be pleased to hear that we've supported projects which include collaboration with UK Power Networks, Cadent Gas, E. ON, Northern Gas Networks and Northern Power networks to name a few.

Looking ahead, we have begun to develop proposals to evolve the competitions for the final three years of the AMP (2022-25). This will hopefully encourage even more innovation through future competitions and ensure we award funding to the best projects. Our proposals included plans to:

- support more early-stage ideas through the innovation fund.
- Allow third party innovators to have direct access to the fund.
- encourage a wider range of innovations to come forward, including from other sectors.

- reduce barriers to involvement with the fund; and
- facilitate new relationships and collaborations.

We will review all responses and publish a decision document this summer.

It's also worth mentioning that intend to open the next round of the Water Breakthrough Challenge for entries in October 2022 and we will also be consulting soon on continuing the fund into the next AMP.

## Launching StreamLine

**Launching StreamLine**



Streamline is a new joint service to improve advice and slash response times for water innovators. It will:

- Make it easier for businesses and innovators to obtain regulatory advice
- Support businesses and innovators to remove perceived barriers
- Improve access to all three regulators

Visit our new webpage at:  
[www.ofwat.gov.uk/streamline/](http://www.ofwat.gov.uk/streamline/)

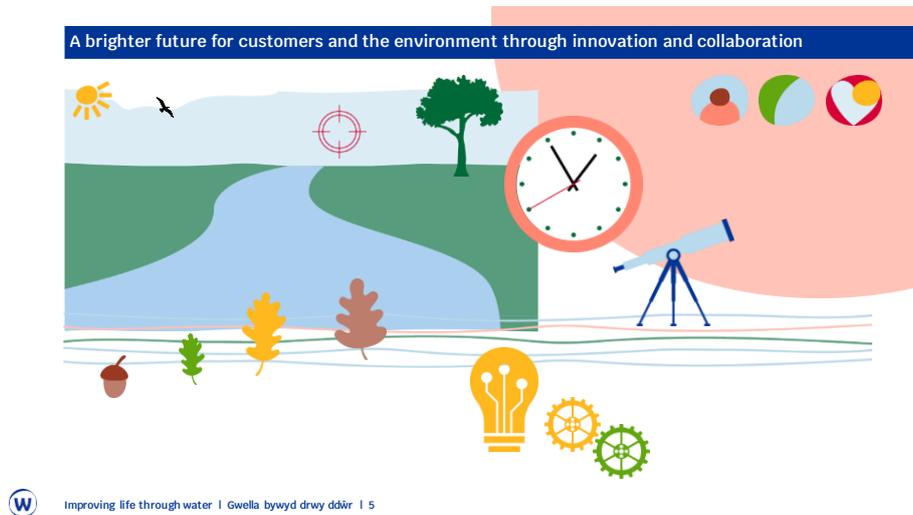

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There is more I would like to share with you today as our pledge to encourage the sector's journey to better innovation. Today, I am pleased to announce that we are launching an additional service which will complement our innovation competitions. It is called Streamline.

Working alongside the DWI and the EA, we will support innovators in their efforts to navigate the regulatory landscape. They'll be able to seek advice from regulators on their ideas, and better identify the regulatory barriers and opportunities that that idea might bring – all in one place. This will not only support the development and quality of competition entries, but it will allow regulators to reflect on whether policies may act as inhibitors to innovation.

I would recommend visiting our website for more on the services that are now available.

## The future is bright, but the sector needs to go further, faster



So yes, there has been good progress and we are glad to have been able to play a role in helping companies to move closer to achieving a gold standard of innovation in our sector. However, this is not the time to be taking our foot off the pedal.

For PR24, companies should think about how their short- and long-term plans will adapt to the future landscape as innovation is not just about producing the newest technology for today; innovation can help companies develop new ways of working, engagement with customers, and anything else that fosters better outcomes for customers, society, and the environment for tomorrow.

So, can regulation and innovation co-exist? I believe they can. This sector has a real ambition to be a leader in innovation and although I see good examples of leaning in to tackle the wicked problems it faces, it could and should move further, faster – and shouldn't always wait for permission to do things differently.

As we continue to incentivise change and remove barriers, the access to new opportunities will continue to increase.

The key thing here is that we all have a strong desire to stimulate change that will create a better service for each individual that uses water from source to tap. Innovation is key to that change and I look forward seeing better solutions in our sector, and beyond it too.

Thank you.