

July 2023

Scoping the Water Efficiency Fund: High level consultation

About this document

This document is a consultation on our approach to introducing the water efficiency fund that we confirmed in our [final methodology for the 2024 price review](#). The final methodology said that "PR24 will introduce a fund of up to £100 million to help stimulate a transformative, sustained and measurable reduction in water demand nationally, using a range of water efficiency approaches". This consultation sets out our emerging thinking on how the fund could operate and seeks views on a wide range of related questions. It is the first of two consultations we have planned and the next, in early 2024, will use the feedback we receive on this consultation to set out a more developed approach.

This document starts by setting out the background and need for the water efficiency fund and what we are aiming to achieve. It considers alternative ways the fund could be targeted to achieve the best results and what the eligibility criteria and scope of initiatives we want to support might be. It then considers how the fund might be implemented including governance, protecting customers, bringing in new thinking, balancing collaboration and competition and the importance of evaluation. The document finishes with timescales and next steps setting out how you can help us shape our approach.

Consultation questions are included throughout the document and are collated in Appendix A. The proposals included in this consultation represent our emerging thoughts and are subject to change. We are very keen to get wide engagement in this consultation, hearing from those already involved in this area as well as those that might be working in related fields.

Executive summary

This consultation sets out our emerging thinking on how to get the best from the £100 million water efficiency fund that we confirmed in our final methodology for the 2024 price review. It is the first part of a two-stage consultation process that will also see a more detailed consultation in early 2024. Following that, we plan to set out our approach to the fund in summer 2024 so that it can be active from April 2025.

It is more important than ever to manage demand for water in England and Wales and the sector is at risk of falling short of its long-term aspirations and targets in this area. Water companies are predicting that by 2050 we will need 25% more than the water currently put into supply to meet demand. This is driven by the need to reduce unsustainable abstraction, increase resilience to drought, supply a growing population and adapt to climate change.

By introducing this fund, we aim to stimulate a transformative, sustained and measurable reduction in water demand nationally, using a range of water efficiency approaches. This consultation seeks views on a wide range of areas. These are summarised below.

Aims and objectives: We set out what we want the fund to achieve and seek views on this and how the fund can best unlock progress in this area.

How the fund should be targeted: We set out an initial view on several areas we could usefully focus the fund. These include behaviour change, targeted interventions based on better understanding of water use and technological interventions. We also explore alternative ways of targeting the fund, for example, by residential / business demand, over time or geographically. We are keen to hear views on how to target the fund effectively.

Eligibility and scope: We share our initial thinking on the eligibility for and scope of the fund and seek views on how we can most effectively bring in expertise from other disciplines while nurturing existing skills and the role of the water industry in the fund. We discuss the characteristics of the sorts of initiatives we envisage supporting including impact, additionality, timing and delivery, innovation, collaboration, evaluation and legacy.

Implementing the fund: We are at an early stage of our thinking around how the water efficiency fund should be implemented. We explore areas such as how we can learn from the innovation fund, what governance may be required, how to protect customers (both residential and business customers), how to bring in new thinking, balancing collaboration and competition and the importance of evaluation. We are keen to hear views on how the fund can best be implemented.

While we have set out early thinking on the water efficiency fund in this consultation, we remain very open to views on how to make it as effective as possible. We will review responses

to this consultation carefully and use them to inform a more detailed consultation early in 2024. This will be followed by final decisions on how the fund will operate in summer 2024.

Responding to this consultation

We welcome comments on this proposal. Please email your responses to waterefficiencyfund@ofwat.gov.uk. The closing date for this consultation is 22 September 2023.

We intend to publish responses to this consultation on our website at www.ofwat.gov.uk. Subject to the following, by providing a response to this consultation you are deemed to consent to its publication on our website.

If you think that any of the information in your response should not be disclosed (for example, because you consider it to be commercially sensitive), an automatic or generalised confidentiality disclaimer will not, of itself, be regarded as sufficient. You should identify specific information and explain in each case why it should not be disclosed and provide a redacted version of your response, which we will consider when deciding what information to publish. At a minimum, we would expect to publish the name of all organisations that provide a written response, even where there are legitimate reasons why the contents of those written responses remain confidential.

In relation to personal data, you have the right to object to our publication of the personal information that you disclose to us in submitting your response (for example, your name or contact details). If you do not want us to publish specific personal information that would enable you to be identified, our [privacy policy](#) explains the basis on which you can object to its processing and provides further information on how we process personal data.

In addition to our ability to disclose information pursuant to the Water Industry Act 1991, information provided in response to this consultation, including personal data, may be published or disclosed in accordance with legislation on access to information – primarily the Freedom of Information Act 2000 (FoIA), the Environmental Information Regulations 2004 (EIR) and applicable data protection laws.

Please be aware that, under the FoIA and the EIR, there are statutory Codes of Practice which deal, among other things, with obligations of confidence. If we receive a request for disclosure of information which you have asked us not to disclose, we will take full account of your explanation, but we cannot give an assurance that we can maintain confidentiality in all circumstances.

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1. Background and the need for water efficiency

The need to manage demand for water has never been more pressing and the sector is at risk of falling short of the reductions needed in the long term. Water companies in England and Wales are predicting additional water needs by 2050 of around 4,000 megalitres per day (Ml/d) which is around 25% of the water currently put into supply in England and Wales. This is driven by the need to reduce unsustainable abstraction, increase resilience to drought, supply a growing population and adapt to the impacts of climate change. At least half of this capacity is expected to come from reductions to demand (increasing water efficiency and reducing leakage)¹.

Water companies currently put around 15,000 million litres of water into supply per day in England and 942 million litres per day in Wales. Of this, around 56% is used in residential properties with just over 18% used by business customers (including retail, offices, schools and hospitals) and a similar volume lost through leaks². The remainder is other uses such as operational use and water taken unbilled.

Ofwat expects all companies to meet long term water demand targets including:

- a 50% reduction in leakage by 2050 from 2017-18 levels
- reducing per capita consumption (PCC) to 110 litres per head per day (l/h/d) by 2050

As set out in the UK Government's [Environmental Improvement Plan](#), a further target is now set in the Environmental Targets (Water) (England) Regulations 2023 for the reduction of potable water supplied by water undertakers in England to people in England³. This is that the volume supplied per day per head of population is at least 20% lower than the 2019-2020 baseline by 31 March 2038. This has been set based on a trajectory to achieving PCC of 110 l/h/d, 50% reduction in leakage and a 15% reduction in business demand by 2050. The glidepath is such that the estimated target at 31 March 2038 is based on a PCC of 122 l/h/d, leakage reduced by 37% and business demand reduced by 9%. This broader target is important because it brings in business customers which are missed by PCC targets. When we refer to customers in this consultation, we are referring to residential and business customers, also known as household and non-household customers.

Despite efforts to reduce water demand, average water use in homes in England and Wales has stayed relatively steady around 140 litres per person per day over most of the last ten years, increasing during the pandemic. Meanwhile, water companies are forecasting business demand to reduce by only 1.8% in England from 2019-20 levels against the UK Government target of 9% by 2038 that applies in England¹.

¹ [A summary of England's draft regional and water resources management plans](#), Environment Agency (2023)

² [2021-22 Annual Review data](#)

³ [Environmental Improvement Plan](#), first revision of the 25 year environment plan, Defra (2023)

The current situation poses a risk for customers (both residential and business customers) and the environment. If the future demand for water does not reduce in line with plans, water supplies will be less secure meaning an increased risk of restrictions on water use or abstracting more from rivers and streams putting the environment at greater risk. It would also mean that alternative sources of water would need to be secured quickly by water companies to bridge the gap. New resources all bring costs for customers and options that are prioritised to deliver water quickly are likely to come at an even higher cost and potentially bring greater environmental risks. The water efficiency fund can help manage these risks and protect customers from associated bill increases.

As well as helping to make supplies more resilient, and reducing the need for investment in additional water supplies that would bring costs to all of a company's customers, water efficiency will help keep individual customers' bills affordable and reduce greenhouse gas emissions. Reduced water usage will reduce water bills directly where customers are metered and reducing hot water use, such as from showering, can also reduce energy bills for customers with or without a water meter. Water UK has estimated that a four-person household could save £472 per year, through reduced water and energy bills, by changing how they use water⁴.

Water companies will be putting forward significant programmes to manage demand over the coming years. This is likely to include a widespread shift to smart metering to help customers reduce their water use by improving the information available to them on how much they use. Plans will also include work to improve water efficiency on the ground by installing water efficient fittings and appliances, such as efficient showerheads that provide the same experience with less water. Water companies are also planning to communicate with customers on the importance of using water wisely and exploring alternative tariff structures to put incentives in place to reduce usage. The UK Government's [Plan for Water](#) includes a range of policies to support water efficiency and Waterwise has published a [UK Water Efficiency Strategy](#).

Even with these programmes, the associated investment, and the expected supporting policies, we think the sector is at risk of falling short of its long-term goals for water efficiency. While the sector has worked on water efficiency for many years, we have not seen the sort of coordinated, sustained and large-scale initiatives that we think are required to achieve significant progress. We think that a different approach is needed urgently, and that a central fund has the potential to support the sorts of collaborative and innovative work that is necessary to get the sector on track. This consultation is the first stage of shaping that fund and bringing about the change that is needed.

This consultation starts by explaining what we are trying to achieve, introduces how the fund might be targeted to support those objectives, discusses the potential eligibility and scope,

⁴ [Brits urged to be 'water savvy' as small changes could help save almost £500 a year on bills | Water UK](#)

shares some early thinking on how the fund could be implemented and finishes with timescales and next steps. There are questions included throughout the document which are then brought together in Appendix A.

2. What are we aiming to achieve?

We announced the water efficiency fund in our [final methodology](#) for our next price control. We said that **"PR24 will introduce a fund of up to £100 million to help stimulate a transformative, sustained and measurable reduction in water demand nationally, using a range of water efficiency approaches."** Our intended outcome is to reduce water demand by unlocking collaborative and innovative work that would not otherwise happen.

While we have introduced incentives for companies to reduce consumption through targets and our Outcome Delivery Incentive (ODI) framework, to date companies have not substantially reduced consumption. This could be due to customers having incomplete information regarding their water use making it unlikely they are able to make informed decisions on how much they use. Other barriers could include dependencies on customer behaviour to deliver improvements, limitations on the skills and experience available within companies, coordination challenges across the companies as well as the perceived long-term nature of demand reduction. Developing a consistent and coordinated approach across England and Wales is particularly challenging for individual companies and the water efficiency fund has the potential to unlock this.

The combination of the incomplete information available to customers and the existence of these barriers suggests that we need to go further than our incentive framework. This fund seeks to work alongside the existing incentive framework, fill the information gap that customers face and help unlock the current barriers to progress in this area.

There is a need for greater water efficiency across England and Wales, therefore we intend the fund to benefit both England and Wales and envisage it being supported by water bill payers in both England and Wales. Purely to give an indication of the scale of individual contributions to the fund we would estimate that, at £100 million over five years, assuming £20 million per year and based on the approximate 77% share of wholesale costs that are met by residential rather than business customers, each of the 24.8 million households in England and Wales⁵ would pay around £0.62 per year. While we recognise that water is also used outside of the public water supply system, and water efficiency is important in this context, this fund will focus on reducing use of the public water supply system to benefit the customers who fund it.

We will use the fund to invite proposals for initiatives to reduce water demand through greater water efficiency and allocate funds based on the merits of those proposals. Our objectives for this fund are to:

- Fund work to reduce water use that is:

⁵ [Household and resident characteristics, England and Wales - Office for National Statistics \(ons.gov.uk\)](https://ons.gov.uk)

- Effective, providing measurable and sustained demand reductions in public water supply.
- Large-scale or with demonstrable potential for large-scale roll out.
- Innovative, with dedicated work on behaviour change and use of data-driven insights.
- Additional to actions included in water resources management plans. Initiatives should also be additional to what a water company should be delivering through its base activities during 2025–30 and what it may have been previously funded for at the 2019 price review (PR19).
- Stimulate cross-sectoral collaborations, major nationwide or regional programs and effective incentive schemes. To support this, we expect to support collaborative initiatives proposed by groups of organisations.
- Bring in new thinking, experts and insights from other disciplines and international experience.
- Capture and make available learning from this process to guide future work and create a legacy and continued benefits that are independent of more seed funding or regulatory coordination.

We do not envisage this fund supporting work to reduce losses of water from distribution networks, which we expect to see coming through water resources management plans and business plans.

2.1 Consultation questions on objectives and rationale for the fund

1. Do you support the objectives of the fund? How could they be improved?
2. Given the scale of the fund, how could it best contribute to these objectives?
3. What precedents are you aware of that could help guide the design of the fund?

3. Targeting the fund

Initiatives could pursue a wide range of approaches to reducing water use. Our initial view is that the fund should be targeted in some way to make sure that initiatives are aimed at an appropriate range of components of demand. This would also help divide and profile the fund across AMP8 (2025-2030). We want to do this in a way that leaves it sufficiently open to new ideas and innovation. This section discusses how the fund could be segmented and seeks views on how this should be done.

3.1 Segmenting the fund

Our initial view is that there are several areas where we could usefully focus the fund. We consider that these focus areas would be suitable for the significant investment the fund proposes, and also would be transformative and additional to approaches water companies and the wider sector have tried in the past. We are seeking views on these areas, and new suggestions. Potential areas include:

- **Behaviour change** – for example, through a well-resourced, collaborative, sustained and widescale campaign.
- **Targeted interventions based on better understanding of water use** – for example, through sector level work to prepare for and use insights into water use from smart metering data.
- **Technological interventions** - to help reduce water use 'on the ground'.

Each of these are discussed briefly below.

Water efficiency behavioural change: We consider that a well-resourced, collaborative, sustained and widescale water efficiency behaviour change campaign to encourage efficient water use at home, and more widely, could form a key part of this work.

Previous behavioural campaigns have tended to be small, lacking focus on effective and measurable outcomes, and we have not yet seen a high-profile campaign covering both England and Wales. In this area we would expect to see effective communication strategies to raise awareness of the value of water, change attitudes and ultimately change behaviours. This work could include the establishment of new governance or branding to create a legacy in this area.

Our current thinking is that, in order to be effective, a campaign should be:

- High profile and big enough to reach its target audience.
- Sustained over a sufficient period to embed new behaviours and bring about the desired change.

- Planned and implemented collaboratively to avoid piecemeal and low impact projects.
- Trusted, involving a range of credible and relevant people and organisations.
- Targeted based on audience segmentation and high-quality data.
- Properly evaluated with progress tracked and improvements made as necessary.
- Linked across other areas of UK and Welsh Government policy, including education.

Sector level work to target interventions based on insights from smart metering

data: Smart meters are becoming the default meter type being installed and the water industry is at a point of transition in the data it collects and has available. This higher resolution and more up to date data has the potential to bring fresh insights into water use for companies and customers. It could also unlock different ways of communicating with customers and structuring tariffs.

The shift to smart metering brings both potential benefits and challenges. Challenges include how the resulting data is managed, structured, stored and used while complying with relevant legislation and protecting customers. Our engagement so far has suggested that, at this time of transition, there may be efficiencies from working at an industry level to develop and apply solutions once in a standardised way. Because of the potential benefits for water efficiency of using this data to target interventions, this could be an area supported by the water efficiency fund. Work could include:

- **Preparing for the data that will come from smart metering:** Development and adoption of common approaches for collecting, storing, structuring and accessing data that is compliant with all legislation and as open and available as possible from the beginning. This could maximise the benefits available from this data over coming years while protecting customers and building in compliance with information law protections.
- **Using smart metering data to support water efficiency:** Mobilising smart metering data to understand how households or businesses could use water more effectively. Artificial Intelligence (AI) could be used to find common patterns in water use and compare water use against benchmarks to target water efficiency interventions by, for example, identifying properties with continuous use indicative of internal leaks or with unusually high use compared to similar properties.
- **Improving communication with customers:** Improving communication with customers on their water use, for example, by bringing water use data together with other relevant data such as that from other utilities and making it easily accessible. This could also involve designing and rolling out tariffs to support water efficiency that make use of improved data or using AI to tailor communications.
- **Identifying and realising broader benefits:** Identifying broader potential benefits from this data, for example, improving transparency of water use and the water balance at an industry level. Another example would be developing an industry-level consumption monitor that can be used to track total consumption and component-level consumption and draw out insights across the industry on how water use is changing and is likely to change based on emerging trends.

We are aware that the sector has already made progress and aspires to do more. There is also recent experience to be gained from smart metering in the water and energy sector. Our thinking is that a large-scale collaborative initiative is potentially beneficial here to accelerate this work, benefit the whole sector and bring efficiencies for customers. The proposals above are illustrative, and we are open to constructive suggestions and alternatives.

Improving water using technology and reducing wastage: The fixtures and fittings people use at home and at work are an important factor in water consumption. Even technology that has potential to be efficient can waste water if it is installed inappropriately or not maintained. Examples of this include dual flush toilets where the flush mechanism leaks, or poorly installed urinal systems that flush too frequently or when a building is unoccupied. This can lead to substantial wastage; for example, Thames Water report that typically around 30% of water used by business customers with smart meters is continuous flow, which is indicative of leaks.

This is why our initial view is that it may be beneficial for the water efficiency fund to include focus on strengthening water using technology, especially those that can reduce wastage. Potential work could include:

- Improving the efficiency of new developments at scale.
- Improving the efficiency of existing properties. For example, working collaboratively to target properties with the greatest potential to save water and helping to facilitate this by supporting the installation of more efficient fittings. Engaging with large water users to increase the efficiency of their water use. For example, operations that use significant process water from the public water supply and could explore alternative sources or process changes to reduce this usage.
- Working with the supply chain and retailers to improve the availability of water efficient fittings.
- Working with water company metering programmes to join up water efficiency messaging and the incentives introduced through volumetric charging and or developing innovative solutions to metering challenges, such as how to meter properties that cannot currently be metered, or how to significantly increase optant meter take-up.

Dividing the fund by focus area has the potential to bring benefits by setting a clear direction for proposals and helping the market deliver an appropriate range of offers. However, being prescriptive could also limit the impact of the fund. Potential benefits from joining up different work areas could also be missed if initiatives take place in silos so this risk would need to be managed. If the fund is segmented into focus areas we think it would be beneficial to also be open to initiatives that have the potential to deliver against our objectives and represent good value for money, but do not fit into one of the proposed categories.

3.2 Segmenting the fund into residential and business use components

When leakage is discounted from the water put into supply, around 70% of water is used by residential customers and around 30% by business customers. One way to initially divide the fund would therefore be to split it between residential and business properties on a similar basis. Where work is truly cross-cutting it could draw from both sides. It is likely that some work would be cross-cutting since a large proportion of water use in business is of a domestic type. For example, toilet flushing and showering are important uses of water in homes but also in contexts such as leisure centres, offices and schools. Other aspects of business water use will be more specialised, such as process water use in manufacturing.

Within the two categories of residential and business demand, there could be sub-categories similar to those discussed above on behaviour change, data insights and technology. These, or similar sub-categories, could form the basis of work packages within the fund.

3.3 Segmenting the fund over time

Some of the activities that we expect to form a part of the fund, and that are discussed above, have a natural sequence. An alternative way of segmenting the fund would be to divide up packages of work across these areas by their natural sequencing.

First phase: could include work to pilot a range of alternative approaches to improving water efficiency with built in evaluation. This would then inform subsequent rounds and which options are rolled out more widely. Work in phase one could also lay the foundation for future phases by, for example, improving data collection, storage and analysis and therefore securing insights on where the biggest savings could be.

Second phase: could include using insights from data to target activity, rolling out communications activity and approaches from successful early pilots and starting to roll out delivery on a wider scale.

Third phase: could be focused on full scale delivery and the creation of a legacy from this work to continue beyond AMP8 (beyond 2030).

Our initial view is that there are both benefits and drawbacks of dividing the fund in this way. This approach could provide benefits by hard wiring an incremental approach that seeks to establish a firm foundation for early delivery. However, it could delay implementation in some areas and would require careful sequencing across a range of initiatives potentially introducing issues with dependencies.

3.4 Segmenting the fund geographically

While there is a need for water efficiency across the breadth of England and Wales, that need is not the same everywhere. For example, there is a pressing need for more efficient use of water in south-east England where water is particularly scarce and demand (particularly residential demand) relatively high. One option would be to divide the fund regionally across England and Wales. This could be based on population, perhaps adjusted in some way to reflect differing water scarcity to direct the work to where the greatest benefits are likely to be.

The downside of dividing the fund geographically is that it could reduce the scope for doing things once and the efficiencies that could bring. In this way, it could lead to the sort of patchwork of projects that we want to avoid.

It is important that the fund works across both England and Wales. While some of the same solutions will be appropriate across the borders, there will be aspects that might need to differ, for example, to take account of different policies or language needs.

3.5 Hybrid approach

Once we have a clearer idea of the sorts of initiatives that the fund could most usefully support it may be possible to combine the different approaches outlined above.

3.6 Number and range of initiatives

Our initial thinking is to support a relatively small number of large initiatives. This is because our goal is to reduce the demand for water and we consider that we are likely to achieve better results by backing large initiatives with demonstrable outcomes. It also reflects our intention to have collaborative initiatives that pull in involvement very broadly across the sector. Any initiatives that are funded will have to present strong evidence that they are likely to be effective.

3.7 Questions on targeting the fund

4. Should the fund be divided into segments? If so, how could we best do this to make it as effective as possible?
5. Where do you think the greatest demand reductions could be made? What examples or evidence can we draw from to make sure the most important areas are targeted?
6. Do you support our current preference for funding a small number of large initiatives?
7. How can we best make the water efficiency fund work for both England and Wales and make sure it takes into account the differing policy context?

4. Eligibility and scope

The water efficiency fund will require eligibility and scope to be set out clearly so that it is clear who can enter, what sort of initiatives can be funded, and to ensure that proposals help achieve the fund's objectives. These criteria could also be used to assess the proposals that come in. We set out our initial thinking on eligibility and scope below.

Impact: Initiatives should stimulate a transformative, sustained and measurable reduction in public water supply water demand in England and / or Wales not limited to one company or operating area. Part of the consideration here will be the unit costs of the initiatives as we will naturally seek to fund those that provide the best value for customers. We do not envisage funding any initiatives through this process that are proposed solely by one individual or organisation or that are focused on development or deployment of one water saving product. Any initiatives would need to be compliant with relevant legislation, including the Subsidy Control Act (2022).

Additionality: Initiatives should be additional to what water companies are including in their water resource management plans (WRMPs) and regional plans to manage water demand and achieve water efficiency commitments. Initiatives should also be additional to what a water company should be delivering through its base activities during 2025-30 and what it may have been previously funded for at PR19. The water efficiency fund is not intended to duplicate or replace this work.

Timing and delivery: Initiatives should take place between 01 April 2025 and 31 March 2030. All initiatives would need to demonstrate commitment to delivering against the fund's objectives and a robust, realistic and well evidenced plan for doing so. Indicators of this would include having a credible team with the appropriate knowledge and experience in place, securing senior commitment within the bidding organisation, having identified risks and appropriate mitigation and so on. We are considering a requirement for sponsors to contribute a proportion of the total funding to demonstrate commitment to the work.

Innovation: Initiatives should use innovative tools or techniques to achieve widespread reductions in water demand. These may be approaches that are established in other sectors or internationally but not previously deployed domestically in water resources. They may be familiar approaches applied in a new way, or they may be new approaches altogether.

Collaboration and eligibility: Initiatives should demonstrate additional value by collaborating across and beyond the water industry and working across sectors. The fund should encourage expertise from outside of water companies and we want to see initiatives involving new talent and perspectives. We expect to support initiatives from groups of organisations working together and demonstrating collaboration. We are considering whether the involvement of water companies in England and Wales should be a requirement or whether the fund could support initiatives in which water companies might not be involved.

Evaluation: All initiatives should include robust plans for evaluation. The fund is about reducing water use and we need to be able to understand and track the effectiveness of these interventions. One way that this fund can support longer term improvements is by learning about what works and making this information available to guide future work.

Legacy: This is a significant amount of funding being made available and we believe that a condition of that funding should be that learning is captured and shared openly with others to guide future work. We also want to see initiatives that can continue to deliver benefits beyond AMP8 (beyond 2030).

4.1 Questions on assessment criteria and scope

8. Do you support our current thinking on eligibility and scope? How could it be improved?
9. How can we most effectively bring in expertise from other sectors and disciplines while also making use of and nurturing the expertise that already exists in this sector?
10. What are your views on whether the involvement of water companies in England and Wales should be a requirement or whether the fund could support initiatives with no involvement from water companies?

5. Implementing the fund

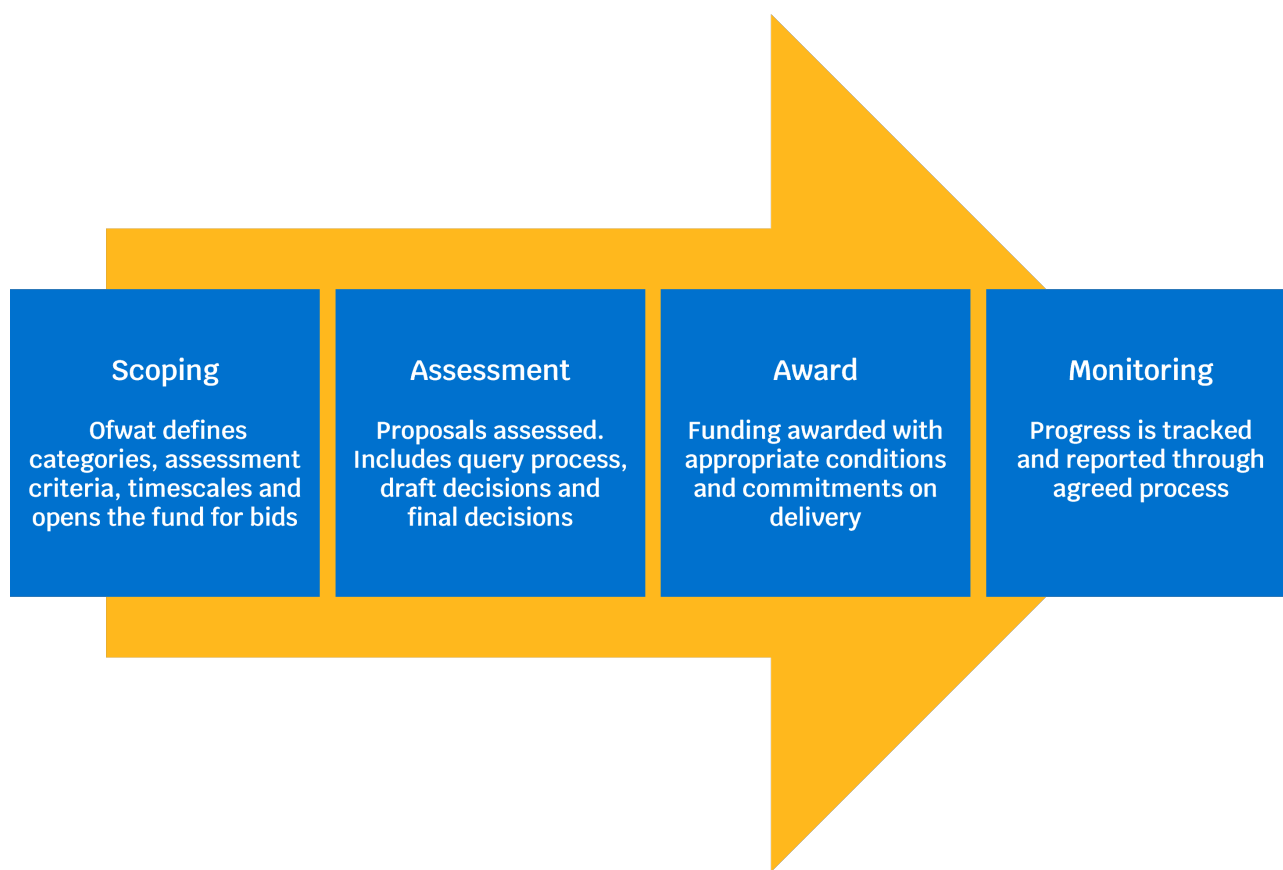
We are at an early stage of our thinking around how the water efficiency fund should be implemented. We will develop this as we review the consultation responses and set out more detail in our planned second consultation which we plan to publish in early 2024. The section below sets out some of the areas we expect to think through further and some early views.

In designing the approach to the water efficiency fund, we have learned from our experience implementing the [Ofwat Innovation Fund](#). The innovation fund has supported notable work on water efficiency already. This included the Water Literacy and Water Efficiency in Faith and Diverse Communities projects⁶. Future rounds of the Innovation Fund could help prepare for the early stages of the water efficiency fund.

While there are similarities, there are also important differences. For example, we see the water efficiency fund as supporting a smaller number of larger initiatives than the innovation fund. This is because the water efficiency fund is aimed specifically at reducing water demand, while the focus of the innovation fund is to support trials and stimulate innovation and collaboration in the water sector more broadly. We therefore anticipate fewer initiatives, perhaps awarded through a more traditional tendering process, than the numerous competitions associated with the innovation fund.

Following two rounds of consultation and engagement, we plan to define the categories, assessment criteria and timescales associated with the water efficiency fund. We envisage an assessment process – potentially including assessment by an advisory panel – before decisions on awarding the funds are made by Ofwat.

⁶ [Announcing the winners of Breakthrough 3 - Ofwat Innovation Fund \(challenges.org\)](#)

Figure 1: Initial proposal for how we might implement the fund

5.1 Governance

The water efficiency fund sits alongside a range of other policy areas that are important for managing demand for water. These include the potential for changes to building regulations, the introduction of a water efficiency label and other initiatives the UK Government has set out in its [Plan for Water](#)⁷. Given its importance and the many organisations involved, we believe there is a case for cross-cutting oversight and coordination of policy in this area to make sure work is joined up and progress is monitored. This is already being considered across governments and regulators and it is possible that the governance that results from these discussions could have a role to play in advising and shaping the water efficiency fund.

While our initial view is that final decisions on which initiatives the fund supports would sit with Ofwat there may be a case for a panel to advise us on which are likely to be most effective. We would envisage such a panel involving experts from within and beyond the water industry with the experience and knowledge necessary to give advice in this area. We would also seek representation from those who could advise on potential unintended consequences, recommend how initiatives could best benefit both England and Wales, and bring in experience from different specialisms. The panel could remain in place for the duration of the fund to provide ongoing support and challenge to those leading the initiatives as progress is tracked and reported. It could also advise on changing priorities or

⁷ [Plan for Water: our integrated plan for delivering clean and plentiful water](#), Defra (2023)

technologies that could shape the evolution of the fund in the longer term as it is possible that the fund would need to evolve as we learn from experience in its early years. Any potential conflicts of interest would need to be identified and managed carefully to make sure that advice is impartial.

We are also considering how to resource the management of the water efficiency fund. Due to the timings and the specialist nature of skills required our initial view is that we should procure support from a delivery partner. The delivery partner would support the day to day running of the fund, including work to track the progress of initiatives and review regular progress reports.

There are several initiatives that are closely linked with the water efficiency fund. We are engaging with the consumer body, CCW on their 'Accelerating Reductions In Demand' (ARID) proposal. This proposal has come about to address the same observed issue as the water efficiency fund and there are potential synergies and links to explore. In particular, we are keen to explore the links on governance and the role that ARID could play as part of that. We are also engaging with Waterwise which has a national voice on water efficiency and extensive experience in this area.

We are engaging closely with MOSL and industry, including via MOSL's [Market Improvement Fund](#), which aims to benefit the business market and its customers. The next round of this fund takes place in November 2023 and could lay some important groundwork for water efficiency.

We want the fund to build on previous work in a constructive way and to nurture the skills and capabilities in the industry while also bringing in new perspectives, approaches, and resources.

5.2 Protecting customers

A substantial amount of funding has been allocated to this work and it is essential that customers' investment in it is protected. As we develop the detail of our approach, we will focus on how to make sure that customers are protected. This will require consideration of:

- What sort of conditions will come with funding. For example, setting out what the money should be spent on, what is to be achieved by when and arrangements for reporting against milestones as well as assurance requirements.
- What sanctions are appropriate if money is not used appropriately.
- Whether to require a contribution to be made by the teams submitting proposals. The innovation fund included a minimum combined company/entry partner contribution of 10% for individual innovation competition bids. A similar requirement could help demonstrate commitment to the work and therefore increase its effectiveness.

- How to manage intellectual property rights so that involvement in the fund is attractive to bidders and work resulting from initiatives is also openly available to bring further benefits in future.
- Requirements for ringfencing money so it can't be used for other purposes and how this applies when collecting, holding, and using funds.

5.3 Bringing in new thinking

We recognise that the water sector has established expertise in this area and we want to make sure it can feed into this work. We also believe that securing new thinking and collaboration will be vital to the success of the fund. One area we will explore further is how Ofwat, with support from its delivery partners, could play a role in bringing together innovators from across industry, and across sectors, with representatives from the water industry. These could include facilitated pitches that bring innovators and water companies together.

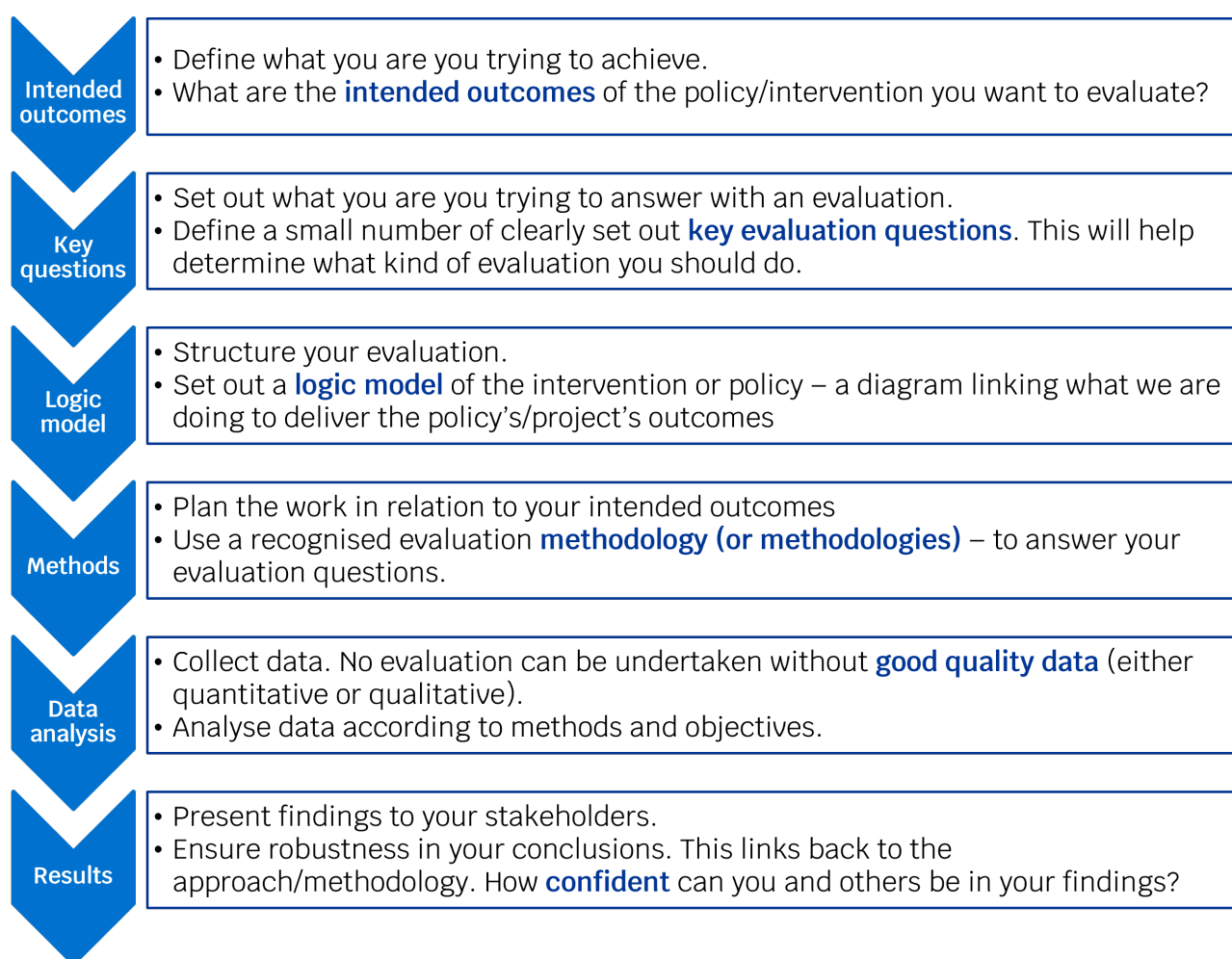
5.4 Balancing collaboration and competition

As discussed above, we initially propose to have an element of competition between proposals for this fund. This is to make sure that there is an incentive to develop the best possible initiatives which is important for achieving the best value for customers. We also want to encourage collaboration as broadly as possible. This means collaboration across sectors, across disciplines and across geography. We recognise that there can be tensions between collaboration and competition in these situations and would welcome views on how we can design the fund to balance this and get the best results. We are also mindful that bidding can be resource-intensive and can lead to abortive effort. We are interested in views on how to manage this.

5.5 Evaluation

Evaluating the effectiveness of initiatives supported by the fund is important to protect the investment made and to inform future work. Initiatives should include an appropriate approach to evaluation. Learning through this evaluation should be made widely available to guide future work and help create high quality evidence that can form part of the legacy of this work. Below we have summarised the main steps of evaluation that we see as relevant to this area. Detailed information about evaluation is available in the [Magenta book](#).

Figure 2: Evaluation approach



As well as evaluating the success of individual initiatives, we propose to establish a similar approach for the fund itself to understand the impact it has had.

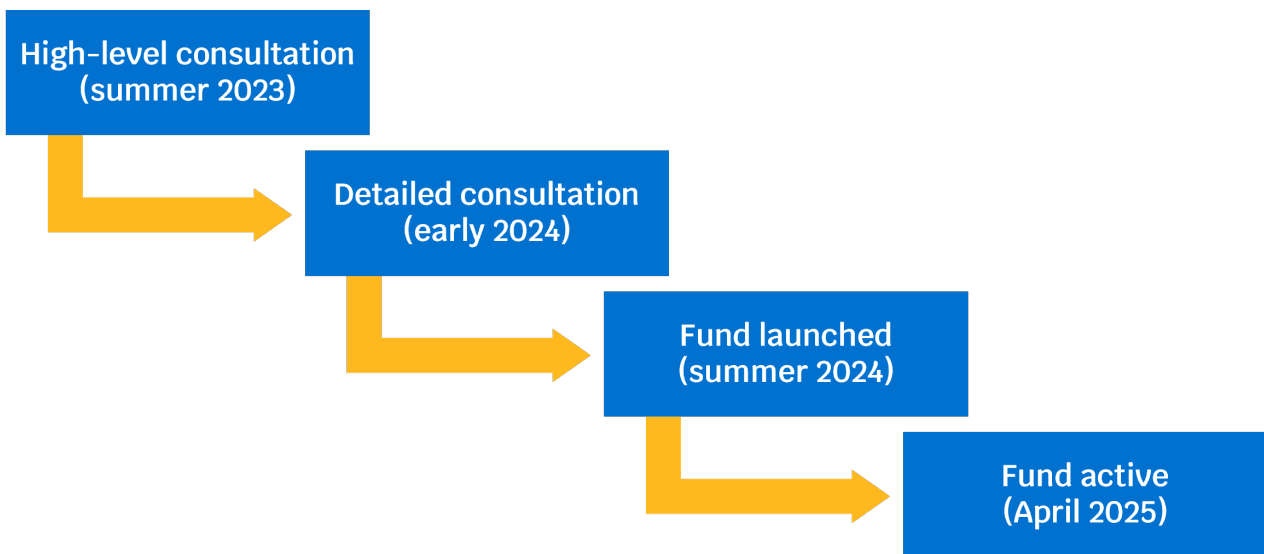
5.6 Questions on implementing the fund

11. How do you think this fund should be operated?
12. What sort of governance do you think would best support this work and who should be involved?
13. How can we best protect customers' investment in this area and ensure appropriate use of the funds?
14. What should be the role of the fund in bringing in new thinking and facilitating exchange of ideas?
15. How can we harness and balance competition and collaboration while minimising the impact of time spent developing unsuccessful proposals?

6. Timescales and developing our approach to the fund

This consultation aims to gather views on how to get the best from the water efficiency fund. It is the first part of a two-stage process that will see a more detailed consultation in early 2024. Following that, we plan to set out our approach to the fund in summer 2024 so that it can be active from April 2025.

Figure 3: Fund development timeline



The fund would support initiatives that could take place between 01 April 2025 and 31 March 2030, though we want to see a legacy of benefits beyond that period. We propose to set out more detailed timings for applications in our next consultation. Where initiatives span a substantial part of the price review 2024 (PR24) period, we expect to see detailed milestones and clear plans for monitoring and reporting performance.

We are considering undertaking some relatively small-scale scoping work, in the form of consultancy advice. This could be used to support the design of the fund and to help identify areas that would particularly benefit from support. Our aim here is to improve the design of the fund and to avoid any duplication of effort from exploring areas that have already been explored and are well understood.

6.1 Questions on timescales and developing our approach to the fund

16. Is there anything else we should consider in terms of timescales?
17. How can we best create a legacy beyond 2030?

18. Do you support the idea of a scoping study to help focus the fund? If so, what should this look at?
19. Do you have any other relevant views or perspectives that you would like to share?

7. Next steps

This consultation closes on 22 September. We welcome views on all the issues we have discussed in this consultation and responses to the consultation questions summarised in Appendix A. We will engage with stakeholders during the consultation period and read and consider all responses. We will publish all consultation responses, alongside a brief summary of the main themes from those responses. We will then explain how we have taken into account the comments received in a more detailed consultation on the water efficiency fund in early 2024. Following this, we plan to publish a detailed approach to the water efficiency fund in summer 2024 with a view to proposals coming in and the work beginning April 2025.

Appendix A – Summary of consultation questions

1. Do you support the objectives of the fund? How could they be improved?
2. Given the scale of the fund, how could it best contribute to these objectives?
3. What precedents are you aware of that could help guide the design of the fund?
4. Should the fund be divided into segments? If so, how could we best do this to make it as effective as possible?
5. Where do you think the greatest demand reductions could be made? What examples or evidence can we draw from to make sure the most important areas are targeted?
6. Do you support our current preference for funding a small number of large initiatives?
7. How can we best make the water efficiency fund work for both England and Wales and make sure it takes into account the differing policy context?
8. Do you support our current thinking on eligibility and scope? How could it be improved?
9. How can we most effectively bring in expertise from other sectors and disciplines while also making use of and nurturing the expertise that already exists in this sector?
10. What are your views on whether the involvement of water companies in England and Wales should be a requirement or whether the fund could support initiatives with no involvement from water companies?
11. How do you think this fund should be operated?
12. What sort of governance do you think would best support this work and who should be involved?
13. How can we best protect customers' investment in this area and ensure appropriate use of the funds?
14. What should be the role of the fund in bringing in new thinking and facilitating exchange of ideas?
15. How can we harness and balance competition and collaboration while minimising the impact of time spent developing unsuccessful proposals?
16. Is there anything else we should consider in terms of timescales?
17. How can we best create a legacy beyond 2030?
18. Do you support the idea of a scoping study to help focus the fund? If so, what should this look at?
19. Do you have any other relevant views or perspectives that you would like to share?

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

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