

March 2024

**Ofwat Innovation Fund
consultation
– approach for 2025–30**



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Introduction



About this document

What is this document about?

This consultation sets out our proposed approach for the innovation fund over the next price review period (2025–30) 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 and customer representative bodies;
- industry bodies and 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 innovationconsultation@ofwat.gov.uk or by post to Ofwat Centre City Tower 7 Hill Street Birmingham B5 4UA. We welcome your response by **Tuesday 30 April**.

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

These are the areas where we most need your feedback.



Summary of questions

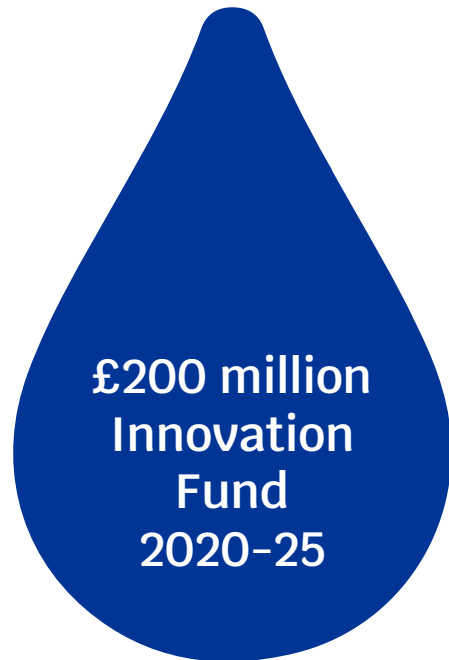
- Q1:** Do you agree that the aims of the current Innovation Fund outlined above should continue into 2025–30?
- Q2:** Do you have any comments on the proposal to use the 2050 Water Innovation Strategy themes in place of the current Innovation Fund themes?
- Q3:** How do we ensure enabling activities are given sufficient prominence in the fund if they are not specifically in the 2050 Water Innovation Strategy themes?
- Q4:** Do you support the continuation of annual competitions i.e. the Water Breakthrough Challenge led by water companies?
- Q5:** Do we have the right approach on lead entrants, company contributions, IPR, and levels of funding?
- Q6:** Do you have any further ideas on how we can improve the Water Breakthrough Challenge?
- Q7:** Should we hold further rounds of the Water Discovery Challenge?
- Q8:** Does our proposal to have two rounds of the Water Discovery Challenge get the balance right between ensuring water companies can provide effective support for finalists and winners and bringing new entrants into the sector?
- Q9:** Are there any improvements we could make to the design and delivery of the Water Discovery Challenge to ensure greater impact e.g. the levels of non-financial support?
- Q10:** Should we introduce a funding stream for collaborative challenges to support all companies to work together on a strategically important area?
- Q11:** How could the funding for collaborative challenges be allocated most effectively, e.g. stage gates?
- Q12:** What proportion of the fund should be allocated to this funding stream if it is introduced?
- Q13:** Who should be involved in collaborative challenges? Should it be all water and wastewater companies working together or could it be for specific groups such as wastewater companies, water only companies, retailers, NAVs?
- Q14:** Would you support allocating up to £40m of the Innovation Fund for funding cross-sector projects?
- Q15:** Do you have any suggestions for which sectors to work with or cross-sector problems that the fund could support?
- Q16:** We welcome views on what other ways Ofwat can help enable knowledge sharing in the water sector.
- Q17:** Beyond running competitions, requiring knowledge sharing and hosting information on our website, what further actions could Ofwat take to ensure successful innovations are adopted across the sector?
- Q18:** Would you support the introduction of an implementation fund? Could you explain your answer.
- Q19:** Do you have any comments on the size of the fund or the allocation across proposed funding streams?



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 (approximately £1.50 per household per year). All projects must therefore demonstrate a benefit to household water customers, either directly or indirectly.



Awarded **£114 million to 77 projects** since January 2021

Circa £80 million to be awarded by end of April 2025

Circa £6 million administration costs

We have funded 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.
- 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.
- Are at any stage of innovation maturity.



What is this consultation about?

At PR19 we created the Innovation Fund to encourage companies to collaborate to drive innovation in the water sector. This complemented our price review incentives and broader policy work to give companies stretching but achievable performance commitments and set strong incentives to do things differently to meet them.

Innovation takes time. It is still early days for the Innovation Fund, but we have seen a significant increase in the levels of collaboration and sharing of information. And we have seen some of our first projects successfully test new ideas and apply for funding to develop and scale up proposals. We have funded a wide range of innovative products, approaches and ideas that have the potential to transform the sector – from understanding systems and processes better using Artificial Intelligence and Machine Learning to developing a circular economy.

But we need to do more. The challenge facing the water sector is significant and requires a step change in investment, not just for 2025–30, but for decades to come. The scale of the challenge for the water sector is growing with new targets and tighter environmental targets, climate change and we cannot afford to operate in the same way the sector has in the past. Innovation is critical.

The sector also needs to look ahead and innovate to develop the solutions to future problems. That is why we are proposing to double the size of the Innovation Fund at the 2024 price review (PR24) to £400 million.

This consultation sets out how we propose to operate the Innovation Fund for 2025–2030. It includes continuing our successful competitions and introducing new funding streams to ensure companies share knowledge, collaborate and adopt successful innovations to meet future challenges.

We welcome your views by Tuesday 30 April.

Improving life through water | Gwellla bywyd drwy ddŵr | 7

In this consultation we are seeking your views on our proposals to:

- **Continue running the Water Breakthrough Challenge** – annual competitions aimed at helping water companies and their partners to innovate.
- **Continue to run the Water Discovery Challenge** aimed at supporting earlier stage ideas from innovators.
- **Stop using the Innovation Fund themes** to categorise projects.
- **Introduce sector-wide collaborative challenges** to address strategically important areas facing water companies.
- **Introduce a new cross-sector funding pot** to support the development of new ideas and tackle cross-sector issues.
- **Introduce a new implementation fund** to ensure successful projects are adopted.

You can respond [online](#), by email to innovationconsultation@ofwat.gov.uk or by post to Ofwat Centre City Tower 7 Hill Street Birmingham B5 4UA.





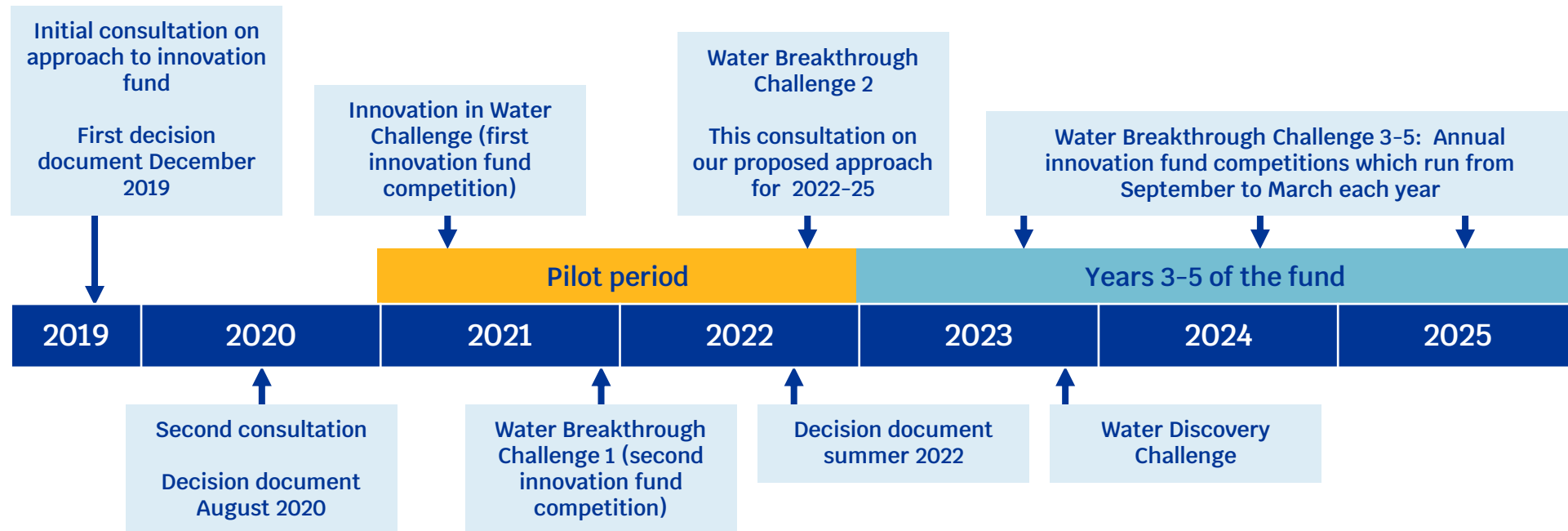
Section 1

Overview of the Innovation Fund 2020-25

Overview of the Innovation Fund

We have been engaging with the water sector and stakeholders on the development of the Innovation Fund since 2019.

During the pilot period we launched our first competition (the Innovation in Water Challenge) and two rounds of the Water Breakthrough Challenge. Feedback at the end of the Pilot period resulted in us holding annual Water Breakthrough Challenges (Catalyst and Transform streams) and launching the new Water Discovery Challenge in January 2023.



Developing the Innovation Fund 2025–30

In our [final methodology for PR24](#) we confirmed that the Innovation Fund would continue into the next price review period (2025–30) and that it would be worth at least £300 million.

Since December 2022 we have been seeking views from a wide range of people and organisations about how well the fund has worked and how it should develop in the future.

This included working with Innovate UK to host a webinar on 19 September 2023 about the future challenges and how the Innovation Fund could respond, which was accompanied by an online survey. We also held a workshop on 16 November 2023 with the water stakeholders to discuss the findings of our evaluation and survey and consider how the fund could support innovation in the water sector in the future.

We have also met with water companies to discuss how their approach to innovation has developed since 2019 and how the Innovation Fund could be improved to support the transformation of the sector.

We will review the responses from this consultation and publish a response in summer 2024. We will publish a final decision on the size of the fund as part of the final determinations at the end of 2024. The new Innovation Fund will commence in April 2025.





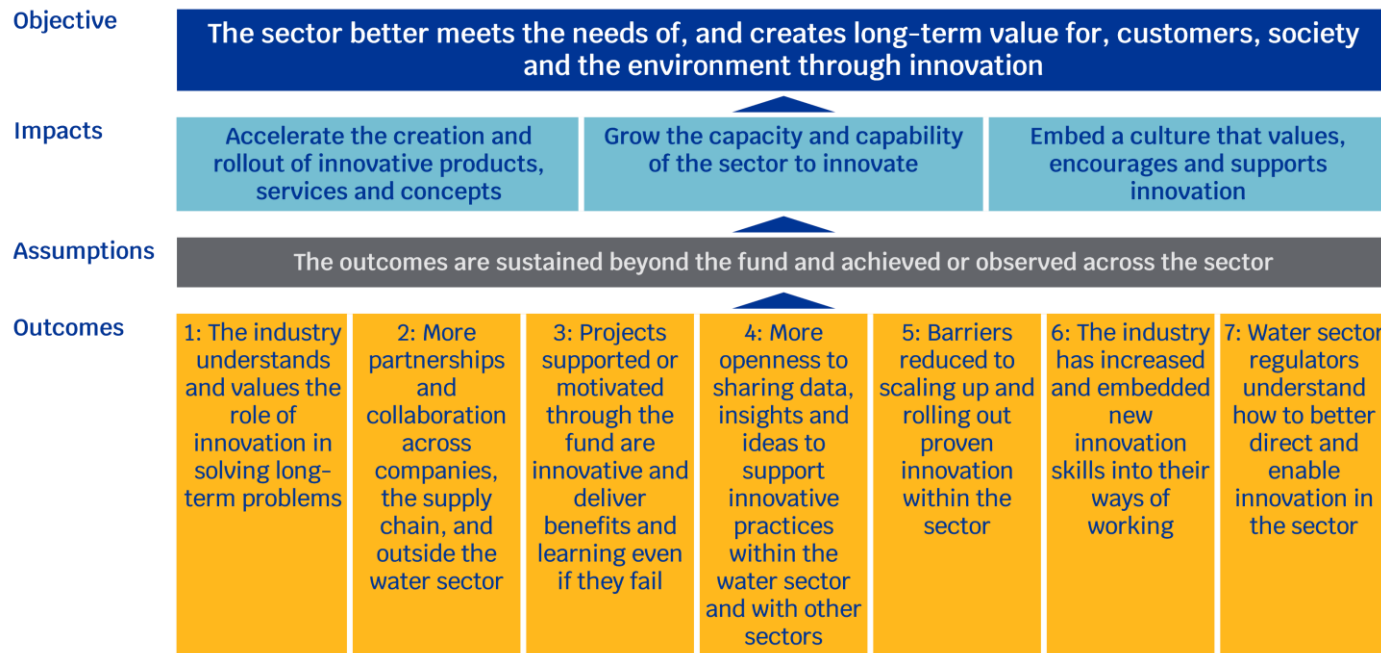
Section 2

Evaluation and engagement

Evaluation

A key component of the Innovation Fund has been evaluating our approach to supporting innovation in the water sector. This has included establishing a [baseline](#), developing a [theory of change](#) that sets out our objective, impacts and outcomes (see below), as well as the [end of pilot period report](#). We have also published a summary of our [Interim evaluation report](#).

Innovation Fund theory of change



The interim evaluation has shown promising signs of progress towards the Fund’s objectives, with the water sector embracing the opportunity to pursue new, collaborative innovations. We have also seen water companies begin to take a more leading role in sharing knowledge generated by their projects.

Our evaluation also shows that there was strong support for the Water Discovery Challenge with a wide range of participants taking part, including those new to the sector.

However, we know that the key to the fund achieving lasting, real-world impact will be the roll-out and adoption of successful innovations across the sector – as well as the widespread sharing of knowledge of when, how and why solutions have not worked. This will be a key priority for the fund over the coming months.

As well as the ongoing evaluation, at the end of the current price review period we will evaluate what impact the Innovation Fund has had on the sector,



Findings from our pre-consultation engagement and survey

Themes

Our engagement activities showed there are mixed views about our themes. Most people agreed that the themes collectively reflect the key challenges facing the water sector. However, most people did not agree that the individual themes were relevant.

Some also preferred the current 'open' approach to competitions using themes. **There was strong support for introducing more focused challenges.** There were also renewed calls for us to align with the Water Sector Strategy themes.

Competition vs collaboration

Throughout our engagement activities and survey there were questions raised about whether water companies should **work collaboratively to solve the challenges** the sector faces rather than entering competitions where some potentially beneficial projects miss out on funding because of the competitive process.

Barriers to innovation

Frequently discussed during our engagement activities were the barriers to innovation, with resistance to change, cost, regulation and poor access to data and learning being the main barriers. Knowledge transfer was considered to be a key element of the fund that should be prioritised going forward.

Cross sector working and funding

Many of the issues facing the water sector are shared across other sectors, including energy and telecoms and we have funded some cross sector projects.

Our survey showed strong support for improving cross-sector working and exploring the potential to introduce cross-sector funding arrangements to address shared challenges as well as taking a more systems-based approach. There were, however, concerns about customers' money being spent appropriately.

Adoption and implementation

There was support for the fund to increase the focus on adoption and scaling up of proven solutions.

Suggestions included funding to support early adoption. There were calls for greater clarity about the alignment between the fund and the price review. It was also felt that sharing knowledge was a key component.





Section 3

Proposed approach for 2025-30

Proposed approach for 2025–30

This section sets out our proposals for the Innovation Fund in 2025–30. Whilst the sector needs to continue to work collaboratively to innovate to address the challenges it faces, much has changed since 2019 when the Innovation Fund was first proposed.

We have funded 77 projects to develop new products, ideas and approaches since we introduced the Innovation Fund in 2021. The sector have established enabling mechanisms such as **Spring**, the water centre of innovation excellence and **Stream**, the open data platform. They have also adopted the UK Water Innovation Strategy and are currently reviewing it to ensure the strategy remains relevant as a focus for innovation activity for 2025–2030.

In addition to the innovation fund, Ofwat is introducing a requirement for companies to make data open to increase transparency and to support innovation. We are also creating a Water Efficiency Fund to help the water sector to drive down demand for water.

We have reviewed the Innovation Fund in light of these changes, the evaluation insights and the feedback we have received and in this section we set our proposals for 2025–30.

This includes:

- what we will continue to do;
- what we will stop; and
- ideas for new areas we can introduce.

We welcome your feedback.

Continue

- With the aims of the fund (page 16).
- The annual Water Breakthrough Challenge competitions (pages 18–19).
- The Water Discovery Challenge (page 20).

Stop

- Using the Innovation Fund themes (page 17).

Introduce

- New collaborative challenges on strategic priorities (pages 21–22) .
- Cross-sector funding stream (page 23).
- Improved knowledge sharing and ways to implement successful innovation (pages 24–25) .



Proposal 1: Aims of the Innovation Fund

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 by driving impact in three key areas:

Aim 1

Accelerating the creation and roll-out of innovative products, services and concepts

Aim 2

Growing the capacity and capability of the sector to innovate

Aim 3

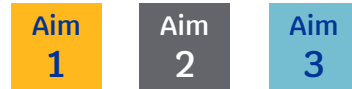
Embedding a culture that values, encourages and supports innovation

Q1: Do you agree that the aims of the current Innovation Fund outlined above should continue into 2025-30?



Our evaluation shows that we have made progress in all areas, however there is still more work to be done. This was supported by the engagement we have had with the sector and beyond. We therefore propose to keep the main aims of the fund for 2025-30.

We have designed the Fund to help achieve the aims. We will highlight on each page which aim each proposal helps to achieve. Look out for the boxes in the blue ribbon.



Proposal 2: Innovation Fund themes

Aim
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Aim
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Aim
3

Since the Innovation Fund started, we have asked that all entries 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. Initially there were five themes, however at the end of our pilot period [we revised our themes](#) to align more closely to the [2050 Water Innovation Strategy](#) and the updated UK Government [Strategic Policy statement](#) and [Welsh Government Strategy and Policy statement and objectives](#). Since 2022 we have used the following four innovation fund themes:



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

Q2: Do you have any comments on the proposal to use the 2050 Water Innovation Strategy themes in place of the current Innovation Fund themes?

Q3: How do we ensure enabling activities are given sufficient prominence in the fund if they are not specifically in the 2050 Water Innovation Strategy themes?



Despite revising the themes in 2022, the themes have continued to generate debate. Many people, including during our recent survey, have welcomed the open approach that allows a broad range of projects to be submitted to our competitions, whilst others have said they are too high-level to help innovators understand the problems that could be solved. We have also found that the themes are not helpful in categorising projects submitted to the fund as most projects fit into two or more of the themes.

We therefore propose to remove the four innovation themes shown above and defer to the 2050 Water Innovation Strategy (WIS) themes. We hope, in coalescing around a single set of themes, this will support a more consistent approach to innovation. Although not explicit in the WIS themes, we want to make clear that we will continue to support activities that enable innovation and welcome suggestions on how we ensure enabling activities are given sufficient prominence in the Innovation Fund.

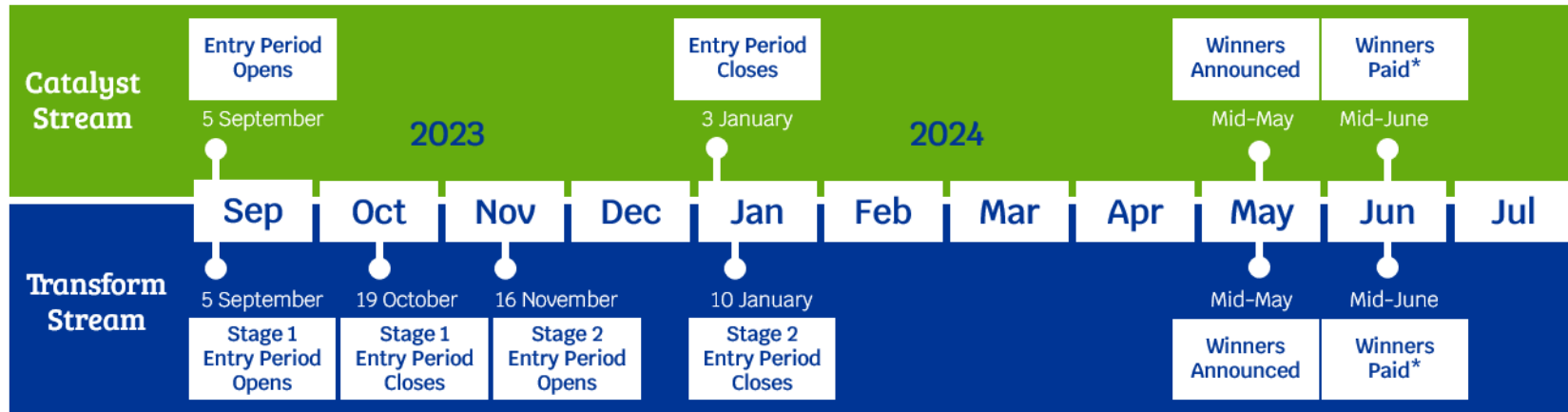


Proposal 3: Annual competitions – current approach

Aim 1

Aim 2

Aim 3



Catalyst: £10 million available
£150,000 to £2 million per entry
Single-stage entry

Transform: ~£30 million available
£2 million to £10 million per entry
Two-stage entry

* Subject to water company payment timelines

We have had 169 entries to our challenges with more than 500 organisations collaborating. 100% of water companies have taken part and 57 winners have shared £104m in the first three rounds. More information about the competitions and winning project is in our [Annual Report](#).

There has been strong support for the Innovation Fund to continue to run annual competitions for water companies and their partners.

As the fund has developed, we have refined the way we deliver annual competitions to ensure the assessment process is robust and customers benefit from funded projects. We have removed barriers to innovation, for instance by relaxing our IPR requirements. We have also tried to minimise bureaucracy for entrants and Ofwat.

We aim to further streamline the application process in round 5 of the Water Breakthrough Challenge (2024-25), although it is difficult to compress the timescale for bidding and assessment any further. However, we are reviewing a new approach to the resource intensive Stage 1 of Transform and will work with water companies and our delivery partner to finalise this in the coming months.



Proposal 3: Annual competitions – future approach

Aim
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Aim
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Aim
3

We propose to continue to hold annual rounds of the Water Breakthrough Challenge with competitions opening in September and concluding in March. We propose that:

- water companies will continue to lead bids because they will need to implement any solutions;
- there will be a mandatory contribution of 10% of the *requested* amount which cannot be customer money; and
- the IPR arrangements will continue as they currently are .

More details can be found on the [competition website](#).

We welcome ideas on how we can improve the Water Breakthrough Challenge. In particular, we are interested in:

- whether we should continue to have two competition streams – Catalyst and Transform; and
- what the levels of funding should be – it is currently £150,000 to £2 million for Catalyst and £2 million to £10 million for Transform.

We may need to adapt the Water Breakthrough Challenge depending on the approach taken to the Water Efficiency Fund (WEF) which is subject to a second consultation later in 2024. For example, aspects of the WEF could be managed as part of the innovation fund to reduce overheads and streamline the application process. In this case, the budget from the WEF would be additional and ringfenced. Changes may also be required if there is support for introducing topic-specific collaborative challenges between all water companies (see pages 21-22).

Q4: Do you support the continuation of annual competitions i.e. the Water Breakthrough Challenge led by water companies?

Q5: Do we have the right approach on lead entrants, company contributions, IPR, and levels of funding?

Q6: Do you have any further ideas on how we can improve the Water Breakthrough Challenge?



Proposal 4: Water Discovery Challenge

Aim
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Aim
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Aim
3

The Water Discovery Challenge was launched in January 2023 to bring new entrants and new ideas into the water sector. We co-designed the challenge with water companies who provided mentoring and support to our finalists and winners. We made £5.5 million available for the challenge with up to £50,000 available for finalists to develop their ideas and up to £450,000 for winning entries. The average amount of funding requested by entrants was £48,200 and the winners were awarded a share of £4.5 million.

There was strong interest in the Water Discovery Challenge with 247 eligible entries received. Our early evaluation shows that it has helped to widen interest in the water sector as well as bring in new people and new ideas. The support provided to finalists and winners has been beneficial in helping to tailor solutions to the water sector and has helped new partnerships to develop. There has been widescale support for continuing Discovery in 2025-2030.

However, given the one of the main attractions of Discovery is the support provided by water companies and the ability for innovators to develop relationships with the sector we anticipate that we can hold two rounds of Discovery can be held in the five-year period. More than this could risk negatively impacting the time and resources water companies can provide and reduce the amount of time mentors and reviewers can commit to each project.

Water Discovery Challenge round 2

Water Discovery Challenge round 3

2025

2026

2027

2028

2029

2030

Q7: Should we hold further rounds of the Water Discovery Challenge?

Q8: Does our proposal to have two rounds of the Water Discovery Challenge get the balance right between ensuring water companies can provide effective support for finalists and winners and bringing new entrants into the sector?

Q9: Are there any improvements we could make to the design and delivery of the Water Discovery Challenge to ensure greater impact eg the levels of non-financial support?



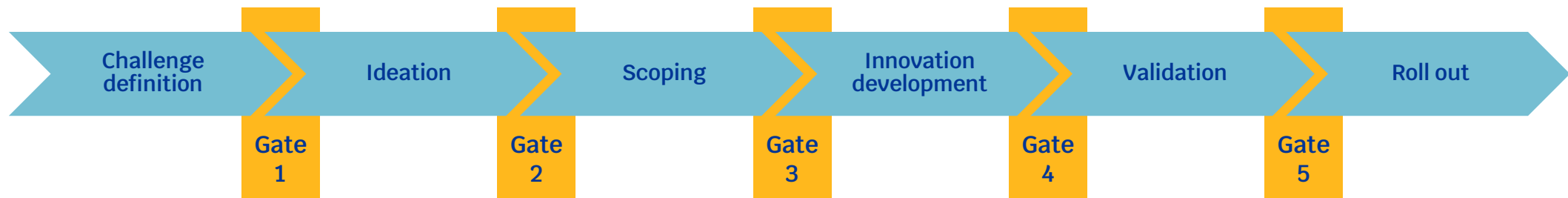
Our competition-based approach to the Innovation Fund has worked well ensuring we fund the best projects. We have supported 77 projects so far, including several large-scale projects supported by all relevant water companies, such as **Stream** (the open data platform), **Spring** (the innovation centre of excellence), the **National Leakage, Research and Test Centre** and **Net Zero Hub**. Whilst this approach has brought forward new ideas in a wide range of areas, throughout our pre-consultation engagement there have been suggestions that companies should be working collaboratively on strategically important areas rather than competing for funding. There was also calls for an agile approach to funding.

We would therefore welcome your views on whether part of the fund should be allocated to support a series of targeted innovation projects that companies work together to solve.

These should be areas that are aligned with areas identified by the UK Water Innovation Strategy and water sector regulators priorities and where working collaboratively would speed up developing a robust sector-wide solution.

We propose that:

- problem areas are agreed jointly by the water sector and Ofwat (working with other water sector regulators);
- funding is released in tranches at each stage gate as the project progresses (see below); and
- projects are managed in an agile way and are changed or stopped if necessary.



Proposal 5: Collaborative challenges (continued)

Aim
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Aim
2

Aim
3

The diagram on page 21 illustrates how a collaborate challenge could work.

Ofwat (working with the other regulators) and water companies would jointly identify potential areas for a collaborative challenge (facilitated by a third party such as our delivery partner or a consultant). The fund would provide support for the development of a solution, with funding awarded in tranches at each stage gate.

The funding available would be in the region of £50m for all projects across the period. This could be divided into two or possibly three projects if all water companies were supporting it. We would expect companies to make a minimum 10% contribution as they do for the Water Breakthrough Challenge.

Alternatively, we could consider accepting projects from certain types of companies working together (such as all water-only-companies, wastewater companies, NAVs or retailers).

In either case the principles would be the same: companies working together to solve a strategically important problem agreed with the regulator.

The projects would need to be assessed differently to the existing competitions, and we would expect the sector would work in an open way engaging those beyond the sector to develop solutions.

These are indicative ideas for consultation. The details would be fully worked up if there is support for the proposal.

Examples of collaborative challenges suggested during our pre-consultation engagement include:

- Using data
- Leakage reduction
- Ecological status
- Net zero, and
- Climate change resilience

We would welcome your thoughts on potential areas for a collaborative challenge

Q10: Should we introduce a funding stream for collaborative challenges to support all companies to work together on a strategically important area?

Q11: How could the funding for collaborative challenges be allocated most effectively, e.g. stage gates?

Q12: What proportion of the fund should be allocated to this funding stream if it is introduced?

Q13: Who should be involved in collaborative challenges? Should it be all water and wastewater companies working together or could it be for specific groups such as wastewater companies, water only companies, retailers, NAVs?



As well as encouraging water companies to work collaboratively, we would like to continue to explore the potential to work collaboratively with innovation funds in other sectors, where aligned funding of solutions would be beneficial to both sectors.

During the current price review period we have been working with the Ofgem and the European Space Agency to support cross-sector innovation.

Working with Ofgem

We have shared information, ideas and approaches to running an innovation fund and learning from each other.

We have been developing a list of ideas for potential collaboration and have shared assessors on water-energy projects.

We are both funding an extension to the cross-sector [Climate Resilience Demonstrator](#) (CReDo) – with Ofwat funding the [Credo – Extreme Heat](#) project and Ofgem funding [CReDO – extension to new climate risks](#) project.

Working with the European Space Agency

We are supporting the European Space Agency's *Space for Infrastructure* call by developing descriptions of problems (use cases) with water companies that could potentially be solved by space innovators. The ESA will co-fund successful feasibility studies to develop their idea.

Once the idea has been developed water companies could partner with a space innovator to develop a project that could be funded by the Innovation Fund, possibly with additional support from ESA.

Q14: Would you support allocating up to £40m of the Innovation Fund for funding cross-sector projects?

Q15: Do you have any suggestions for which sectors to work with or cross-sector problems that the fund could support?



One approach to cross-sector funding could be to run competitions similar to our Water Discovery Challenge, asking innovators to bid for funding that solved a particular cross sector problem such as climate change resilience, net zero, supporting customers, and the environment.

We propose to allocate approximately £40m of the fund to work with other sectors on shared problems. This would be a discretionary fund, that if not used for cross-sector working, could be used to increase the funding available in one of our other funding streams.



Proposal 7: Supporting implementation – knowledge sharing

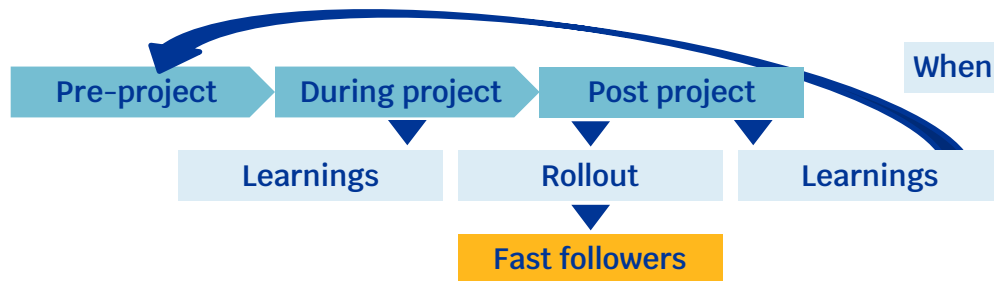
Aim 1

Aim 2

Aim 3

Sharing knowledge, information and data is fundamental to ensure successful Innovation Fund projects are scaled up and adopted across the sector. It also reduces the need for multiple companies to trial the same solution.

It is important that knowledge, information and data are shared at all stages of a project



As part of our innovation enabling role, funded projects are required to share knowledge with others in the sector and to make data open by default. It is also important that knowledge and information is shared across the lifetime of a project and not just at the end, along with successes and failures. We have seen project teams sharing their work through the publication of playbooks, sessions at conferences, regular partner meetings and through online events such as the **Spring** Knowledge Transfer sessions.

To support knowledge sharing we have made it clearer in the application process and **propose to strengthen the application criteria for knowledge sharing** in future competitions. We have been working closely with **Spring** and water companies to develop **Knowledge Sharing principles** that will be launched later this year. And we are improving our **website** to make it easier to find information about the projects we have funded.

The main responsibility for knowledge sharing sits with the sector and we're pleased to see the foundations are being set to make sure that knowledge, information and data are easily and effectively shared. **Spring** are hosting a growing bank of information and case studies, including Innovation Fund projects, and are well positioned to lead the sector on knowledge sharing. The open data platform **Stream** has started to release datasets. We would welcome views on other ways we could further help enable knowledge sharing in the water sector.

Q16: We welcome views on what other ways Ofwat can help enable knowledge sharing in the water sector.



The Innovation Fund aims to support the adoption and roll-out of innovative products, services and concepts. It is too early to expect widescale adoption as only a handful of projects have concluded, and we know that not all innovations will be able to be adopted by all water companies. However, a couple of our early projects have proven their original concept and secured further funding to develop their idea further, often bringing new partners on board. We have also seen some higher TRL level innovations being referenced in PR24 business plans to be implemented on a larger scale.

We expect most companies will see the benefits of adopting successful innovations with no further support from Ofwat. However, throughout our engagement period we have heard that it can take many years for companies to adopt an innovation and there have been suggestions that part of the fund should be targeted to help **speed up implementation** of new products, services and concepts. There have also been concerns raised about how such a fund could work in practice.

We would welcome views on Ofwat’s role in supporting adoption. Should we have a funding stream to support faster implementation of successful projects? If yes, what form it could take and should it focus on, for example, speeding up implementation across the board or supporting smaller water companies which may not have the same resources for implementation as others?

Case study: Dark fibre for leak detection

[Hafren Dyfrdwy](#) secured funding to test the feasibility of using ‘dark fibres’ (unused fibre optical strands in existing telecom cables near water pipes) to detect leaks. With [Severn Trent](#) they secured further funding to prove the concept at scale before bringing it to market.

Q17: Beyond running competitions, requiring knowledge sharing and hosting information on our website, what further actions could Ofwat take to ensure successful innovations are adopted across the sector?

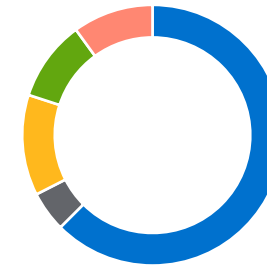
Q18: Would you support the introduction of an implementation fund? Could you explain your answer.



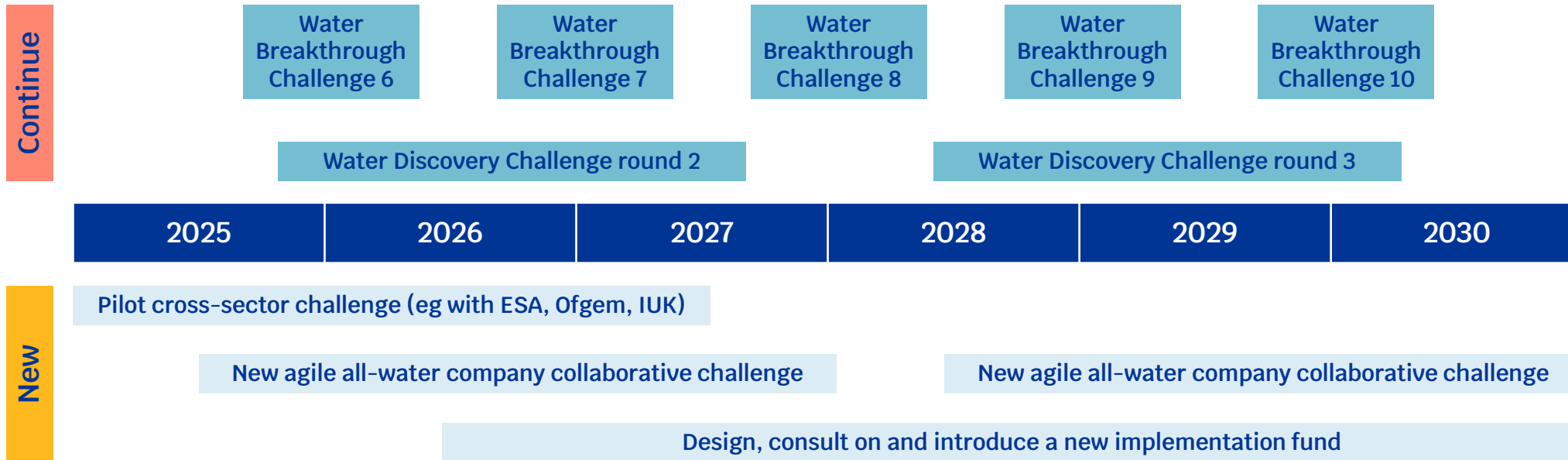
Summary

- Continue with the **Water Breakthrough Challenge** Catalyst and Transform streams aimed at water companies (£250 million).
- Hold two rounds of the **Water Discovery Challenge** (£20 million).
- Introduce a new water company led **collaborative challenge** targeting specific sector-wide problems (£50 million).
- Pilot **cross-sector** funding rounds (£40 million).
- Introducing an **implementation fund** (£40 million).

Proposed breakdown of Innovation Fund



- Water Breakthrough Challenge
- Water Discovery Challenge
- Collaborative Challenge
- Cross-sector funding
- Supporting implementation



Section 4

Size of the fund



Size of the Innovation Fund

We propose that the Innovation Fund for PR24 will be £400 million. This will be administered in a similar way to the current Innovation Fund and we will continue to use the MOSL settlement process to transfer the funds to winning projects.

The proposed cost of the Innovation Fund for each company will be included in our draft determinations which will be published later this year. This will then be subject to consultation alongside our other draft determination proposals. The size of the innovation fund, and the cost to each company, will be confirmed in our final determinations in December 2024.

The cost of a £400 million Innovation Fund will vary depending on the size of the company and number of customers but will be on average £2.45 a year on average or 4p a week, but this will be slightly more or less depending on the size of the company and number of customers.

Our initial evidence on the impact of the fund and support from the sector suggests that by expanding the fund further will help drive greater innovation and further open access. We welcome your feedback on the proposed size of the fund.

Q19: Do you have any comments on the size of the fund or the allocation across proposed funding streams?



Summary of proposals

Continue with the **Water Breakthrough Challenge** Catalyst and Transform streams aimed at water companies

Hold two rounds of the **Water Discovery Challenge**

Introduce a new water company led **collaborative challenge** targeting specific sector-wide problems

Pilot **cross-sector funding** rounds

Introducing an **implementation fund**





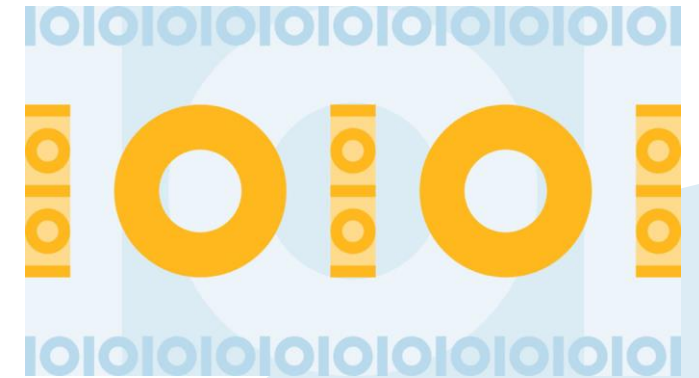
Section 5

Related policy areas and
next steps

Related innovation policy areas and next steps

The Innovation Fund is one part of Ofwat's approach to support innovation in the water sector:

- Working with the Drinking Water Inspectorate and the Environment Agency we have introduced [Streamline - the regulatory advice service for innovators](#).
- We have been working to [improve open data standards in the water sector](#)
- We are introducing a £100m [Water Efficiency Fund](#). This is to help stimulate a transformative, sustained and measurable reduction in water demand nationally, using a range of water efficiency approaches. We will publish a second consultation setting out our proposed approach to this later in 2024 and there are potential links with the Water Breakthrough Challenge as set out on page 19.
- Our price review incentives and broader policy work give companies stretching but achievable performance commitments and set strong incentives to do things differently to meet them.



Next Steps

The **deadline for responding** to the consultation is **30 April 2024**. We will review the responses from this consultation and publish a response in summer 2024. We will publish a final decision on the size of the fund as part of the final determinations at the end of 2024. The new Innovation Fund will commence in April 2025.



**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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