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Dear Sir or Madam

### **Ofwat Innovation Fund Consultation - Waterwise Response**

Many thanks for your invitation to comment on your proposals regarding an Innovation Fund and also for meeting with myself and Lydia Makin on 22nd August.

Waterwise was founded in 2005 and is the leading authority on water efficiency in the UK. We are an independent, not for profit organisation, receiving funding from water company Supporters and Affiliates across and beyond the water sector. We want to see water used wisely, every day, everywhere.

Waterwise led the development of the [UK Water Efficiency Strategy \(2017\)](#) with support from water companies, regulators, government and wider stakeholder. The strategy sets out actions needed across multiple organisations to realise greater water efficiency. It identifies knowledge gaps where new research and innovative thinking is needed and where collaborative research has subsequently been commissioned. Progress in implementing the strategy is reviewed by a cross-sector steering group which is currently prioritising AMP7 collaborative future research needs. We believe that Waterwise and the UK Water Efficiency Strategy exhibit many of the characteristics and principles that Ofwat has set out in the consultation document. We want to make sure that any new Innovation Fund and associated framework will be supportive of existing efforts to progress innovation and collaborative research in the field of water efficiency.

We believe that innovation is vital to help the sector understand and reduce personal and business water use and to meet the challenges highlighted on page four of the consultation document (population growth, climate change and changing customer expectations). Greater water efficiency can help deliver the following benefits:

- **Securing future water supplies** in the face of population growth and climate change. As clearly set out in the [NIC 2018 report](#) and in Sir James Bevan's [recent speech](#) greater water efficiency has a crucial role in increasing resilience.
- **Reducing our energy use and carbon footprint.** Nearly 6% of our greenhouse gas emissions come from water company operations (1%) and from how we use water in the home (4-5%) [CIWEM \(2013\)](#).

- **Leaving more water in the environment.** For example, the water saved by reducing consumption to 100 lppd is equivalent to the combined summer flow in a third of UK rivers, including our iconic [chalk streams](#).
- **Freeing up water to allow future business growth.** In many catchments, particularly in south-east England there is no water left for business to abstract.
- **Reducing costs for the water sector and its customers.** Deferring the need for some large scale infrastructure schemes.
- **Reducing bills for metered water customers,** including vulnerable customers.

## **Q:1 What are the main barriers to innovation in the sector and why?**

Barriers include

- Perceived or real competition between companies with innovation seen as providing a competitive advantage so can be held within organisations and not shared.
- Relatively short term financial settlements which may not encourage innovation with longer pay-back times.
- Failure to write up or share results of trials and research so much good work is not known about or taken forward. Waterwise try to encourage information sharing through the open database on our website.
- Difficulty in pulling together shared funding for innovation across multiple companies.
- A proliferation of organisations that undertake research with limited join up between them.

Through our UK Water Efficiency Strategy Waterwise has tried to address these barriers by working with water companies, regulators, government and other stakeholders to develop a common, agreed strategy which identifies shared actions and research needs. These needs are then pursued collaboratively with the results made available to all.

## **Q:2 Do you think that the financial support cited in section three is required to stimulate innovation in the sector? If so, what do you believe is the appropriate amount of funding and why?**

Yes, we think the establishment of a fund to support innovation is needed.

Much of the progress made through the UK Water Efficiency Strategy in addressing knowledge gaps has been because we have been able to call upon a shared “collaboration fund” to commission research into areas of mutual interest. This “collaboration fund” was set up in AMP5 at the instigation of Ofwat and has been in place through AMP5 and AMP6. The position in AMP7 is currently unclear and it may make sense for it incorporated into the

proposed Innovation Fund. For example, a bundle of collaborative AMP7 research projects that align with the Strategy and are prioritised and agreed with its Steering Group agreed could be brought forward for funding from the Innovation Fund in Year 1 of AMP7.

**Q:3 Do you agree that our proposed draft principles for additional financial support will effectively safeguard the interests of customers?**

We agree with the majority of the draft principles proposed and in fact they mirror principles adopted in our UK Water Efficiency Strategy (collaboration, open by default, company part funding). In particular we feel it is important that innovation is taken as more than just developing technologies and kit. An example would be shared research to improve understanding of how to embed water-saving behaviours in customers and promote a water-saving culture.

We do not agree with the principle that any intervention or support must only be “for “transformation innovation” that the companies would not otherwise explore or invest in”. We think this principle is too narrow and actually does not make sense if the proposed method to seek funding is for water companies themselves to bring forward part-funded projects.

**Q:4 What are your views on the collectively funded innovation competition model which we describe in section three? What other key considerations not highlighted should we take into account in designing/ implementing the competition?**

We support the innovation competition model with the following comments

- The amount of effort to apply and the level of scrutiny should be proportional to the level of funding sought
- It should be possible to apply for projects that run over multiple years
- It should be possible to apply for groups or bundles of related projects especially where they link to an existing, relevant strategy such as the UK Water Efficiency Strategy
- It should be possible to apply for funding for posts within organisations who act on behalf of the sector to promote innovation
- Consideration needs to be given to whether project ideas from non-water companies and/or charities will be permitted.

**Q:5 What are your views on the end-of-period innovation roll-out reward we describe in section three? What other key considerations not highlighted (e.g. whether it should be collectively funded or individually funded) should we take into account in designing/ implementing the reward?**

We are less positive about the idea of an end of period reward. It is a more passive approach and runs the risk that rewards will need to be made to projects that would not have been funded if a more proactive approach had been taken. We are also not sure that it



would sufficiently encourage collaboration and it relies on water companies funding innovation up-front through AMP7 which the consultation document highlights may be limiting.

If Ofwat decide to proceed with this approach we would urge it to focus by far the greater proportion of funding on the proactive open competition aspect and not this retrospective reward aspect.

**Q:6 What other potential alternative mechanisms for funding/ rewarding innovation not discussed do you think we should be considering? Which financial support mechanism or combination of mechanisms should we introduce and why? What would be an appropriate split of available funding/ reward?**

One further option would be for the fund to directly support not for profit organisations such as Waterwise who are already working with all the water companies and other stakeholders to promote innovation, commission research and share best practice. This support could be through fully or part-funding posts within those organisations or specific events or networking groups providing that there is clear support for this from water companies.

**Q:7 Do you think the potential industry activities discussed in section four could help drive innovation? Are there other activities not identified which you think the industry should be considering?**

We agree that an overarching Innovation Strategy would be useful however we question whether this is achievable in time for the fund to start driving innovation early in AMP7. As highlighted earlier there are areas where there are existing strategies, such as the UK Water Efficiency Strategy, that could be used to identify common research and innovation needs and related projects that could be progressed in advance of the development of an overarching Innovation Strategy.

We support the concept of a Centre of Excellence and consider Waterwise to be one such centre for excellence on the theme of water efficiency. As highlighted above in our response to Q6 there is potential for the Innovation Fund to help support such centres.

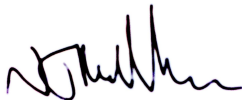
We manage a Water Efficiency Database where outputs from collaborative research are shared openly <https://www.waterwise.org.uk/water-efficiency-database/> We fully support Ofwat's call for a more open and accessible approach sharing data and outputs from innovative projects, research and activities.

**Q:8 Do you think the proposals in section five will help drive innovation? Are there other activities not identified which you think Ofwat should be considering?**

We support the proposals in the consultation document to improve join up between regulators and government on innovation. The existing UK Water Efficiency Strategy benefits from having representation from both government and regulators on its Steering Group. This helps ensure that any research is meeting not only the needs of water companies but also those of regulators and government (for example through informing policy development).

If you have any queries on our response please do get in touch.

Regards



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