February 2025

Water Efficiency Fund – final decision document

Ofwat

About this document

The purpose of this document is to present Ofwat's approach to the Water Efficiency Fund. It sets out:

- Background to the policy area, including our aims, previous consultations and our reasoning for the final decision
- Our overall approach to the Water Efficiency Fund
- Further detail on how we see the Water Efficiency Campaign working
- Further detail on how we see the Water Efficiency Lab working
- Our approach to cross cutting areas including governance, evaluation, financing, and achieving a legacy
- Timescales and next steps

This document represents our strategic approach. In some areas, further detail will be developed after publication. We have also designed our approach to be flexible as it needs to be able to adapt. This means we may adjust it over the next five years in response to events and / or experience as we move into implementation.

Executive summary

The water industry is facing significant challenges. The Environment Agency estimates a shortfall of nearly 5 billion litres per day by 2050 in England, with smaller deficits also predicted in Wales. The shortfall in England represents more than a third of the current public water supply. To address this, almost two-thirds of the required capacity will come from demand reductions, including efficient water use, metering, and leakage reduction. The remaining capacity will come from new supply options like reservoirs, desalination, water recycling, and upgrades to water treatment works.

Despite plans on water efficiency and smart metering being funded in the 2024 price review (PR24) final determinations and forthcoming policies to support water efficiency, there are concerns that demand will not reduce as expected. The Water Efficiency Fund (WEF) was announced to address this, with up to £100 million allocated to stimulate a reduction in water demand through various approaches. The WEF includes a Water Efficiency Campaign (WEC) and a Water Efficiency Lab (WEL), aimed at promoting behaviour change and developing new technologies and processes for water efficiency.

The WEF's approach is flexible, allowing for adjustments based on effectiveness and evidence gathered. To manage risks from a behaviour change campaign, the WEC will start small, focusing initially on planning and evidence gathering before scaling up. The WEL will support projects that improve water efficiency beyond current plans, with tiers for funding projects of different sizes.

Governance of the WEF includes Advisory Panels, a Competition Design and Delivery Partner for the WEL (shared with the Innovation Fund), and a Water Efficiency Campaign Delivery Body. Tasks for 2025 include finalising governance, onboarding partners, and designing competitions. The WEF aims to adapt and respond to changes and learning over time to ensure effective water efficiency improvements.

The objectives of the WEF remain unchanged from those we set out in our second consultation. We are aiming to achieve a significant reduction in public water supply demand in England and Wales through effective, large-scale, innovative, and insightful projects. These projects should be additional to existing water management plans and are likely to involve collaboration across sectors.

Evaluation is a key component of the WEF, with an independent Evaluation Partner commissioned to assess the effectiveness of the projects in addition to regular insight, tracking and evaluation for the WEC. The fund's financing will follow a similar approach to the Innovation Fund, with contributions based on the size of water companies' customer bases. Intellectual property and data sharing will be managed to ensure open access and collaboration, while conditions and sanctions will be available to protect the funds and ensure compliance.

Contents

1. Background and introduction

The scale of the water resources challenges facing the water industry continues to increase. The latest estimates of water need, compiled from water company data by the Environment Agency, suggest a shortfall of nearly 5 billion litres per day by 2050 for companies in England[1] which rises slightly but does not exceed that figure when including projected deficits in Wales[2]. The deficit in England is more than a third of the 14 billion litres of water currently put into the public water supply network. The additional capacity is needed to reduce pressure on the environment from abstraction of water from rivers and aquifers, increase resilience to drought, supply a growing population and adapt to a changing climate.

Since the water and sewerage industry was privatised in 1989, the sector has contributed to reductions in water demand and leakage. Since the mid-1990s, leakage has reduced by almost 40%. This has been driven by increased regulatory focus and stretching performance targets that incentivise companies in England and Wales to invest in infrastructural improvements and technological advances to find and fix leaks quicker. Approximately 60%[1] and 52%[3] of households have water meters in England and Wales respectively, which monitor usage and encourage a reduction in water demand. Metered households typically use around 10% less water than unmetered households. Despite these efforts, water scarcity has become an increasing challenge. The risk of severe drought, combined with the public perception that the UK has abundant rainfall, pose significant supply challenges. Factors such as climate change, which contributes to changing weather patterns and extreme conditions, and the reduction in water abstraction to protect ecosystems and comply with environmental standards, exacerbate these issues.

By 2050, almost two thirds of the required capacity is to come from reductions in demand brought about by planned policies like a label for water using goods, the rollout of smart water meters, water company interventions to reduce water use and reducing losses from networks. New supply options; such as reservoirs, desalination, water recycling and upgrades to water treatment works will provide the remaining capacity.

Despite extensive water resources planning, and forthcoming policies designed to support water efficiency, we are concerned that demand will not reduce as much as expected. This is why we announced the Water Efficiency Fund (WEF) in our final methodology for our PR24 price review which said **"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."** We think that a central fund

[1] A summary of England's revised draft regional and water resources management plans - GOV.UK (www.gov.uk)
[2] Including a deficit of 28 megalitres per day from the revised draft water resource management plans for Dŵr Cymru Welsh Water and Hafren Dyfrdwy at 2050.
[3] There is limited water meter penetration data on a national scale, but the 2023-24 Annual Performance Report for Dŵr Cymru and Hafren Dyfrdwy states that 47.7% of Dŵr Cymru and 56.9% of Hafren Dyfrdwy household customers have a water meter installed.

like this has the potential to kickstart the collaborative and innovative work required to meet these long-term needs.

We published a high-level consultation in July 2023 discussing a range of approaches the fund could take and seeking views. This received 53 formal responses and themes included strong support for our objectives, support for behavioural change work and support for projects at scale. We set out more developed proposals on 14 May 2024 in our second consultation which received 54 formal responses. Proposals included the two-stream approach to the fund: a Water Efficiency Campaign and a Water Efficiency Lab.

This document presents our preferred approach to the WEF. It is informed by our own work, insights we have commissioned, stakeholder engagement and the consultation responses we received to both consultations. We have published a Summary of Responses to the Second Consultation for the Water Efficiency Fund alongside this decision document. The two documents should be read together. While this document represents our overall approach, we may adapt this in the coming years to respond to events and learning.

2. Overall approach to the Water Efficiency Fund

Responses to our second consultation showed strong support for the objectives of the Water Efficiency Fund (WEF) and the proposed two-stream approach. The two-stream approach includes a Water Efficiency Campaign (WEC) and a Water Efficiency Lab (WEL). Together, these make up the WEF.

We have decided to maintain our objectives and use the two-stream approach presented in the second consultation to structure the WEF. We believe this will allow for the right level of focus on each area as well as creating flexibility between the two. The scope of the WEF includes both business and household customers.

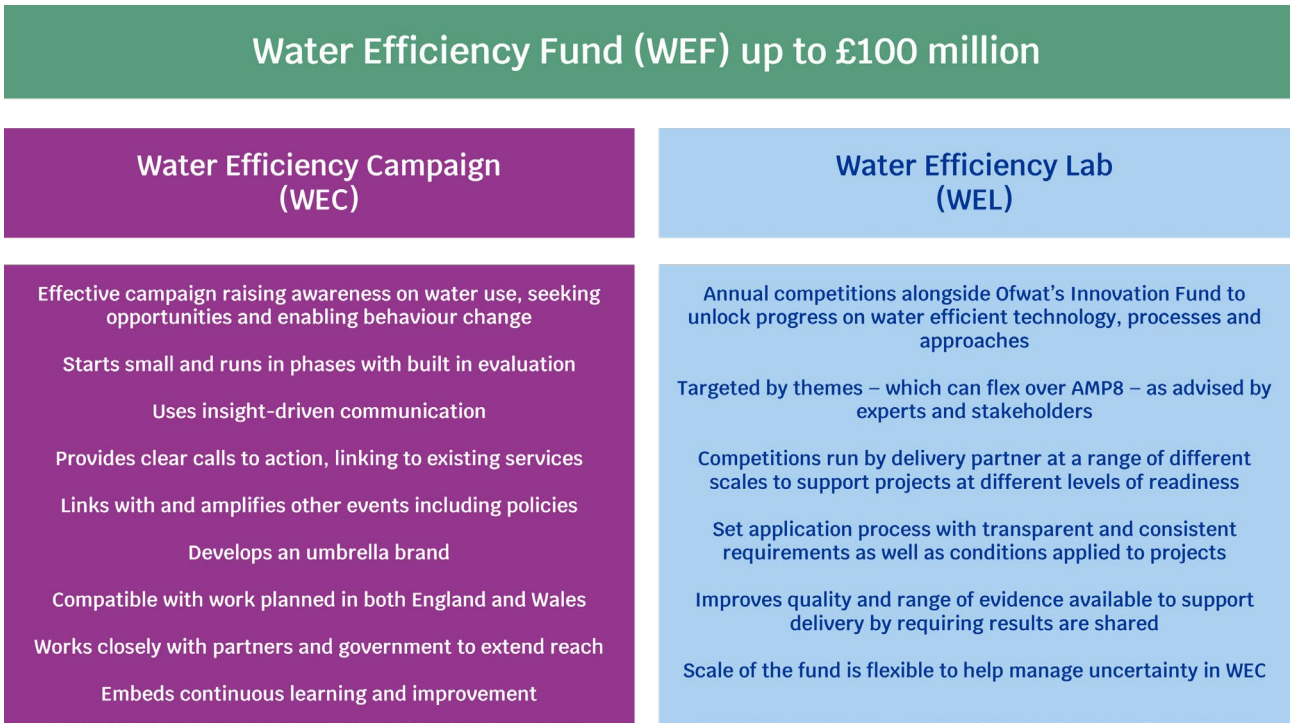

Figure 1. Summary of the two streams that make up the Water Efficiency Fund

2.1 Division of funds

Throughout the development of the WEF we have prioritised flexibility when designing, operating and distributing the fund. This is so it can respond to change and continue to be effective. This approach was supported in our first and second consultation, with a large number of consultation responses either mentioning the need for flexibility or supporting our proposal for a flexible approach.

While there was a good level of support for the proposed 75:25 division of funds between the WEC and WEL, we have also listened to those who expressed alternative views. These views

included wanting a larger WEL (50% or 100%). Some respondents were concerned about the likely effectiveness of a campaign, and others urged a campaign to start slowly and test a range of approaches.

We will monitor the effectiveness of both streams and use the flexibility of the two-stream approach to adapt allocations between them across the period. This avoids setting fixed allocations at the start. We remain committed to a well-resourced campaign and we do not expect the WEL to be any smaller than we initially proposed (£25m). However, we are open to a more even split. This will be informed by the evidence gathered in the early years of the WEC and the WEL and the outcomes of reports prepared by our Evaluation Partner. We will keep this under review across Asset Management Period 8 (AMP8) and adjust the profile of the fund if necessary.

2.2 Water Efficiency Campaign (WEC)

Responses to our second consultation included substantial enthusiasm for a campaign and people highlighting that it is something the sector has been lacking. However, alongside this enthusiasm, there were also concerns about the water savings a campaign can deliver and the quality of evidence available on which behaviour change interventions lead to the best water savings. We have worked with specialists to understand these risks and to better understand customer views in this area.

We share in the enthusiasm for this work expressed in the consultation responses and are also aware of the risks. To manage the risks, we are proposing to set out the requirements of the WEC clearly and start slowly with a smaller budget at first. The early stages of the WEC will therefore focus on careful planning and gathering evidence including trialling a range of approaches before scaling them up. Evidence will include relevant projects already supported by the Innovation Fund.

Some respondents felt that the term campaign suggested we are assuming that providing information alone will result in changed behaviours (a traditional information deficit model). We are clear that this work needs to go well beyond that and must form a sophisticated programme, promoting behaviour change and being guided by a strong theory of change in line with behaviour change campaign professional standards including Government Communication Services (GCS) and other professional marketing bodies. The campaign will be tailored to differing customer needs, for example, differences across household and business customers.

There was broad support for the concept of a central delivery body leading the WEC, particularly where this can help to bring independence from water companies. Our intention is to onboard the Water Efficiency Campaign Delivery Body through a competitive process, to run the WEC. We provide more information on this in Section 3.1.

Some responses stressed the importance of the campaign being independent from water companies and the potential benefits of government endorsement. We agree that the campaign needs a credible voice and we are including this in our requirements for the work. The competitive process for appointing the Water Efficiency Campaign Delivery Body will also add transparency and credibility to the process. We will continue to explore the role for governments in England and Wales in this space.

There was good support for a gated process to oversee the campaign. This would have been necessary if the water companies were directly tasked with setting up the Water Efficiency Campaign Delivery Body. However, because we are using an open competitive appointment process, we are able to bring in the necessary regulatory oversight without a formal gated process. We will use our thinking on the gated process to inform our approach to regulatory oversight.

Several organisations continue to be interested in running the WEC. We plan to use a transparent competitive process, also open to those who have not yet come forward, to determine who is best placed to do this. Further work is planned to design that process.

2.3 Water Efficiency Lab (WEL)

The primary objective of the WEL is to support the development, refinement, and implementation of technologies, processes, and approaches that significantly improve water efficiency beyond what is currently planned by water companies for the 2025-2030 (AMP8) period.

The WEL will operate annually with competitions running against themes and associated challenge statements. We will work with experts and an Advisory Panel to develop these. We are clear that they can be flexible across AMP8; if necessary. Applicants can propose their own projects outside of these themes and statements.

We believe there is a strong case for including work to harmonise the rollout of smart meters and we are minded to support this early on in the fund. We have published advice on this area 'Learning from experience: What the rollout of smart metering in energy can teach us about smart metering in water' and this includes work to standardise approaches across the water companies including recommendations we think could be usefully supported by the WEL.

We envisage that the WEL will have three tiers of funding: Source, River, and Delta.

- **Source**: Up to £150,000 for early-stage projects.
- **River**: £150,000 to £500,000 for medium-sized projects.

- **Delta**: £500,000 to £2 million[4] for proven, wide-scale projects.

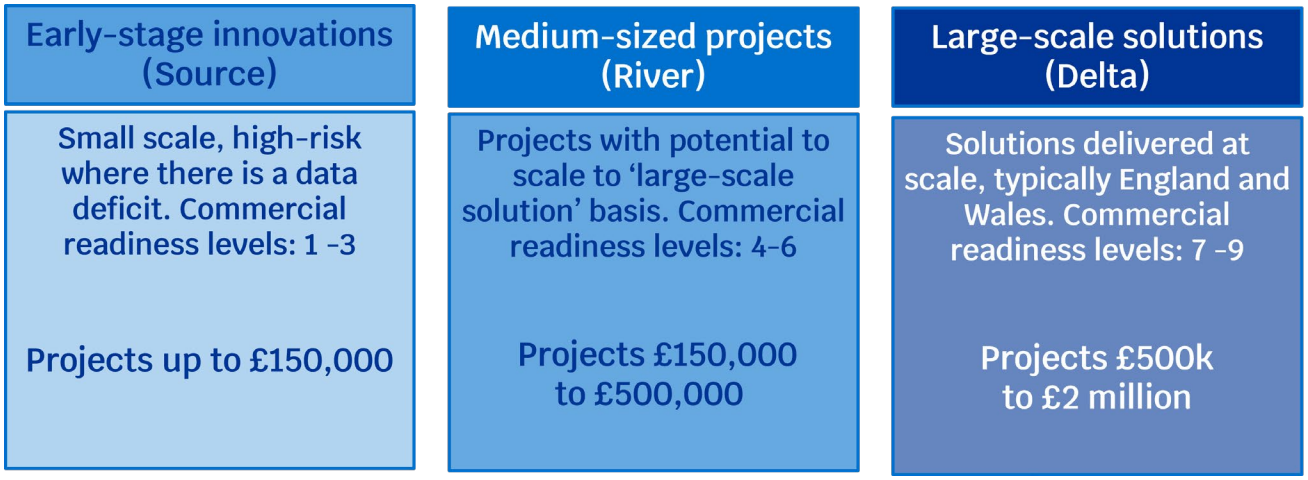

Figure 2. Three tiers of projects to be part of the WEL

There was strong support[5] for integrating the administrative support for the Water Efficiency Fund with the Innovation Fund. We are progressing this approach which we believe will create efficiencies and improve consistency between the two funds; reducing barriers to entry and regulatory burden. This will see a shared Competition Design and Delivery Partner contracted by us to establish and run the competitive elements of the WEL and the Innovation Fund. We will also be working with a common Evaluation Partner across the Innovation Fund and WEF who will support the review of the funds.

Respondents sought clarity on how the WEL fits with the Innovation Fund and what applicants or projects would be eligible for funding. Our current view is that applicants must be UK-incorporated entities, hold a UK business bank account upon entry, comply with terms and conditions and not be ruled out due to conflicts of interest. We will be working with a Competition Design and Delivery Partner to set out the specific eligibility criteria for the WEL and the Innovation Fund, but we do not see them as mutually exclusive. The existence of the WEF does not preclude Innovation Fund support being available for projects looking at water efficiency; especially where that project is focused on innovation. There is no blanket requirement to partner with water companies, though collaboration is encouraged and may lead to stronger applications[6].

We are proposing that competitions are run for a range of different sizes of projects and that the criteria can be different for each. We will develop further detail on this with input from our Competition Design and Delivery Partner.

[4] At this stage we believe £2 million to be a sensible indication of an upper limit for annual spend given the budget available, number of funding streams open and practical delivery constraints in any given year. However, we do not yet know what proposals will be developed and we are therefore not setting this as a fixed limit.
[5] 91% of responses supporting or partially supporting this approach
[6] Ofwat reserves the right to require this where collaboration would increase the success of the project.

2.4 Governance

Our proposals on governance, particularly the Advisory Panel, were broadly supported. We are therefore not making substantial changes to these. One refinement we have made is to recognise that the WEC will require specialist advice that the main Advisory Panel may not be able to offer. We are therefore proposing a second Advisory Panel to specifically support the WEC beyond the oversight of the main WEF panel. Our governance proposals include the following overall responsibilities:

- Ownership and decision making: Ofwat.
- Shaping, supporting and advising: The WEF and WEC Advisory Panels and Competition Design and Delivery Partner.
- Practical implementation of WEL: Competition Design and Delivery Partner.
- Practical implementation of WEC: Water Efficiency Campaign Delivery Body (as appointed through the competitive process).
- Analytical support and challenge: Evaluation Partner.

2.5 Timescales

Now we have set out our overall approach to the Water Efficiency Fund, our attention will turn to implementation. Because we have not yet designed the competitive process to appoint the Water Efficiency Campaign Delivery Body and have not yet onboarded the Competition Design and Delivery Partner, these timings are indicative and subject to change. Tasks for 2025 include:

Quarter 1 (January to March): Finalising overall governance, including the Advisory Panels

- Onboarding the Competition Design and Delivery Partner for the WEL and establishing their work programme.
- Establishing governance and the Advisory Panels.
- Establishing the challenge statements for the WEL, engaging with the Advisory Panel and a broader range of stakeholders.
- Developing our approach to the competitive process for selecting the Water Efficiency Campaign Delivery Body (subsequent timings depend on the approach taken).

Quarter 2 (April to June): Designing WEL and early stages of the WEC competitive process

- Designing the annual competitions for the WEL.
- Early stages of the WEC delivery body competition, depending on the approach taken.
- In-house evidence gathering and working with partners to inform the WEC.

Quarter 3 (July to September): First round of WEL and WEC competitive process moves forward

- WEC competition working towards selecting Water Efficiency Campaign Delivery Body.
- First round of WEL activities underway.
- Competition Design and Delivery Partner starting to scope WEL competitions for 2026.

Quarter 4 (October to December): Second round of WEL and WEC body onboarded

- Developing second WEL competition.
- Onboarding Water Efficiency Campaign Delivery Body.
- Sharing evidence and pre-work for the WEC with the Water Efficiency Campaign Delivery Body.

3. Water Efficiency Campaign

The second consultation proposed a substantial part of the fund (up to £75 million over five years) would support a largescale campaign on efficient water use covering England and Wales and both household and business sectors. It proposed a campaign run in phases, based on evidence, and discussed a range of delivery options including being run by different types of bodies in various ways that each included full evaluation.

Our thinking has evolved, shaped by consultation responses and additional insight. However, we remain intent on seizing the opportunities the WEC presents, to help reduce demand on public water supply in England and Wales, by raising awareness of what everyone – wholesalers, retailers, households and businesses - can do to help change behaviour around everyday water usage.

3.1 Delivering the Water Efficiency Campaign

The second consultation considered a range of approaches to delivering the WEC. These included Ofwat running it, the campaign being led elsewhere in government, being run by third parties or being led by water companies. We expressed a preference that accountability for setting up a body to deliver the campaign should sit with water companies, while noting that this would bring with it challenges including coordination across the companies and also the campaign being sufficiently independent from the water industry.

Responses to the second consultation, while supportive of establishing a central delivery body, included concerns that water company leadership would reduce the independence of the work and undermine its credibility due to negative perceptions of the water companies. While regulatory oversight could help manage this, we agree it is a challenge that should be taken seriously and the need for credibility and independence has shaped our decision on how to deliver the WEC.

The WEC will be run by the Water Efficiency Campaign Delivery Body appointed through a fair and open competitive process in 2025. The oversight from Ofwat, a non-ministerial government department, brings links to government and we will explore how this can be built upon with other departments.

The Water Efficiency Campaign Delivery Body will operate within a framework of formal planning and reporting functions which we envisage including:

- Producing and maintaining a **performance management framework** at the beginning of each operational year that sets out standards and targets including Key Performance Indicators (KPIs) that will be used to track its performance.

- Developing, maintaining and implementing a **consumer engagement plan** that presents how it will meet all requirements for consumer engagement within the performance management framework.
- Producing an **annual budget** each year covering the delivery of the consumer engagement plan and all the associated work planned by the Water Efficiency Campaign Delivery Body. This should sit within a projection of the overall projected spend between 2025 and 2030.
- Publishing a progress **report on at least an annual basis** that meets reporting requirements.

The details of the competition and more detailed requirements of the Water Efficiency Campaign Delivery Body are expected to be published in 2025. In the responses to the competition, we will want to see clear evidence of a sophisticated and robust approach to the communications challenges together with details of the respondent's approach to establishing clear ownership, collaboration and agile management.

The WEC will be funded from water bills, in common with the Innovation Fund and the WEL. The Water Efficiency Campaign Delivery Body will be not for profit and will have appropriate governance and arrangements for securing advice as well as professional services.

We will appoint a small in-house team with substantial experience and expertise in effective behaviour change campaigns to:

- Inform and review the development and delivery of the WEC, providing regulatory oversight.
- Facilitate collaboration, and productive partnerships.
- Encourage the open sharing of learning and resources across the sector.

The campaign will start off with a smaller budget during the test and learn phases, with the flexibility to scale up as the campaign develops.

3.2 Expectations of the campaign

The campaign will take a phased and collaborative approach, exploring how best we can all play our part. It will start small, as the Water Efficiency Campaign Delivery Body tests the concepts with audiences and builds partnerships.

Some responses to the second consultation expressed concern that we were supporting a traditional campaign that aimed to change behaviour simply by providing information. We recognise that the work is much more complex than this and should raise awareness, seek opportunities to bring about change and give people the capacity to make changes. This includes:

- **Insight driven communications** that apply behavioural science models and put the audience at the heart of the campaigns.
- **Clear calls to action**, including links to services from wholesalers or retailers.
- **Linking with other relevant events,** such as the introduction of relevant policies like the water efficiency label or introduction of smart metering.
- **Developing an umbrella brand** that sits across a range of high quality outputs and delivers consistent and effective outcomes. This should include collaborating with activity being run outside of this campaign, to increase the reach and impact of the work.
- **Compatibility with work already planned** or ongoing by water companies, regional / national differences (including across England and Wales), weather and other events (including drought), related campaigns, work across wholesalers, retailers and New Appointments and Variations (NAVs) focusing on both household and business customers over the 5-year period.
- **Working with a wide range of partners** to extend the reach and increase the effectiveness of the campaign.
- **Embedding continuous improvement** by evaluating and learning throughout the campaign.

Some responses to our second consultation raised concerns about the effectiveness of a behaviour change campaign. We therefore commissioned an independent rapid evidence assessment of views on the likely effectiveness of a behaviour change campaign, published alongside this document. This has given us the confidence to take forward a campaign, and the original rationale remains that:

- A successful campaign can amplify the benefits of other interventions.
- Water companies face coordination barriers that make collaboration across the industry on this unlikely without intervention.
- Having one large project supports a coordinated and coherent approach including structured evaluation and learning.

4. Water Efficiency Lab

While work has gone on for many years on water efficiency, innovative technologies, processes, and approaches are needed if we are to unlock progress. These are needed across England and Wales and must be supported by robust, data-led evidence. The Water Efficiency Lab's (WEL) primary objective is to develop and implement solutions that reduce water demand and improve water efficiency. This is critical to securing future water supplies, supporting climate change adaptation, and enabling future growth. These should be additional to what companies are currently doing and funded to do, as per our objectives in section 5.2. It does not include reducing losses from water company networks but could include reducing customer side losses.

In our second consultation, we proposed that the Water Efficiency Fund (WEF) would include a smaller pot, around £25 million over five years, made available via annual competitions. We said that this would operate in a similar way to Ofwat's Innovation Fund but would focus solely on water efficiency. Nearly 98% of responses either supported or partially supported the two-stream approach, indicating substantial support for the WEL as one of those two streams. We are therefore taking this stream forward as part of the WEF.

We do not want to pre-judge the types of projects that could be supported by the WEL as one of its strengths is its adaptability and flexibility within AMP8. However, examples of the themes it could consider are in Figure 3.

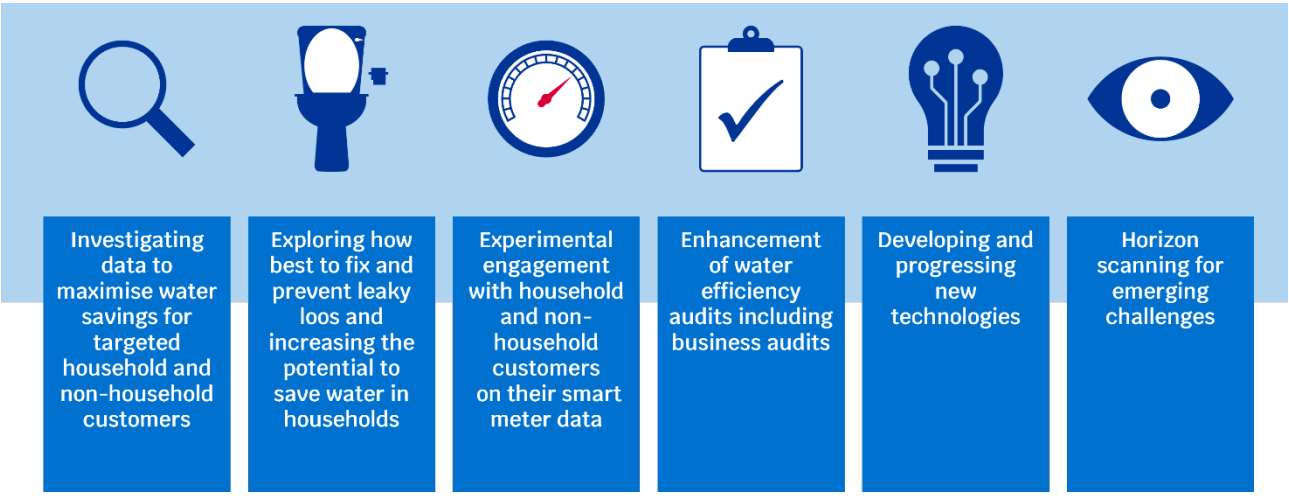

Figure 3 shows potential areas the WEL could fund

In our second consultation, we proposed that the WEL would be run by the same delivery partner as the Innovation Fund given the commonality between the funds. This approach was supported or partially supported by 91% of respondents to the second consultation and we continue to believe it will bring efficiencies. We will therefore work with the Innovation Fund to appoint a Competition Design and Delivery Partner which is shared with the WEL. As well as

bringing efficiencies, this will build in commonalities to the application processes therefore streamlining applications.

4.1 Setting up the Water Efficiency Lab

While responses received to the second consultation were supportive of the WEL, approximately 29% of individuals wanted it to be bigger than the proposed £25 million. We are open to the WEL potentially being bigger than the £25 million allocated and will use the flexibility that the two-stream approach offers to flexibly distribute the available funds as necessary between the WEL and the WEC.

We will engage with sector experts to understand and prioritise the relevant challenges in this space and develop appropriate challenge statements before grouping them by theme. Understanding the various challenges and prioritising the themes and challenge statements will take time. We are currently creating an Advisory Panel (described in 5.1.1) which will help with this, and we have started informal engagement on views and priorities from the sector in this area. We propose that the fund operates three different funding tiers to accommodate a wide variety of projects. Each funding tier will have terms and conditions appropriate to the scale of the project.

4.2 How the Water Efficiency Lab will work

We do not want to constrain flexibility before we develop our detailed approach with our Competition Design and Delivery Partner, Advisory Panel and stakeholders. However, we do want to outline what the WEL is and how we currently envisage it operating. We see the WEL including:

- Annual competitions, focused on challenge statements related to themes relevant to water efficiency.
- Sub-competitions to support projects at a range of different scales and levels of readiness.
- A set application process with transparent and consistent requirements for applicants, noting that most of this is to be developed.
- Appropriate conditions applied to successful bids via winners agreements which will cover matters including Intellectual Property and sharing of results.
- Regular reporting and evaluation of projects as well as open sharing of results.
- Established governance including an Advisory Panel (see section 5.1) and clear roles for us, our Competition Design and Delivery Partner and an Evaluation Partner (see section 5.3 for further detail).

4.2.1 Fund operation

We envisage three tiers of funding: Source, River and Delta.

Source is a funding tier for projects with a value up to £150,000. This focuses on supporting high-potential, early-stage innovations with the aim of accelerating their development and market readiness. It offers a route for supporting breakthrough ideas, initiatives and technologies that are considered higher-risk due to insufficient data but may provide promising outcomes. As a guide, when looking at Commercial Readiness Level (CRL) and/or Technology Readiness Levels (TRL)[7], we would expect projects funded under Source to be between levels 1 and 3.

River is a funding tier for projects with a value above £150,000 and up to £500,000. This is dedicated to supporting projects where there is higher confidence that they will have a direct and measurable impact. This impact will typically apply over a broader area than Source projects but may be more localised than Delta projects. River projects may have started off as Source projects, or have been trialled elsewhere, and show sufficient potential to be scaled up. As a guide, when looking at CRL and/or TRL, we would expect projects funded under River to be between levels 4 and 6.

Delta is a funding tier for projects with a value above £500k and up to £2 million[8] per annum (not inclusive of the 10% contribution). This would support projects that bring benefits to a broad area, typically across England and Wales. Projects will have a higher level of confidence and will be able to demonstrate their ability to deliver substantial outcomes. Projects in this stream may have been proven as part of the Source or River tiers. As a guide, we expect projects funded under Delta to be between CRL and/or TRL levels 7 and 9.

4.2.2 Contributions from applicants

Respondents to our second consultation were divided on whether a 10% contribution to projects should be required. Out of 54 responses, 22 were against it and 21 were for it; 11 consultees did not answer. Responses for and against commonly mentioned that we should not require the contribution from smaller bidders or charities. It was reinforced that we should maintain flexibility within the operation of our fund. We recognise these concerns and agree it is important that we do not unduly exclude people and organisations with good ideas from entering the WEL. However, our view is that requiring a contribution brings a range of benefits which we are keen to capture. This is why we envisage **the Source, River, and**

[7] The Commercial Readiness Level (CRL) is a measure of maturity of a technology or product, indicating its readiness for commercial deployment and market launch. Technology readiness levels (TRL) are a type of measurement system used to assess the maturity level of a particular technology

[8] At this stage we believe £2 million to be a sensible indication of an upper limit for annual spend given the budget available, number of funding streams open and practical delivery constraints in any given year. However, we do not yet know what proposals will be developed and we are therefore not setting this as a fixed limit.

Delta streams generally requiring a 10% contribution to the total project cost. However, discretion can be exercised where this is not beneficial.

We believe this contribution requirement will offset some management and evaluation costs while fostering stronger partnerships through shared investment and mutual commitment. Having a financial stake in projects can improve the approach taken to planning, cost management, viability and the focus on results. Applying this policy to all our streams of funding should increase impact and further drive transformative and resilient innovation.

We will allow for exceptions to be made to the 10% requirement where there is a valid case to do so. Our Competition Design and Delivery Partner will assist with the criteria for exceptions. Applicants can decide how the 10% contribution is funded, as long as it is not funded by charges to water customers in England and Wales (i.e. it must be from the organisation's own funds). There is no requirement for this contribution to be shared equally between partners. We would welcome additional contributions beyond the minimum 10%. In-kind contributions are excluded from the 10%.

All funding tiers will be subject to a separate 10% retention policy. This is to ensure project commitment and fulfilment and is separate to the contribution requirements set out above. Under this arrangement, 10% of any project's maximum grant value submitted under Source, River, or Delta would be retained until a project has been completed and Ofwat, or a representative acting on behalf of Ofwat, has received the following documents:

- A final claim
- Supporting claim evidence information
- The final project report
- All data collected during the project
- The final statement of expenditure (SoE) and/or independent accountant's report (IAR)

If the items listed above are received later than 90 days after the project's completion date the retained 10% would not be paid other than in exceptional circumstances. Payment of the retained value (10%) would be subject to the contents of the final IAR or SoE. Failure to complete a project would make a party ineligible for future funding through the WEF.

5. Cross cutting areas

This section outlines our approach to a range of areas that cut across the Water Efficiency Campaign (WEC) and the Water Efficiency Lab (WEL).

5.1 Governance

The overall approach we proposed to governance of the Water Efficiency Fund (WEF) in our second consultation received broad support. We are therefore not proposing substantial changes to the overall roles and responsibilities.

The establishment of an Advisory Panel received strong support, and many organisations were interested in being involved. It has become clear that there is a need for an overall Advisory Panel to steer the WEF. As well as this overarching panel, which will also advise on the WEL, the specialised skills and experience related to campaigns will require a dedicated panel to support the WEC.

While it is positive that interest in being involved in the Advisory Panel was high, we want to keep the panel to a manageable size, and we also need to manage any conflicts of interest carefully. To avoid excluding people who want to shape this work, we are planning engagement to run alongside its development and outside of the core advisory panel. This will make sure we take on board a broad range of views and use those views to improve the outcomes of the WEF.

We envisage the Advisory Panels will meet around three times a year and we expect no more than ten representatives on each panel. We will work to set up the panels and agree terms of reference over the coming months.

5.1.1 The Water Efficiency Fund Advisory Panel

The Water Efficiency Fund Advisory Panel (WEF-AP) will be a small, agile, diverse group of individuals, capable of representing their specialist areas. We will seek an individual who has an in-depth understanding of Welsh policy and how the Fund could best support Wales. The scope of the WEF includes both business and household customers and we are seeking relevant expertise on our advisory group to help us achieve this. The panel will be chaired by us.

Individuals on the panel are agreeing to participate on a voluntary basis to advise us and will have sufficient time allocated to contribute actively. Those on the Advisory Panel must identify and manage any conflicts of interest related to proposed projects or initiatives. Members of the Panel, or organisations panel members are associated with, will not be able

to bid for projects or initiatives submitted to the Fund without declaring any actual or potential conflicts, in all cases getting Ofwat's consent before bidding and, if required, taking measures to manage any conflicts which have been approved by Ofwat. Ofwat will not give its consent unless it is fully satisfied that neither prior nor future membership of the Panel will create any conflicts in such bids for projects or initiatives which Ofwat considers cannot or may not be managed satisfactorily. Ofwat considers that membership of the panel is likely in many cases to present conflicts which cannot or may not be managed satisfactorily, so that Ofwat's consent to bid will not be forthcoming.

The panel will typically meet three times a year; however, meetings can be more frequent at the start of the process and around key milestones such as the WEL competitions. The work of the panel will be led by Ofwat but we will not be bound to act on its advice. The panel is advisory and decision making is out of scope. The panel is not intended to review applications directly.

We covered the concept of the Advisory Panel in our second consultation and proposed activities it would pick up. Following our review of the 54 responses received to that consultation, we have set out activities the panel would undertake. This is not a comprehensive list but gives a flavour of the role it will fulfil:

- Advise on the overall development of the fund.
- Coordinate input and understanding from others (where necessary).
- Advise on policy interactions (especially Wales-only policies) and dependencies.
- Where necessary, provide expert guidance and advice.
- Facilitate the exchange of ideas and act as an advocate for the work.
- Support join-up between WEC and WEL.
- Identify and advise on risks and opportunities relevant to the WEF.
- Advise how to achieve the right portfolio of projects across Wales and England.
- Shape the WEL themes and associated challenge statements.
- Advise on emerging trends and issues on water use.
- Support project teams funded by the WEL to overcome barriers.

5.1.2 The Water Efficiency Campaign Advisory Panel

A Water Efficiency Campaign Advisory Panel (WEC-AP) will be established to support the development and delivery of the campaign.

Collaboration will be key to the success of the campaign and can help address knowledge or evidence gaps, ensure the right skills and expertise are involved, bring in trusted voices, and improve the effectiveness of behaviour change interventions. The WEC Advisory Panel will support collaboration in this space.

The WEC Advisory Panel will meet for the first time in 2025, chaired by us. It will:

- Support the development, and help to shape the direction, of the WEC.
- Bring insights from related areas, particularly behavioural change, to elevate and challenge the work of the WEC.
- Support collaboration across the water sector including sharing of resources and best practice for behaviour change campaigns.
- Review and provide advice to the Water Efficiency Campaign Delivery Body each year on its annual plan and proposed approach to measurement and reporting.
- Advise on the progress being made, how this can be improved and how it could be measured more accurately.

In order to fulfil these functions we will be seeking individuals with extensive experience of behaviour change and campaigns across a range of areas. We expect this to include people from a government, commercial and academic background. The panel is advisory, and decision making is out of scope. We expect the panel to meet approximately three times per year.

5.2 Objectives and scope of the Water Efficiency Fund

Our objectives for the WEF remain unchanged from those in the second consultation. Our overall aim is to stimulate a transformative, sustained, and measurable reduction in public water supply demand in England and Wales. To achieve this, the WEF will support work to reduce water use that is:

- Effective and either at a large scale or with demonstrable potential for large-scale roll out.
- Additional to actions included in water resources management plans. Projects should also be additional to what a water company should be contributing through the 2024 price review, covering 2025-30 (PR24) and what it may have been previously funded for at the 2019 price review (PR19).
- Innovative, including cross-sector collaboration that learns from other sectors and brings in new domestic and overseas expertise; while building on existing skills and experience.
- Insightful, able to 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.

All projects or initiatives supported by the fund should:

- Be in line with the fund's objectives.
- Offer potential benefits beyond one company or product and relevance beyond one operating area.
- Be compliant with relevant legislation, including the Subsidy Control Act (2022).
- Take place between 01 April 2025 and 31 March 2030.
- Include robust plans for evaluation.
- Capture and share learning with others to guide future work.

Some projects may require involvement from water companies. This is likely to be the case where projects require access to customers' data, or water company operations. We will therefore consider requiring proposals to involve one or more water companies in these cases but not do so routinely.

5.3 Evaluation

Our second consultation stressed the importance of evaluation and proposed independent evaluation of projects at each stage from start to finish. This was because we want to understand the effectiveness of the work supported by the fund, and because the lack of high-quality evidence on the effectiveness of water efficiency interventions is a barrier to implementation. We want the WEF to address this. This is a key priority for the 2029 price review and projects need to be clear on the data they will use to demonstrate the impact they have had and take advice from the Evaluation Partner.

Consultation responses echoed the importance of evaluation in this space. There was good support for roles and responsibilities of an Evaluation Partner (90%). There was also support for the overall evaluation approach and use of independent evaluators.

Given the support received for making evaluation a high priority and the importance of this to the objectives of the WEF, we are commissioning an independent Evaluation Partner to support this area. The Evaluation Partner will work across the WEF and the Innovation Fund. They will evaluate the overall performance of the Innovation Fund and WEF (both the WEC and WEL) over the first two years of AMP 8 in such a way that can be continued and built upon over the next three years, and build towards an evaluation of the full five years.

The independent Evaluation Partner will support the evaluation of the WEC by:

- Advising us and the Water Efficiency Campaign Delivery Body on how the impact of the WEC can best be measured and understood; including recommending metrics, measurement approaches and reporting.
- Reviewing two annual progress reports from the Water Efficiency Campaign Delivery Body and advising on the apparent success or otherwise of the work and how the approach to measuring and reporting impact could continue to improve

While the independent Evaluation Partner will support the evaluation of the WEC, as above, we envisage the bulk of the evaluation of the campaign, including evidence collection, will be carried out by independent agencies who will advise the Water Efficiency Campaign Delivery Body.

The independent Evaluation Partner will support evaluation of the WEL by:

- Working with the Competition Design and Delivery Partner at the beginning of the project to design an application process that supports appropriate evaluation of the projects. This is likely to include development of standard questions on what projects expect to achieve, how this will be measured, how it will demonstrate causality and how it will be reported. These questions may differ in sophistication across the three tiers. This can draw upon existing evaluation frameworks and the approaches taken to evaluation of previous projects in this area.
- Briefly reviewing the approach of each successful project to evaluation and advising us and the Competition Design and Delivery Partner of its sufficiency / how it should be improved including advising on the appropriateness of the logic model and theory of change and how it will demonstrate it has had an impact.

Toward the end of year two of the project, the Evaluation Partner will develop a report based on all reported outcomes from the WEC and the WEL to estimate the impact of the WEF and advise on how this estimate could be built upon and how it might be developed in the coming three years of the WEF.

We are aiming to have the Evaluation Partner onboard in early 2025 to help shape the early stages of the WEF.

5.4 Financing

We presented our proposed approach to financing the WEF in the second consultation. This was to follow a similar approach to the Innovation Fund. The approach did not receive substantial comment in responses to the second consultation and we plan to continue as planned.

Under this arrangement, water company contributions will be set according to the size of their customer base. In this way, the biggest company contributes the most funding. Further detail on this will be set out in the PR24 Rule Book due in early 2025.

Water companies will be able to collect revenue each year through bills in line with charging rules. They will report on this collection within their RAGs[9] each year. Companies transfer the money to MOSL[10] who would then make transfers to those running the relevant projects. This is in line with the arrangements underpinning the Ofwat Innovation Fund.

5.5 Achieving a legacy

Because of the lack of reliable evidence on water efficiency interventions, a legacy of high quality evidence is a priority for the WEF. This has shaped our thinking on evaluation as well

[9] Regulatory Accounting Guidelines
[10] Market Operator Services Limited. https://mosl.co.uk/about

as our approach to intellectual property (IP) arrangements. We want an approach to managing IP that makes involvement in the fund attractive to bidders and makes sure that work resulting from projects or initiatives the WEF supports is openly available to bring further benefits in future.

5.5.1 Intellectual Property (IP)

In our second consultation we said that we were minded to take an approach in line with section 4 of the Innovation Fund terms and conditions. Responses to this consultation generally supported the idea of sharing the outcomes of WEF projects across water companies, with a preference for disseminating IP generated by WEF-funded projects. Our approach is as follows:

- **Retention of Background IP:** Project sponsors will retain all rights to any pre-existing intellectual property (Background IP) that they have developed independently of the fund. For clarity, Background IP includes any IP assets or proprietary knowledge created prior to, or outside the scope of, fund-supported activities.
- **Royalty-Free Access to Foreground IP:** Any new IP developed through the use of fund resources (Foreground IP) must be shared royalty-free in England and Wales. Foreground IP refers to any IP that emerges directly from fund-supported projects. This royalty-free access is intended solely for water-sector projects within England and Wales.
- **Fair, Reasonable, and Non-Discriminatory (FRAND) Licensing for Essential Background IP:** When Background IP is necessary to use Foreground IP effectively, the owner of the Background IP must license its use to project sponsors in England and Wales on fair, reasonable, and non-discriminatory (FRAND) terms. This requirement ensures that essential IP can be accessed for WEF-funded projects, while allowing Background IP owners to receive fair compensation. For clarity and transparency, "fair and reasonable" terms will be defined and documented in line with FRAND licensing principles by our Competition Design and Delivery Partner and Water Efficiency Campaign Delivery Body.
- **Alternative IP Arrangements**: Where the above IP terms are unworkable for a project sponsor, they may propose an alternative approach to IP management. Alternative proposals will be reviewed on a case-by-case basis by our Competition Design and Delivery Partner and Water Efficiency Campaign Delivery Body to ensure they align with the objectives of the competition and the spirit of knowledge-sharing. Criteria for assessing these proposals will include the extent to which they promote accessibility and support sector-wide innovation.

These IP-sharing obligations are limited to the regulated water sector in England and Wales. Innovators are free to benefit commercially from IP developed through the Fund outside this sector, including international and non-water industry applications. Further details on IP definitions, terms, and usage rights are available in our published policy statements on Open Data. Formal IP agreements will be required for all funded projects and in applications, we expect applicants to clearly set out IP rights, usage guidelines, and provisions for FRAND

licensing. Limitations of liability and indemnities will also be established to clarify responsibilities and reduce the risk of third-party claims.

5.5.2 Data sharing

Any project funded under the WEF is expected to adopt an 'open by default' approach to data, insights, ideas, and learning. By 'open by default,' we mean that any data, information, insights, and learning generated by funded projects (whether through the WEC or WEL) should be freely accessible, usable, and shareable by anyone.

Sensitive data, however, is exempt from this requirement. For clarity, sensitive data includes personal information, which is protected under the General Data Protection Regulation (GDPR), or any data with security implications. Since the data would be open for public use, we do not take responsibility for third-party use, errors, or misinterpretations of the shared data.

For further details, please refer to our published policy statements on Open Data.

5.6 Protecting the funds – conditions and sanctions

In the second consultation we presented a range of conditions that we could apply to projects, depending on the risks presented by each. These conditions were in line with those used in the Innovation Fund and covered areas including:

- The purpose of the award and the amount awarded.
- Requirements to collaborate and publish outputs.
- Arrangements for payment and recovery of funds.
- Requirements for governance and a broad range of other requirements as appropriate.
- Term of the agreement and arrangements for termination.

These did not receive substantial comment in the responses. We will therefore work with the Competition Design and Delivery Partner and Water Efficiency Campaign Delivery Body running the competitions to use conditions like these as appropriate for each project. An advantage of applying these sorts of conditions is that we can use them to standardise some reporting requirements. For example, making sure that outputs from projects are in a format that can be used to inform planning processes like Water Resource Management Plans.

To safeguard funds distributed under the WEL, a 10% retention will be held for all WEL-funded projects. This 10% is additional to the 10% contribution requirement. The 10% retention policy is to increase commitment and incentivise project completion. Under this policy, 10% of the maximum grant amount for each project is held until the project is verified as

complete and we, or our designated representative, have received the documents outlined in section 4.2.2 above.

6. Timescales and next steps

The timescales set out in our second consultation were broadly supported. Some responses expressed the urgency associated with managing demand and urged us to move into implementation as soon as possible. We agree with starting as soon as possible, but not at the expense of making sure our approach is correct and the work is ready to begin. Now we have set out our overall approach to the Water Efficiency Fund, our attention will turn to setting it up. Tasks for 2025 include:

Quarter 1 (January to March): Finalising overall governance, including the Advisory Panels

- Onboarding the Competition Design and Delivery Partner for the WEL and establishing their work programme.
- Establishing governance and the Advisory Panels.
- Establishing the challenge statements for the WEL, engaging with the Advisory Panel and a broader range of stakeholders.
- Developing our approach to the competitive process for selecting the Water Efficiency Campaign Delivery Body (subsequent timings depend on the approach taken).

Quarter 2 (April to June): Designing WEL and early stages of the WEC competitive process

- Designing the annual competitions for the WEL.
- Early stages of the Water Efficiency Campaign Delivery Body competition, depending on approach taken.
- In-house evidence gathering to inform the WEC.

Quarter 3 (July to September): First round of WEL and WEC competitive process moves forward

- WEC competition works towards selecting Water Efficiency Campaign Delivery Body
- First round of WEL activities underway
- Competition Design and Delivery Partner starting to scope WEL competitions for 2026

Quarter 4 (October to December): Second round of WEL and WEC body onboarded

- Developing second WEL competition
- Onboarding Water Efficiency Campaign Delivery Body
- Sharing evidence and pre-work for the WEC with the Water Efficiency Campaign Delivery Body

Glossary of terms

AMP8 – Asset Management Period (8th round of a 5-year cycle). AMP8 runs from 2025 – 2030.

Competition Design and Delivery Partner – The individuals/organisation responsible for designing and running the competition for the Innovation Fund and Water Efficiency Lab.

CRL – Commercial Readiness Level is a measure on a scale of 1 to 9 of how ready a technology is to be made commercially available, starting from the belief a new technology could be commercially successful all the way through to full regulatory compliance, commercial availability and wider acceptance within the target market. The definition of each level is defined in the table below.

CRL	Definition
1	Basic hypothesis that a new technology would be commercially viable.
2	Basic market awareness demonstrated.
3	Applications of technology found.
4	Identify support needed from supply chain, plus any certification and regulatory requirements.
5	Financial model for sales, costs and margins established.
6	Confirm exploitation routes; form partnerships across the value chain; and certification and regulatory requirements underway.
7	Financial model/commercial viability validated.
8	First commercial system built; route to market established; market assumptions updated.
9	Technology has been introduced to market.

Delta – This is the largest funding stream available under the WEL.

Evaluation Partner – The individuals or organisation providing independent support on evaluation.

Innovation Owner – This is an owner responsible for a solution submitted under the WEL with an emphasis on Innovation.

KT – Knowledge Transfer.

PR24 – Price Review 2024.

PR29 - Price Review 2029.

River – This is the mid-sized funding stream under the WEL.

Solution – A project or initiative that has received funding under the WEF.

Source – This is the smallest funding stream available under the WEL.

TRL: Technology Readiness Level - Technology readiness levels (TRL) are a type of measurement system used to assess the maturity level of a particular technology. The TRL levels and definitions are as follows:

1. TRL 1: basic principles observed and reported
2. TRL 2: technology concept or application formulated
3. TRL 3: analytical and experimental critical function or characteristic proof-of-concept
4. TRL 4: technology basic validation in a laboratory environment
5. TRL 5: technology basic validation in a relevant environment
6. TRL 6: technology model or prototype demonstration in a relevant environment
7. TRL 7: technology prototype demonstration in an operational environment
8. TRL 8: actual technology completed and qualified through test and demonstration
9. TRL 9: actual technology qualified through successful mission operations.

WEC – Water Efficiency Campaign. This is the component of the WEF focused on driving behaviour change.

Water Efficiency Campaign Delivery Body - The competitively appointed body that will deliver the WEC.

WEF – Water Efficiency Fund. This is the fund in its entirety. The WEF is composed of the WEC and the WEL.

WEL – Water Efficiency Lab. This is the component of the WEF focused on driving innovation within water efficiency practices.

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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