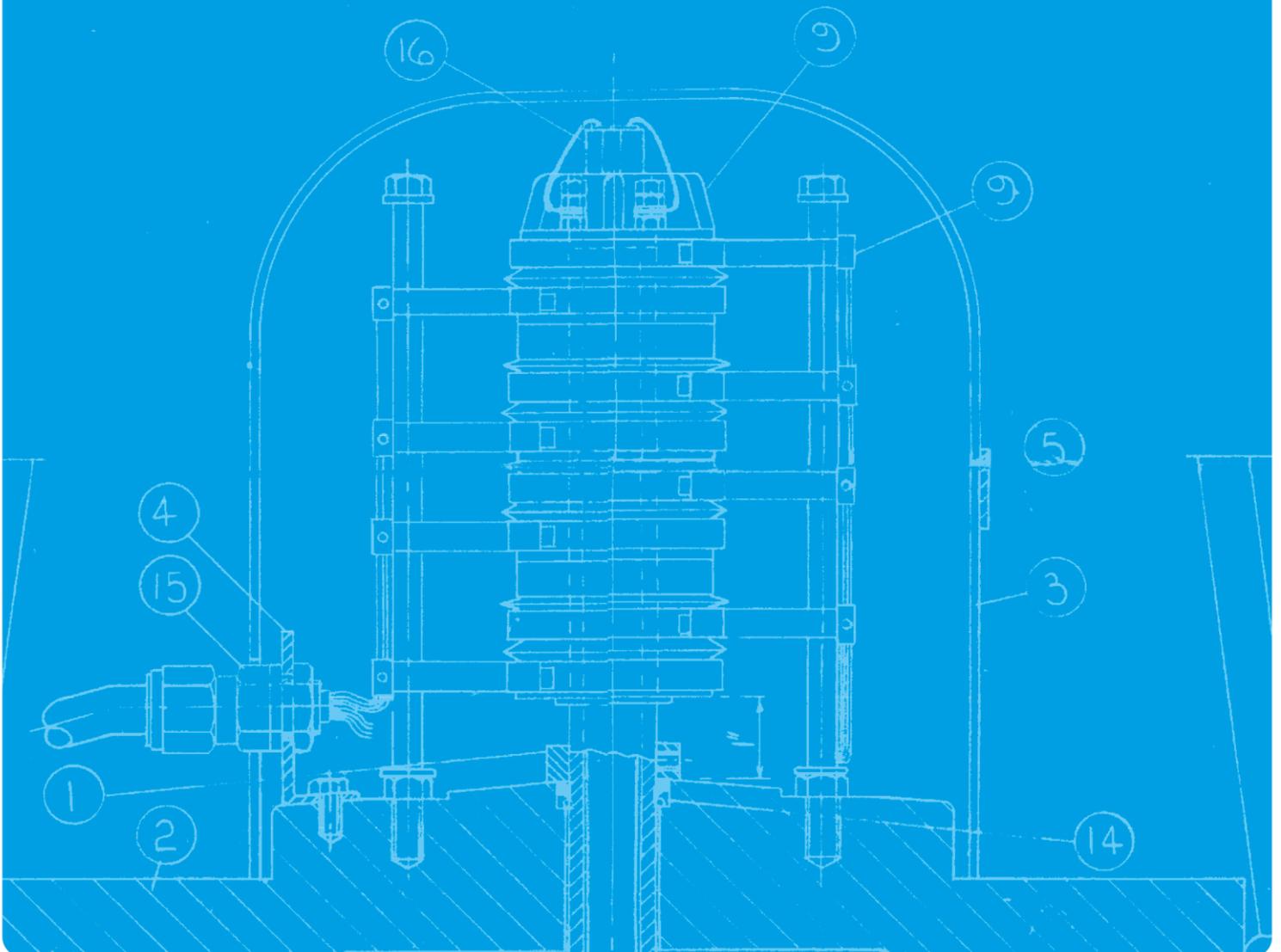


National Innovation Plan

SVT Response

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On 31 May 2016 ST Plc responded to an online questionnaire by the Department of Business, Innovation and Skills about the developing National Innovation Plan as follows:

How best can our regulators drive innovation and make the UK the regulatory test bed capital of Europe?

1. Economic regulators should agree outcomes, not outputs, with the companies they regulate. There is a natural conflict between prescription and innovation.
2. There should be economic upside, as well as economic downside, for companies as they seek to deliver these outcomes, mirroring what would happen in an open market. This is the approach that Ofwat has successfully taken with Outcome Delivery Incentives.
3. Regulators should avoid the temptation of being too risk averse. If, for example, water companies face punitive fines for failing to meet environmental standards, they are unlikely to take the risk of innovating to find new, more effective solutions - something that will ultimately be to the environment's disadvantage. A proportionate approach should be taken to quality regulation - and there should be upsides, as well as downsides, for companies.

How can we deliver real culture change within public procurement?

The UK government understandably seeks to use its considerable buying power to achieve a broad range of social and economic objectives. There is, however, likely to be a trade-off between (a) these broader objectives and (b) encouraging innovation. The greater the range of procurement criteria, the harder it may be for new entrants to compete.

What constitutes the right balance is a political judgement - it's just that the trade-off should not be ignored.

Where can we maximise the opportunities for innovation [by increasing investment in infrastructure at regional level], as we deliver high-quality infrastructure that unlocks broad economic opportunities?

The key is to increase efficient investment into infrastructure that does not rely on (often uncertain) central government finance.

The water sector provides a good example of what can be achieved. Its Regulated Asset Value Model encourages billions of pounds of low cost private investment. Could city mayors replicate this model?

The public sector (including city mayors) should also look at the power of their pension funds. The consolidation of public sector pension funds tends to lead to an increase in infrastructure investment - which in turn tends to lead to an increase in innovation in the economy as a whole.

What do we need to do to get maximum benefit to the UK economy from challenger businesses?

1. Promote a culture of encouraging new ideas, not defending vested interests. In many cases, this will require political courage.
2. Keep regulations to the minimum level practical - regulations are often necessary, but over-done they can be counter-productive.
3. Where regulations are required, seek transparency and predictability.