Water - Delivery Design (implementation-ready)

*The operational detail behind the water worked product: how a successor to today's broken water regulation would actually be legislated, built, resourced, governed, sequenced and - if it fails to deliver - corrected or wound down. This is the **ownership-neutral regulatory core**: the substance that must hold whoever owns the pipes.*

Discussion draft · version 1.0 · June 2026. Companion to the Evidence Annex, the costing model and its results, and the plain-language public-choice framing (the two value questions - who owns it and who pays for the past, and how far and how fast to invest - are routed to the public, not decided here). It answers, for the regulatory core, the questions any implementation-ready policy must settle: the legislation needed, the delivery body and its powers, the funding and financial-resilience mechanism, the enforceable targets, the investment-programme governance, sequencing and the critical path, measures of success and an independent evaluator, and the failure modes and exit conditions.

Where Pragma's product sits in the live reform. Unlike most areas the Register covers, government is reforming water right now. The Independent Water Commission (Cunliffe) reported in mid-2025 with 88 recommendations; the government has accepted **abolishing the existing economic regulator (Ofwat)** and replacing it with a new regulator (Grade A, government response to the Commission). This document builds on that settlement - it accepts what is sound and concentrates on what the Commission left unresolved or was barred from considering: the financial-resilience and gearing regime in enforceable detail, a credible route for a failing company, environmental and resilience targets with real penalties, and the governance of the long-term capital programme. The Commission was **barred by its terms of reference from considering public ownership** (Grade A), so there is a live, official gap on exactly the question the public most wants answered. That question - ownership - is **not** settled in this document.

What this document decides, and what it does not. Following the discipline of separating empirical questions from value questions, this is the part that is largely an evidence question: how to make monopoly water regulation work. It is designed directly on the graded evidence. **Two genuine value choices are deliberately excluded and routed to the public:** (1) **who owns the system and who pays for the past** - the ownership model and the split of the legacy and forward bill between bill-payers, investors and taxpayers; and (2) **how far and how fast to invest** in the system's future. Those are presented as neutral, costed menus in the public-choice document; no option is labelled "recommended". **This core is built to hold under any answer to either** - it is the same regulatory machinery whether the pipes are privately owned, publicly owned, or run by a not-for-profit company. (§7 explains exactly where the two choices plug in.)

Evidence and grades. Every figure below inherits its grade from the Evidence Annex (A robust/audited · B strong official projection · C single estimate/modelled/contested · D weak/absent). Costing figures are model outputs at the grade the annex records. The single most important guard, carried throughout: the **AMP8 £104bn (2025-2030) programme (AMP8 is the water industry's current five-year investment plan set by the regulator, the eighth such plan) is the first five years *inside* the long-term £290bn (2025-2050) programme - the two are never added together.**

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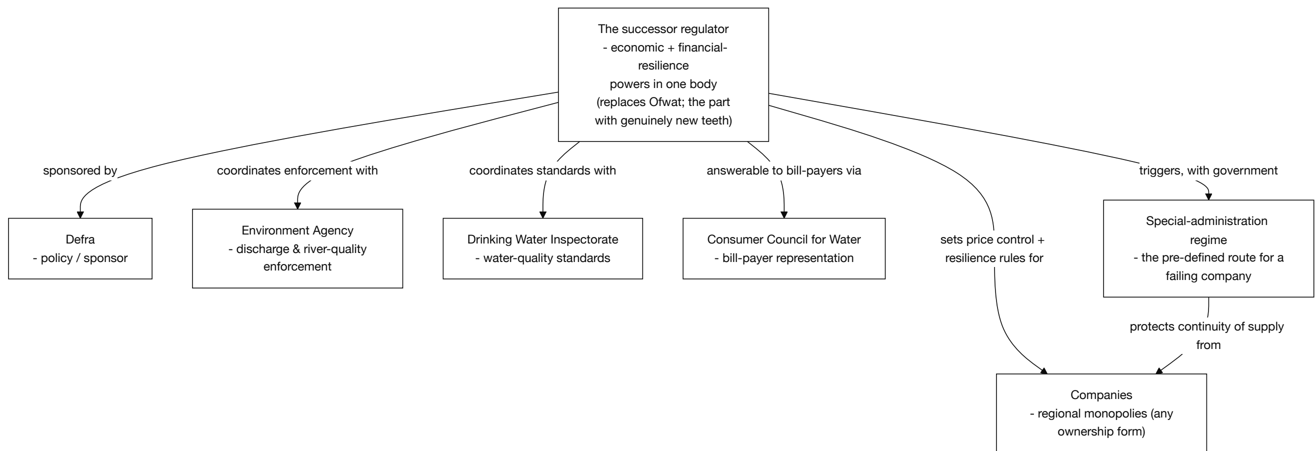
1. The institutional landscape - what the reform builds, replaces and uses

The first delivery risk in water is the opposite of building something from nothing: the machinery already exists, but it has not worked. A regulator sets price controls; companies invest, charge and distribute to owners; an environmental regulator polices discharges; a consumer body represents bill-payers. The failure was not the absence of structure - it was a structure that **permitted high borrowing and shareholder distributions while network and environmental investment lagged** (Grade B, National Audit Office April 2025), and a regulator that lacked the information, resourcing and capability to hold sophisticated, well-advised monopolies to account on equal terms (the "intelligent client" weakness, Grade C). So this reform mostly **replaces and re-powers existing bodies** rather than inventing new ones.



Body	Its function today	The reform's relationship
Ofwat (the economic regulator)	Sets five-year price controls; monitors financial resilience but with weak, mostly non-binding tools	**Replaced** - by a successor regulator with the economic remit *plus* a hard financial-resilience duty and enforceable powers (§3). The government has already accepted abolition (Grade A).
Defra	Water policy and the sponsoring department	**Sponsors** - but the financial-resilience and special-administration powers mean HM Treasury must be a standing co-sponsor (the taxpayer is the ultimate backstop if a company fails; §4.4).
Environment Agency	Polices discharges and river quality; monitors the supply-gap projection	**Coordinates with** - the successor regulator's environmental duty (§3) is exercised jointly with the EA, which keeps front-line discharge enforcement; the reform gives the penalties teeth (§5).
Drinking Water Inspectorate	Drinking-water quality standards	**Coordinates with** - unchanged remit; the resilience targets (§5) sit alongside, not over, drinking-water standards.
Consumer Council for Water	Represents bill-payers	**Answerable to** - the transparency regime (§6) and the bill-impact reporting are built so bill-payers can see what they are paying for and why.
The regional companies	Own and operate the regional pipe networks as natural monopolies	**Regulated** - by the same core whatever their ownership form. The reform regulates the *function*, not the *owner* (§7).
A pre-defined special-administration regime	A route to keep water flowing if a company fails financially, **defined in advance rather than improvised**	**The genuinely new machinery** - exists in outline in the Water Industry (Special Administration) Regulations 2024 but has never been operated at scale; this reform makes it a standing, pre-specified route (§4.4).

The single thing the reform genuinely *adds* is at the bottom of the stack: a **financial-resilience regime with real powers** and a **pre-defined route for a failing company** - the two things whose absence let Thames Water reach the brink (§4.4) with the regulator holding mostly notification-and-monitoring tools.

2. Legislation

Four pieces of law are needed. The first is already in motion (Ofwat abolition is accepted); the value of this product is in specifying the other three to implementation-readiness.

2.1 The successor-regulator statute (post-Ofwat)

- **Establishes the successor economic regulator** as the body that replaces Ofwat, with the price-control remit carried over *and* three new statutory duties that Ofwat lacked the tools to discharge: a **financial-resilience duty**, an **environmental duty**, and an **"intelligent client" / capability duty** (§3). This is the centrepiece and is already accepted in principle by government (Grade A).

- **A statutory, ring-fenced funding and capability base** for the regulator (§3), so that it cannot be quietly out-resourced by the companies it regulates - the asymmetry of expertise and data is itself a named failure (Grade C), and a regulator funded as an afterthought will repeat it.
- **A statutory transparency regime** (§6): the data the regulator must collect and publish so that a monopoly can be held to account by Parliament, bill-payers and the public.

2.2 Financial-resilience powers

- **A gearing cap and a distribution-conditions power.** New primary power to set a binding ceiling on a regulated company's gearing (debt as a share of regulated asset value) and to make dividends and other distributions conditional on resilience and performance (§4.1-4.2). Today the regulator funds the sector as if geared at 55% but the sector is actually geared at **67.9%** (Grade A) - a 12.9-percentage-point gap that is the clearest single measure of the financial-resilience failure. The power must be hard, not advisory.
- **A ring-fencing power.** New primary power to require that the regulated operating company is legally and financially insulated from the wider corporate group, so that group-level debt and distributions cannot drain the entity that actually runs the network (§4.3).

2.3 The special-administration regime

- **A standing, pre-defined special-administration route** for a company that fails its financial-resilience conditions or becomes insolvent - built out from the Water Industry (Special Administration) Regulations 2024 into a route that is specified *in advance*, not improvised under crisis pressure (§4.4). It must: guarantee continuity of supply; set out clearly how creditors and investors are treated (honestly - see §4.4); and define the conditions for return to normal operation or transfer. This is the machinery whose absence made Thames Water a live national risk.

2.4 Enforceable-targets powers

- **A power to set time-bound, binding environmental and resilience targets with penalties that bite** (§5). The defect today is that penalties have been small enough to be absorbed as a cost of doing business; the power must allow penalties calibrated to remove the financial incentive to under-perform, and must cover **both** discharge/river quality **and** supply security (leakage, the supply gap, drought headroom).

2.5 What is *not* legislated here

The two value choices carry their own, separate legislation *after* the public decides: any change of **ownership** (Choice 1) and the **investment-ambition** trajectory (Choice 2) are legislated on their own track. Neither is on the critical path for the resilience core - the core works under the status quo ownership model from day one (§7).

3. The successor regulator - powers, duties and resourcing

The successor regulator is the heart of the design. It carries Ofwat's economic remit (setting the five-year price control that determines bills and allowed investment) and adds the powers Ofwat lacked. Its three new duties are what make it different from the body it replaces.

3.1 The financial-resilience duty

A standing statutory duty to monitor and *enforce* the financial resilience of every regulated company - not merely to report on it. This duty is exercised through the gearing cap, the distribution conditions and the ring-fencing power (§4), backed by the special-administration route as the ultimate sanction. The contrast with Ofwat is the point: Ofwat published a *Monitoring Financial Resilience* report showing sector gearing at 67.9% against its own 55% assumption (Grade A) but could not compel the gap to close. The successor regulator can.

3.2 The environmental duty

A standing statutory duty - exercised jointly with the Environment Agency - to drive discharge reduction and river-quality improvement, with the power to set binding targets and impose penalties that bite (§5). Sewage discharge is a textbook externality: the cost of a spill falls on rivers, bathers and downstream communities, not on the company that discharges (Grade A). The environmental duty exists to internalise that cost through enforceable targets rather than leaving it to a market that has no reason to price it.

3.3 The "intelligent client" / capability duty

A duty to build and maintain the **information, expertise and analytical capability** to hold sophisticated, well-advised monopolies to account on equal terms. The named failure is an asymmetry: the regulated companies have been better-resourced and better-advised than their regulator (Grade C; the National Audit Office April 2025 and the Independent Water Commission both criticised this). This duty links directly to the wider problem of **state capacity** (Register entry 11) - a regulator that cannot out-think the firms it regulates will be captured by them regardless of its formal powers. The capability duty is what stops the new powers in §4-§5 from being paper tigers.

3.4 Resourcing - how it differs from Ofwat

- **Funded to a capability standard, not a minimum-cost standard.** The regulator's budget is set against the cost of genuinely holding a £100bn+ asset base and a sector with ~£72bn of net debt (Grade B) to account - including in-house financial, engineering and data expertise - and is ring-fenced in statute (§2.1) so it cannot be eroded.
- **Cost-recoverable from the sector but independently set.** Funded by a levy on the regulated companies (as Ofwat is) but with the *level* set independently and protected, so the regulator is not financially dependent on keeping the companies comfortable.
- **A data and analytics function as a first-class part of the body**, not a back office - the practical expression of the intelligent-client duty.

How it differs from Ofwat, in one line: Ofwat could *see* the financial-resilience and environmental failures and *report* on them; the successor regulator is *funded and empowered to act on them*, with the gearing cap, distribution conditions, ring-fence, biting penalties and a pre-defined failure route as its tools.

4. The financial-resilience regime

This is the core's most detailed part, because it is where the system actually broke. The regime has four interlocking instruments. Together they are designed to make the Thames Water situation - gearing ~80%, debt of ~£20-23bn against a regulated asset value of ~£20bn, cash lock-up and the prospect of special administration (Grade B) - structurally far less likely, and to provide a clean route if it happens anyway.

4.1 Gearing caps

- **A binding ceiling on gearing** (net debt as a share of regulated asset value), set by the regulator and enforced as a licence condition. The reference points are concrete: the regulator currently *funds* the sector as if geared at **55%** (the notional structure), the sector is actually at **67.9%** (Grade A), and the live distressed case (Thames Water) is around **80%** (Grade B). The cap closes the gap between the funded assumption and reality, removing the surplus-debt return-on-equity engineering the old model permitted.
- **A glide-path for companies above the cap.** Companies currently over the ceiling are required to de-gear on a defined, monitored trajectory rather than overnight - an abrupt cap would itself precipitate the distress it exists to prevent. Welsh Water's own history shows de-gearing is achievable over time (gearing fell from ~93% at its 2001 inception to 58% by 2021-22, Grade B); the glide-path operationalises that.

4.2 Conditions on dividends and distributions

- **Distributions tied to resilience and performance.** Dividends and other distributions to owners are permitted only when the company is within its gearing cap, meeting its environmental and resilience targets (§5), and holding defined liquidity. A company that is over-geared, failing its targets or in financial difficulty cannot distribute to owners while doing so - the lock-up that Thames Water reached *under crisis* becomes a *standing rule*, applied before crisis, not after.
- **Ownership-neutral by construction.** "Distributions to owners" covers shareholder dividends under private ownership, surplus extraction of any form, and intra-group payments - but it does **not** prevent a no-shareholder company reinvesting surpluses or returning a customer dividend (as Welsh Water has done, ~£47m in 2018/19, Grade B). The rule bites on *extraction that undermines resilience*, whoever the owner is.

4.3 Ring-fencing of regulated entities

- **The regulated operating company is legally and financially insulated from its corporate group.** Group-level debt may not be serviced by draining the operating company below its resilience thresholds; the operating company must be capable of standing alone if the group above it fails. This is what stops a holding-company debt structure from hollowing out the entity that actually has to keep water flowing - a direct lesson from how highly-leveraged group structures left operating companies exposed.

4.4 The special-administration route - the Thames Water worked case

A credible, *pre-defined* route for a failing company is part of the core because the alternative - improvising under crisis pressure with a company serving a quarter of the population - is how a financial failure becomes a national supply emergency. Thames Water is the live worked case: ~£20-23bn of debt against a ~£20bn regulated asset value, ~80% gearing, in cash lock-up and major restructuring, having faced the prospect of special administration (Grade B).

How the route works, step by step:

1. **Trigger.** The regulator (with government) places a company into special administration when it breaches its resilience conditions to the point of insolvency or imminent inability to operate - *before* supply is at risk, not after.

2. **Continuity of supply is guaranteed.** A special administrator runs the company as a going concern; water and sewerage services continue uninterrupted. Continuity of supply is the regime's first and non-negotiable objective. Customers see no change in service.
3. **Creditor and investor treatment - stated honestly.** This is where the design refuses to be evasive. **Equity is the first loss.** A company in special administration because it is insolvent has, by definition, equity that may be worth little or nothing - shareholders are not protected from the consequences of the financial structure they chose, and there is no public obligation to make them whole. **Creditors take losses according to their seniority** through a restructuring; lenders who financed an over-geared structure bear the risk they were paid to bear. The taxpayer **backstops continuity of supply, not investor returns** - public money keeps the water flowing during administration and is recovered from the restructured entity, but it does not exist to protect the equity or debt of a company that failed its resilience conditions. (How much, if anything, owners are ultimately owed on any *change of ownership* is a separate, value-laden question routed to the public as Choice 1, §7 - and the special-administration route is precisely why the "near-zero compensation" end of that range is a live legal argument, Grade D.)
4. **Exit.** The restructured company returns to normal regulation under the resilience regime, or its assets are transferred to a new operator (of whatever ownership form the relevant decision-maker chooses). The route is ownership-neutral: it stabilises and restructures; it does not pre-decide who ends up owning the pipes.

Why pre-definition matters: the regime exists in outline in the Water Industry (Special Administration) Regulations 2024 but has never been operated at scale. A route specified *in advance* - triggers, continuity guarantee, creditor waterfall, taxpayer-backstop limits, exit conditions all written down before a crisis - is what turns a potential national emergency into a controlled, rules-based process. That pre-definition is the deliverable here.

5. Enforceable environmental and resilience targets

The defect today is not the absence of targets but the absence of *consequences*: sewage spills rose by roughly **27% over the five years to 2025** despite a promised reduction (Grade B for the trend; treat the precise level with more caution, as monitoring coverage grew over the period), and penalties have been small enough to be absorbed as a cost of doing business. The regime sets **time-bound, binding targets across both environmental quality and supply security**, with penalties calibrated to *remove the financial incentive to under-perform*.

5.1 Environmental targets (discharge and river quality)

- **Time-bound discharge-reduction targets** anchored to the Storm Overflows Discharge Reduction Plan trajectory (the ~£60bn environmental/sewage programme to 2050 is the funded backbone, Grade A; the AMP8 ~£12bn storm-overflow spend is the first tranche *inside* it, not additional).
- **River-quality outcomes**, not just spill counts, so that a company cannot meet a spill target while a watercourse stays degraded.
- Enforced jointly with the Environment Agency under the regulator's environmental duty (§3.2).

5.2 Resilience targets (supply security)

- **Leakage reduction**, anchored to the existing target of –50% versus 2017-18 by 2050 against the 2024-25 level of ~2,156 Ml/day (Grade A) - a binding trajectory, not an aspiration.

- **Closing the supply gap**, projected at ~4,000 Ml/day by 2050 (Grade B), through the supply-resilience programme (~£52bn central, Grade B; AMP8 ~£8bn the first tranche, not additional) - reservoirs, transfers, demand reduction.
- **Drought and climate headroom** as a defined resilience standard, since climate and drought account for a large share of the projected gap.

5.3 Penalties that bite

- **Calibrated to remove the cost-of-doing-business effect.** A penalty must exceed the money a company saves by under-performing, or it is simply a fee for pollution. Penalties scale with the severity and persistence of the breach.
- **Linked to the distribution conditions (§4.2):** a company failing its environmental or resilience targets cannot distribute to owners while in breach - so under-performance hits the owners, not just the company's accounts.
- **Penalty proceeds directed to remediation** where possible (river restoration, affected communities) rather than disappearing into general funds, so the externality is at least partly internalised at source.

6. The investment-programme governance

The forward capital programme is **~£290bn over 2025-2050** (Grade B; the aggregate anchor - *do not re-derive it here*, and never add the AMP8 £104bn to it: AMP8 is the first five years inside it). The decomposition, from the Evidence Annex and costing: maintenance & renewal ~£178bn (Grade C, the residual), environmental/sewage ~£60bn (Grade A), supply resilience ~£52bn (Grade B), with leakage reduction and climate adaptation carried at £0 *discrete* (Grade D) because they are funded *within* the other programmes - a deliberate double-count guard, not a claim that they are free.

A programme of this size, run by regional monopolies under a single regulator, fails in one of two ways: money is allowed but not spent (or spent badly), or the programme is mis-specified and under-delivers against need. The governance is built against both.

- **Specified through the price control.** The five-year price control (AMP8 is £104bn, 2025-2030, Grade A) is the instrument that turns the 25-year programme into funded, deliverable five-year tranches - base/maintenance plus enhancement (environment and supply resilience), each tied to the §5 targets.
- **Monitored against outputs, not just spend.** Companies report against delivered outputs (kilometres of mains renewed, overflows eliminated, megalitres of new supply, leakage reduced) - the regulator's data function (§3.4) is what makes this real rather than self-reported. The structural backlog is stark: at the current mains-replacement pace, full network renewal would take roughly **700 years** (NAO April 2025, Grade B), so under-renewal must be tracked as an output, not assumed away.
- **Enforced through allowed-return and distribution levers.** Allowed expenditure that is funded but not delivered is clawed back or not remunerated; persistent under-delivery feeds the distribution conditions (§4.2). A company cannot bank an allowance for investment it did not make and distribute the difference to owners.
- **Transparent to bill-payers.** Under the transparency regime (§2.1), what each company is funded to deliver, and what it actually delivered, is published - so the Consumer Council for Water, Parliament and the public can see whether the bill they pay is buying the network they were promised.

The transparency regime, specifically. Because customers cannot switch supplier (natural monopoly, Grade A), the only discipline on a water monopoly is visibility. The regulator must collect and publish, in a

comparable form across companies: gearing and distributions; allowed versus delivered investment by programme; environmental and resilience target performance; and the bill impact attributable to each. This is the data that lets a non-switchable customer hold a monopoly to account.

7. Where the two value choices plug in - and why the core holds under any answer

This document is the **ownership-neutral core**. Two genuine value choices are deliberately left out of it and routed to the public; the core is built so that it is the *same machinery* whatever the public decides.

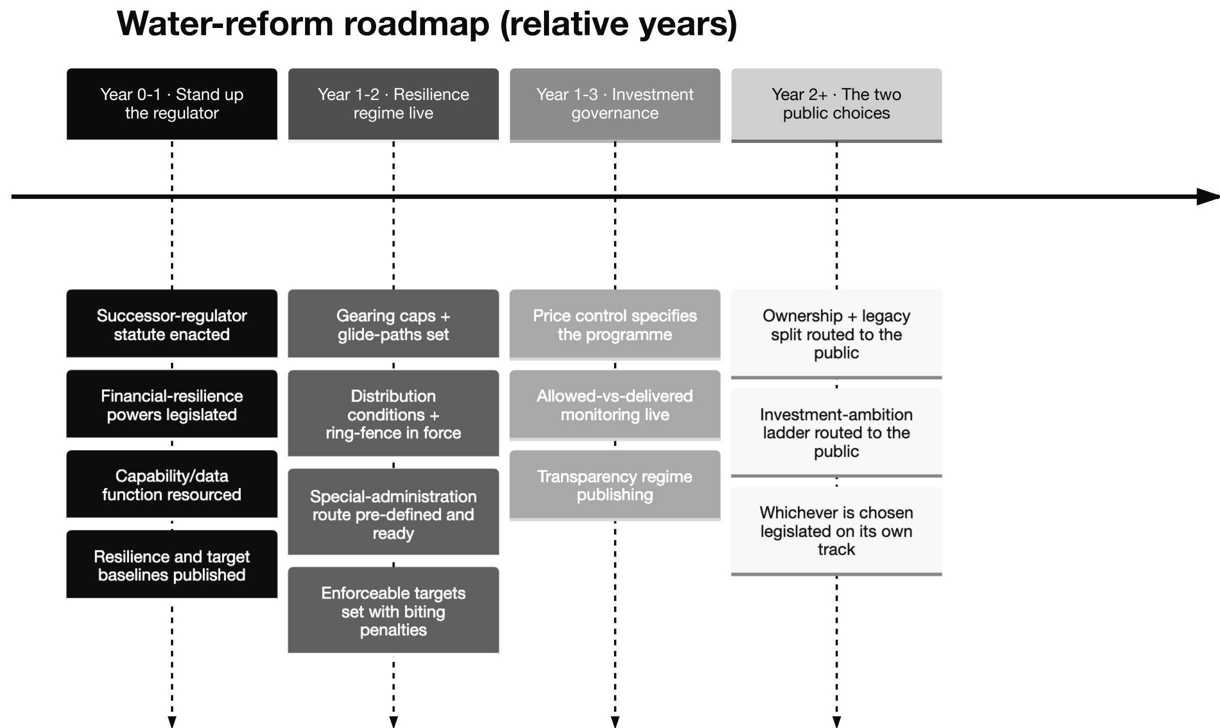
- **Choice 1 - who owns it, and who pays for the past.** The ownership model (regulated-private status quo / public ownership / a not-for-profit company limited by guarantee) and the split of the legacy and forward bill between bill-payers, investors and taxpayers. The acquisition cost of any transition out of private ownership ranges from **~£0 to ~£107bn** depending entirely on the *valuation basis and legal choice* - RCV/gross (the Regulatory Capital Value, ~£107bn, Defra), market/enterprise value (~£85bn, Social Market Foundation), statutory/historic (~£50bn, Public Services International Research Unit), or near-zero via special administration (the McGaughey/Common Wealth argument) - every figure Grade C or D *by construction*, because the spread is a political and legal choice about what owners are owed, not a measurement (Evidence Annex §5). The legacy-cost split likewise moves the same ~£106.7bn burden between the three groups differently under each option (Evidence Annex §7, Grade C, illustrative). **None of this is decided here**, and no option is labelled recommended.
- **Choice 2 - how far and how fast to invest.** An ambition ladder across both environmental restoration and supply resilience, each rung with its honest bill impact: roughly **+£19 / +£28 / +£38 per household per year** for the slow / steady / accelerated rungs (costing results). The how-far/how-fast question is routed, not pre-defaulted.

Why the core holds under any answer. The two real British non-private comparators settle the key empirical point: ownership form is **not** a reliable predictor of customer or environmental outcomes. Welsh Water (a no-shareholder company limited by guarantee) has cheaper capital and a customer dividend *but* the highest bills in England & Wales and one of the worst environmental records; Scottish Water (a public corporation) has the lowest bills *but* materially worse leakage and an easier geography (Evidence Annex §4, Grade A on the structural feasibility, mixed on outcomes). The lesson is decisive for this design: **because no ownership form reliably delivers good outcomes on its own, the financial-resilience regime, the enforceable targets and the transparency regime must hold whoever owns the pipes** - and they do:

- The **gearing cap, distribution conditions and ring-fence** apply to a private company, a public corporation or a not-for-profit alike; they bite on *extraction that undermines resilience*, not on the existence of shareholders.
- The **environmental and resilience targets with biting penalties** apply to any operator of the network.
- The **special-administration route** stabilises and restructures a failing company without pre-deciding who ends up owning it.
- The **transparency regime** holds any monopoly to account regardless of who owns it.

So the public can answer Choice 1 and Choice 2 either way, and the regulatory core is the same robust machinery underneath. That is the whole point of designing it ownership-neutral: the substance does not wait on the most contested question.

8. Sequencing, dependencies and the critical path



The sequencing rule mirrors the empirical/value split: **the resilience core is built first and does not wait on the value choices.** The choices follow on their own track once the core is standing.

- **Gate 1 - the regulator stands up.** The successor-regulator statute is enacted; the financial-resilience powers are legislated; the capability and data function is resourced to standard (§3.4); resilience, environmental and financial baselines are published. *Until the regulator can out-think the companies, the powers are paper.*
- **Gate 2 - the resilience regime is live.** Gearing caps and de-gearing glide-paths are set; distribution conditions and ring-fencing are in force; the special-administration route is fully pre-defined and ready to operate; enforceable targets are set with penalties calibrated to bite. *This is the protection against the next Thames Water.*
- **Gate 3 - investment governance operating.** The price control specifies the programme in deliverable tranches; allowed-versus-delivered monitoring is live; the transparency regime is publishing comparably across companies.
- **Gate 4 - the public choices made.** Ownership + legacy split (Choice 1) and investment ambition (Choice 2) are put to the public as neutral costed menus; whichever is chosen is legislated on its own track. *This gate is deliberately off the critical path for the core - the core protects customers and rivers from day one regardless.*

Critical-path dependencies: the capability/data function (§3.4) blocks Gate 1 - a regulator without the expertise to enforce the new powers cannot operate them. The gearing glide-paths (§4.1) must precede hard distribution conditions, or an abrupt cap precipitates the distress it exists to prevent. The special-administration route (§4.4) must be fully specified *before* any company reaches distress, not during. The two public choices are *off* the critical path and follow once the core is live.

9. The first hundred days

A concrete list for the period immediately after the commitment:

1. **Enact (or confirm the timetable for) the successor-regulator statute**, with the financial-resilience, environmental and capability duties on the face of the Act, and HM Treasury named as standing co-sponsor alongside Defra (the taxpayer is the ultimate backstop).
2. **Resource the regulator's capability and data function to standard** - the intelligent-client duty made real - and ring-fence its funding in statute so it cannot be out-resourced by the companies.
3. **Publish the baselines:** sector and per-company gearing (against the 55% notional / 67.9% actual gap), distributions, allowed-versus-delivered investment, environmental and resilience performance.
4. **Set the gearing caps and de-gearing glide-paths**, with the most distressed company (Thames Water) on a defined trajectory.
5. **Bring the distribution conditions and ring-fencing into force** as licence conditions.
6. **Pre-define and publish the special-administration route in full** - triggers, continuity guarantee, creditor waterfall, taxpayer-backstop limits, exit conditions - *before* it is needed.
7. **Set the first round of time-bound environmental and resilience targets** with penalties calibrated to remove the cost-of-doing-business effect.
8. **Commission the independent evaluator** (§10) and publish the measures of success before any of the new powers are judged.

10. Measures of success and the evaluator

System-level, evidence-graded, and built so that no single number can be gamed - covering financial resilience, environment, supply security and value to bill-payers:

- **Financial resilience:** sector and per-company gearing trending toward the cap (the 67.9% → cap trajectory, against the 55% notional, Grade A baseline); distributions made only within the conditions; number of companies in breach; companies in or near special administration.
- **Environment:** discharge reduction against the time-bound targets; river-quality outcomes (not just spill counts); penalty incidence and whether penalties exceed the savings from under-performance.
- **Supply security:** leakage against the –50%-by-2050 trajectory (from ~2,156 Ml/day, Grade A); progress closing the ~4,000 Ml/day supply gap (Grade B); drought/climate headroom.
- **Investment delivery:** allowed-versus-delivered investment by programme; mains-renewal pace against the structural backlog (the 700-year finding, Grade B); the £290bn programme tracked in five-year tranches (never conflated with the £104bn AMP8 sub-window).
- **Value to bill-payers:** the bill trajectory and what it buys (the £603 cash bill for 2025/26, Grade A, as the baseline the public can check), published comparably across companies.

The two value-choice outcomes (ownership and ambition) are **not** success measures of this core - they are the public's choices, and the core is judged on resilience, environment, supply and value regardless of how they are answered.

An independent evaluator, resourced and reporting independently of the regulator and the companies, assesses the regime against these measures, with a statutory protected budget so the evidence base survives a spending review. Because government is mid-reform, the evaluation is **standing, not one-off**: it

tracks the forthcoming water legislation and the new regulator standing up, and reports as the regime beds in - the discipline of treating this as a living proposal that engages the actual state of play.

11. Failure modes and exit conditions

11.1 Risks and mitigations

Risk	Mitigation
The new powers are paper tigers - the regulator is out-resourced and out-advised, as Ofwat was	The capability/data function resourced to standard and ring-fenced in statute (§3.3-3.4); Gate 1 does not pass until it is real.
A gearing cap is set so abruptly it precipitates the distress it exists to prevent	The de-gearing glide-path (§4.1) - a monitored trajectory, not an overnight cliff.
A company fails anyway and supply is put at risk	The pre-defined special-administration route (§4.4) - continuity of supply guaranteed, restructuring rules written in advance.
Penalties absorbed as a cost of doing business (the status quo)	Penalties calibrated to exceed the savings from under-performance, and linked to the distribution conditions so owners feel them (§5.3).
Owners protected at the taxpayer's expense when a company fails	Equity is first loss; creditors take losses by seniority; the taxpayer backstops continuity of supply, not investor returns - stated honestly and in advance (§4.4).
Money allowed but not delivered (allowance banked, programme under-delivered)	Allowed-versus-delivered monitoring with claw-back, linked to distributions (§6).
A monopoly escapes accountability because customers cannot switch	The transparency regime - comparable published data is the only discipline on a non-switchable monopoly (§6).
The cardinal error - an ownership or who-pays choice presented as a technical necessity	Choices 1 and 2 routed to the public as neutral costed menus; no option recommended; the core built to hold under any answer (§7).
The reform unwound or hollowed out by a later government	The duties on the face of the statute, the regulator's funding ring-fenced, the evaluation budget protected - not lines a future Chancellor can quietly lift.

11.2 Exit and correction conditions

Named in advance, not left to political weather:

- **If a company fails its resilience conditions**, the special-administration route is the *defined* response - continuity of supply maintained, equity and creditors taking losses by the pre-set rules, the taxpayer backstopping supply only. This is a controlled, rules-based outcome, not an exit from the regime.
- **If the public's answer to Choice 1 is "change ownership"**, the core transfers intact to the new owner - the resilience regime, targets and transparency apply unchanged. **If the answer is "keep the status quo"**, the core still protects customers and rivers. Either way the core stands.

- **If the public's answer to Choice 2 is "do less"**, the lower ambition rung is honoured; the regime delivers and enforces what was chosen, no more. The targets are set to the chosen ambition; they still bite.
- **In every case the resilience core stands alone**: a properly-resourced regulator, hard gearing and distribution rules, a ring-fence, biting targets, a pre-defined failure route and a transparency regime all retain their value whatever the public decides about ownership and ambition. That is what makes this a robust core rather than a bet on one contested answer.

Sources and companions

Evidence Annex (grades and full citations) · costing model and results. The two value choices - ownership + legacy split, and investment ambition - are presented as neutral costed menus in the plain-language public-choice document and routed to the public; they are not decided here. Cross-references: Problem Register entry 7 (water and the regulation of monopoly utilities) and entry 11 (state capacity - the "intelligent client" link in §3.3). All figures inherit the Evidence Annex grades; the AMP8 £104bn programme is the first five years *inside* the £290bn programme and is never added to it.