

Insights

THE SHAPE OF THINGS TO COME: STANDARDISATION AND THE FUTURE OF DPC

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Summary

Freya Scott launches a three-part series examining the evolving Direct Procurement for Customers (DPC) model for major water infrastructure. In this first article, Freya reviews recent developments in the DPC programme, including the project pipeline, contractor feedback, Ofwat's new CAP Agreement template and the evolving relationship between DPC and Specified Infrastructure Project Regulations (SIPR).

DPC has delivered one completed transaction, the Haweswater Aqueduct Resilience Programme (HARP), which reached financial close in August 2025. Now Ofwat has moved the model toward real standardisation: following updated DPC guidance, consultation on draft SIPR guidance, and two contractor roundtables in February and March 2026, it published the standard form Template CAP Agreement (Baseline) as a first Issued Draft on 16 September 2026, with a Target Cost template still to follow. Several high-profile projects in the pipeline have slipped, and the way SIPR is developing raises interesting questions about how the two models will sit alongside each other.

DPC and SIPR, briefly

Under DPC, a water company (an Appointee) competitively tenders design, build, financing and, usually, operation and maintenance to a Competitively Appointed Provider (CAP) under a CAP Agreement. DPC applies by default above £200 million whole-life totex. SIPR has only been used once, for Thames Tideway: an independently licensed Infrastructure Provider delivers under its own bespoke licence rather than the incumbent's.

That division is being deliberately reshaped. The Government's water sector white paper wants SIPR widened to cover all types of water infrastructure, sitting alongside DPC as a genuine parallel route rather than a rare backstop. Ofwat has also merged RAPID gates and its own DPC stages into a single combined gated process, aimed at cutting duplication and improving clarity on project

progression. The question is whether these structural changes will, in practice, produce the coherence the market has asked for.

What the roundtables found, and Ofwat's response

Ofwat's February and March 2026 roundtables, one with UK contractors and one with international contractors, produced an unusually candid readout. Three themes dominated: risk allocation, procurement complexity, and a demand for programme-wide coherence. Contractors said they will accept significant risk, but only where it sits with the party best placed to manage it. Planning risk, consenting, scope change, interface risk and unindexed inflation were the recurring flashpoints. Lengthy procurement timelines and high bidding costs were said to be making contractors more selective about which projects they bid at all. And across both sessions, contractors pushed back on inconsistent commercial arrangements between projects, which adds cost every time a bidder has to re-learn a scheme's structure from scratch.

Ofwat's response is concrete. It has published, with industry input, the standard form Template CAP Agreement (Baseline), intended as a common contractual starting point that still allows departure where a project genuinely justifies it, with a Target Cost template still to come. Alongside the templates, Ofwat is building a commercial principles charter spanning both DPC and SIPR, and a series of development-phase contractor engagement workshops to improve cost realism before projects reach procurement.

The CAP Agreement templates: what to watch

The Baseline template changes the question for that model. The immediate question is less whether a standard form should exist and more how the published Baseline model allocates risk in practice, and how it will compare once the Target Cost template follows. Does a Target Cost approach, with cost overrun risk shared and outturn incentives, work better for well-understood, repeatable assets than for legacy refurbishment of the HARP variety, where genuine uncertainty about asset condition makes a tight cost band hard to price? And will contractors accept the published Baseline model's fixed-price approach for technically complex schemes, given the roundtable feedback that they will price, or decline, risk they see as uncontrollable?

Pricing structure only holds if the trigger events around it are equally well defined. Interface risk, scope change and inflation indexation were exactly the areas contractors flagged as poorly suited to rigid allocation. The published Baseline CAPA fixes the price for the works and services subject to indexation and specified "Appointee risk" price adjustments, so the open question is now how tightly its compensation events and change mechanisms have actually been drawn, rather than whether they would be. Could a narrow list of triggers paired with a rigid price shift more risk onto CAPs than the headline structure suggests? That is something market participants can now test directly against the published drafting.

Converging markets, converging risk

As SIPR's scope widens and DPC's contracting becomes more standardised, the choice between the two routes may increasingly turn on regulatory process and licensing mechanics rather than genuinely different commercial terms. Contractors are already thinking in programme-wide terms, weighing the Major Water Infrastructure Programme against competing opportunities elsewhere, and say inconsistent procurement approaches erode the value of experience gained from one project to the next. Ofwat's proposed commercial principles charter is aimed squarely at this friction. The question worth asking is whether shared principles alone, without shared documentation across both DPC and SIPR, will go far enough to move the needle for a bidder switching between opportunities under the two regimes.

What standardisation can, and cannot, fix

Financial security remains a live sore point, and the published Baseline CAPA does not resolve it. Contractors told Ofwat that performance bonds, letters of credit and other security requirements can be disproportionate to the risk they are actually taking, and explicitly invoked PFI-era lessons about risk being pushed downstream unsustainably. The published template does not set a standard bonding or parent-company-guarantee regime for the CAP's own performance: financial security appears mainly through Collateral Agreements from the Construction and Operating Contractors, required as conditions precedent but left in an agreed form to be finalised on a project-specific basis, and through a Handback Bond that the CAP may elect to provide at expiry in place of retention withholdings. So the question for the templates is still open, not settled by publication: will they address financial security requirements directly, or leave them to project-specific negotiation and, if the latter, does that risk undermining the standardisation gains that Ofwat is plainly trying to achieve elsewhere?

Pipeline delays are a second consideration. Of the original AMP7 DPC candidates, only HARP has gone broadly to plan. The Fens Reservoir was told by RAPID in early 2026 to delay its Gate Three submission past the original 30 April deadline, pending further work including how the reservoir will actually be filled. Procurement complexity and bid cost plainly explain some of the market's caution. But Fens' delay is technical and consenting-driven, not contractual; a reminder that a standard form CAP Agreement will not fix every source of delay in the pipeline.

What next

A well-understood standard contract should, in time, cut due diligence costs and support sharper financing terms, but that benefit only lands once a template has been tested across several deals. Bid stipends illustrate the gap between intent and experience: contractors said stipends tied to uncertain milestones like financial close carry little weight in bid decisions and want more certainty of payment. Ofwat clearly heard the message at the roundtables; the interest now is in what mechanism emerges.

With the Baseline template now published, a Target Cost template and a further market engagement event planned for October 2026, there is a real opportunity to get ahead of that next stage rather than react to it: pressure-test how the published Baseline mechanism would have performed on live and completed projects, and work out now where a negotiating position needs to be built before the Target Cost template lands and before bidding opens. The detail of the Target Cost template, the commercial charter, and how DPC and SIPR will ultimately sit together are all still being worked out, but the direction of travel is clear: more prescriptive, more standardised contracting, built this time on direct and public feedback from the contracting market. The choices made over the coming months will shape how the next generation of DPC and SIPR projects gets bid, financed and delivered for years to come.

Coming up next....

The second BCLP Insight in this series will examine the drive towards greater standardisation across DPC projects. It will consider the potential benefits of a more consistent contractual and commercial framework, alongside the risks and limitations of a “one-size-fits-all” approach.

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Meet the team



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