

**Explanatory Memorandum to the Strategic Priorities and Objectives  
Statement to Ofwat issued under section 2B of the Water Industry Act  
1991.**

This Explanatory Memorandum has been prepared by the department for Climate Change and Rural Affairs of the Welsh Government and is laid before Senedd Cymru in conjunction with the above subordinate legislation and in accordance with Standing Order 27.1.

**Cabinet Secretary's Declaration**

In my view, this Explanatory Memorandum gives a fair and reasonable view of the expected impact of the Strategic Priorities and Objectives Statement to Ofwat issued under section 2B of the Water Industry Act 1991.

**Huw Irranca-Davies MS**  
**Deputy First Minister & Cabinet Secretary for Climate Change and Rural**  
**Affairs**  
**11 February 2026**

## **PART 1**

### **1. Description**

1.1 The Water Industry Act 1991 enables the Welsh Government to publish a statement setting out strategic priorities and objectives (SPS) for Ofwat in carrying out its regulatory functions relating wholly or mainly to Wales.

1.2 In preparing the SPS the Welsh Ministers must have regard to the statutory duties of Ofwat, social and environmental matters and such other matters as the Welsh Ministers think fit. Ofwat should embed the priorities set out in the SPS when regulating water companies operating wholly or mainly in Wales.

Ofwat must carry these out in accordance with the SPS. They include developing its methodology for the 2029 price review which sets the framework for water company investment and service level priorities and determines water charges for the period 2030-2035.

1.3 This SPS supplements the SPS issued in 2022 to set out our expectations for the transitional period whilst the water reform agenda is developed and implemented following the publication of the Independent Water Commission Report in 2025

### **2. Matters of special interest to the Legislation, Justice and Constitution Committee**

None.

### **3. Legislative background**

3.1 Section 24 of the Water Act 2014 inserted section 2B into the Water Industry Act 1991. This provides the Welsh Ministers with powers to publish a statement (SPS) setting out the strategic priorities and objectives for Ofwat in relation to its relevant functions relating wholly or mainly to Wales. Ofwat must carry out these functions in accordance with the statement published by the Welsh Ministers.

3.2 In preparing the SPS the Welsh Ministers must have regard to the statutory duties of Ofwat, social and environmental matters and such other matters as the Welsh Ministers think fit. These are set out in Annex A of the SPS. Ofwat should embed the priorities and objectives set out in the SPS when regulating water companies operating wholly or mainly in Wales.

3.3 This instrument is being laid in accordance with section 2B(5) of the Water Industry Act 1991.

### **4. Purpose and intended effect of the legislation**

4.1 Ofwat is the independent economic regulator for the water industry in England and Wales. This SPS sets out the Welsh Ministers expectations for Ofwat to engage proactively and transparently with Welsh stakeholders and to develop a regulatory approach best able meet the specific requirements of

Wales.

4.2. This statement sets out Welsh Government's strategic priorities for Ofwat during the transition to a new regulatory framework for Wales, recognising that Ofwat will also be responding to the UK Government's direction on water reform for England. It reflects the Welsh Government's water reform programme, the Transition Plan, and the policy intent outlined in the Green Paper Reforming Water Governance for Wales.

4.3 As an interim measure, this Statement builds upon the SPS) to Ofwat issued under section 2B of the Water Industry Act 1991 in 2022 to ensure continuity of direction through this period of reform. In responding to this SPS, Ofwat should continue to act in accordance with the 2022 SPS

## **5. Consultation**

### *5.1 Duty to consult*

Between November 2025 and January 2026, in accordance with the section 2B of the Water Industry Act 1991 the following key stakeholders were consulted

- The Consumer Council for Water
- The water companies likely to be affected by the proposed guidance.
- Natural Resources Wales
- The Drinking Water Inspectorate
- UK Government
- Ofwat
- EA

5.3 Individual discussions were held with the stakeholders to inform the preparation a draft SPS which was then circulated in January 2026 for further consideration.

5.4 Consultees were generally supportive of the draft SPS.

## **6. Regulatory Impact Assessment (RIA)**

An RIA has not been prepared for this instrument as it sets out existing legislation and Government policy and places no new duties or costs on the Welsh Government or third parties. This is in line with the policy set out in the Welsh Ministers' code of practice for carrying out regulatory impact assessments for subordinate legislation.