



Llywodraeth Cymru
Welsh Government

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

2026

Water Industry

Welsh Government Strategic Priorities and Objectives Statement 2026

1. Purpose and Context

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.

As an interim measure, this Statement builds upon both the objectives and priorities, Strategic Priorities and Objectives Statement (SPS) to Ofwat issued under section 2B of the Water Industry Act 1991 in July 2022 to the strategic priorities established in July 2022, ensuring continuity of direction through this period of reform. In responding to this SPS, Ofwat should continue to act in accordance with the 2022 SPS and should plan on the basis that the timelines for change in Wales and in England are different. In Wales, we anticipate three phases **subject to agreement with UK Government around the devolution of further legislative competence and executive functions to Wales to enable the establishment of an economic regulator for water**:

- Phase 1 Legislative change: 2026 to around 2028 / 2029
- Phase 2 Establishing new Welsh economic regulator and system planning function for water: 2028 – early 2030s
- Phase 3 Economic regulator for water established and undertaking role: mid 2030s onwards

This means, in Wales, that within the three phases of change outlined above, there will be **two transition periods** to navigate and we expect Ofwat – and any successor body - to support delivery of water reform in Wales and to continue to deliver their core functions for Wales throughout.

Subject to agreement with the UK Government, the two transition periods are likely to be:

- Firstly, the period from the publication of this document where Ofwat is considering and responding to the joint UK Government and Welsh Government Transition Plan (to be published in the coming months) and supporting the establishment of a new, integrated regulator, primarily for England. To ensure there is no gap in regulatory oversight for water companies wholly or mainly in Wales, Ofwat, and any subsequent integrated regulator, will continue provide economic regulation functions for Wales.
- Secondly, the period from when Senedd legislation to establish a new Welsh economic regulator for water is passed (likely to be late 2020s) and when the

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new Welsh economic Regulator for water is established, becomes operational and takes responsibility for the functions Ofwat currently carries out in Wales (estimated to be mid 2030s). We expect Ofwat, and any subsequent integrated regulator, to support and facilitate the transition to a new economic regulator for water in Wales. The Welsh Government will provide a further steer on this in the future.

During these phases we expect Ofwat and any subsequent regulator to deliver equal functionality for Wales and to reflect Wales specific legislative or policy requirements in their work, advice and decisions relating to Wales. Given the distinct phases of change in Wales and the longer period of transition, the Welsh Government anticipates issuing a series of Strategic Policy Statements. These will provide further clarity and guidance, to reinforce the delivery of the Water Reform Programme for Wales and supporting the establishment of a new Welsh economic regulator for water.

Welsh Government's vision is for a water system that is sustainable, resilient, and delivers public value, aligned with the Well-being of Future Generations Act and the principles of sustainable development. This statement provides clarity on the immediate Welsh Government priorities during this first period of transition which, in summary, is to ensure continuity of essential services while preparing for the next price review and laying the foundations for a future Welsh economic regulator for the water sector and the national system planning function.

2. Legislative Framework

Under section 2B of the Water Industry Act 1991, Welsh Ministers may publish a statement setting out strategic priorities and objectives for Ofwat in relation to its functions carried out wholly or mainly in Wales.

This SPS operates within that framework and signals Welsh Government's direction of travel towards a distinct Welsh regulatory model. Future arrangements will be underpinned by Welsh legislation, informed by the Green Paper and subsequent White Paper, embedding principles from the Well-being of Future Generations (Wales) Act 2015, the Environment (Wales) Act 2016, and the forthcoming Environment (Principles, Governance and Biodiversity Targets) legislation. Working within the wider, reserved, framework for competition and markets and consumer protection. Ofwat will continue to regulate Welsh companies taking account of Welsh Ministerial guidance and in alignment with Welsh Government's priorities until new arrangements are in place.

3. Strategic Priorities for Phase 1 of Transition in Wales

Welsh Government recognises that Ofwat will be responding to UK Government's plans to establish a new integrated regulator, primarily for England. During this period of change for Ofwat, the Welsh Government expects Ofwat, and any subsequent integrated regulator, to maintain effective regulation of companies based

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wholly or mainly in Wales. This includes close collaboration in the design and implementation of a new supervisory approach and creating approaches which are proportionate. As plans for the establishment of a new economic regulator for water in Wales progress, we expect Ofwat and its successor body to support and facilitate the transition to a new economic regulator for water in Wales.

To achieve this, Ofwat should work collaboratively with Welsh Government, Natural Resources Wales, the Drinking Water Inspectorate and the Consumer Council for Water. It will also require close collaboration with Defra, Natural England and the Environment Agency.

Ofwat and any subsequent integrated regulator should continue to carry out the functions of the independent economic regulator for water in Wales until such a point that these functions are taken on by the new economic regulator for water in Wales.

Given that Ofwat will be going through a period of significant change responding to the UK Government's reforms and also given the intention to establish an economic regulator for water in Wales, Ofwat – and subsequently the new integrated regulator – should take steps to ensure there is an appropriate structure and resourcing to ensure that Wales and Welsh water companies have a sufficient level of focus. This should include ensuring there is appropriate technical expertise and strategic leadership capacity to fully engage in informing water reform for Wales. This capacity will support the eventual transition to a new economic regulator for water in Wales where appropriate in line with employment legislation.

3.1 Price Review 2029 (PR29)

Preparing for the next Price Review: Ofwat should take the actions it deems appropriate to support preparations for the next Price Review (Price Review 2029) to be carried out effectively for companies based wholly or mainly in Wales before the role is taken on by the new integrated regulator.

When preparing for the Price Review, Ofwat should consider the investment environment and the long-term ambitions for economic regulation to be stable and predictable. We expect Ofwat to work transparently with water companies wholly or mainly in Wales and to engage actively with the Welsh Price Review Forum, which will be chaired by a Welsh Government Official.

PR29 should be delivered in a way that reflects Welsh priorities for affordability, resilience, and environmental outcomes.

Building on the positive experience of PR24, Welsh Government will reconvene a Price Review Forum involving all relevant partners including Ofwat to develop agreed priorities for Wales which we expect Ofwat to respond in setting its determination. We expect Ofwat to work openly and constructively through this forum, with other regulators and with the water sector more generally wherever appropriate.

Given the relationship between this Price Review and wider reform – and this being the start of a journey towards separate economic regulator for water in Wales –

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Ofwat should work closely with Welsh Government and the Wales PR29 Forum to ensure its preparations for the Price Review take account of planned reform.

Ofwat should ensure that the methodology for PR29 is set taking account of reforms set out in the forthcoming Joint UK and Welsh Government Transition Plan. This includes withdrawal of the Quality and Ambition Assessment (QAA) and rationalising the framework for performance commitments and Outcome Delivery Incentives (ODIs). We expect performance commitments and the ODI framework to be specific to Wales and Welsh companies in future.

There should be closer collaboration and genuine partnership working, ensuring that regulatory practice takes account of Welsh Government priorities and reflects the collective ambition for sustainable economic and social outcomes in Wales.

We expect Ofwat to have a greater focus on maintenance investment and the promotion of asset health including, steps such as ring-fencing base capital maintenance allowances.

Ensure the PR29 methodology supports our aim of providing clarity for long term investment planning.

Engage with rating agencies to understand their methodologies and criteria and to develop a regulatory approach to maintain rating agencies' confidence in the water industry. This is to facilitate the improvement of the credit rating of the water companies in Wales with the objective of keeping the costs of financing water companies (which is largely met by customer bills) as low as practicable.

3.2 Governance and Accountability

Welsh Government expects high standards of transparency and integrity across companies operating in Wales. Ofwat's Regulatory decisions should take account of Welsh Government's policy position – such as — fairness, sustainability, public value in the context of Ofwat's duties — and strengthen accountability for delivery of environmental and social outcomes.

In exercising functions relating to companies in Wales, Ofwat and companies should ensure the Welsh Language is not treated less favourably than English, and should ensure that regulatory activities comply with the Welsh Language (Wales) Measure 2011