

Welsh Government Strategic Priorities and Objectives Statement 2025

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. This interim statement builds upon the strategic priorities established in the July 2022 statement.

As an interim measure, this Statement builds upon the strategic priorities established in July 2022, ensuring continuity of direction through this period of reform. In responding to this SPS, Ofwat should plan on the basis that the timelines for change in Wales and in England are different. In Wales we will see three phases:

- 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, there will be two transition phases, 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.

- Firstly, the period from now where Ofwat is responding to the joint UK Government and Welsh Government Transition Plan and supporting the establishment of a new, integrated regulator, primarily for England. To ensure there is no gap in regulatory oversight for water companies in Wales, Ofwat, and any subsequent integrated regulator, must continue to provide economic regulation functions for Wales, including undertaking the price review determined in 2029.
- Secondly, the period from when legislation to establish a new Welsh economic regulator for water is made (late 2020s) and when the new Welsh economic Regulator for water is established and takes responsibility for the functions Ofwat currently carries out in Wales (mid 2030s). We expect Ofwat to support and facilitate the transition to a new economic regulator for water in Wales. The Welsh Government will provide further direction on this in the future.

Given the distinct phases of change in Wales and the longer timeline, the Welsh Government anticipates issuing a series of Strategic Policy Statements. These will provide further clarity and guidance, to reinforce the delivery of the Welsh Water Reform Programme and supporting the establishment of a new Welsh economic regulator for water.

Commented [SH1]: Have any of these been published/finalised? Not clear how this SPS can be said to reflect e.g. a Transition Plan that has not been issued

Commented [AC2]: i.e do they mean just the priorities contained in Strategic Priorities and Objectives Statement to Ofwat issued under section 2B of the Water Industry Act 1991 or both objectives and priorities Strategic Priorities and Objectives Statement to Ofwat issued under section 2B of the Water Industry Act 1991?

Commented [AC3R2]: Is this an addendum then?

Commented [SH4R2]: Agree - we need clarity on status of 2022 SPS, do we need to continue to "act in accordance" with it? That should be clarified in this document

Commented [SH5]: Don't think respond is right verb - "in acting in accordance with" to align with statutory language?

Commented [MC6]: delay vs 2032 discussed in the workshop. why will it take more than 4 years to set up a small regulatory office?

Commented [KE7]: From [REDACTED]: The word 'phases' here confuse things with the three phases above. Perhaps 'periods' is a better word given the descriptions below also use this word.

Commented [AC8]: The publication of this SPS.

Commented [SH9]: "companies wholly or mainly in Wales" as this is the current basis on which water is devolved and basis on which the Welsh Govt has legal power to issue its SPS to Ofwat under the WIA 91

Commented [SH10]: This seems unnecessary - in the absence of legislation from Welsh Govt, our functions wholly or mainly in Wales will automatically continue

Commented [RW11]: "determined" seems unnecessary and confusing here ("the price review in 2029" would be clear).

Commented [SH12R11]: Change made to our mark up version

Commented [MC13]: implies two price reviews by the "english" regulator??

Commented [GD14]: Inconsistent use of double spacing after full stops throughout

Commented [SH15]: Welsh Govt does not have power to issue general directions to Ofwat. Can this be "information ...

Commented [RW16R15]: Or even: "will set a strategic priority or objective on this in the future" (given that the ...

Commented [SH17R15]: Thanks - have used this drafting in our mark up version

Commented [AC18]: Than in England? Or just say the timeline/period of transition?

Commented [SH19]: How many/at what frequency? Could be quite disruptive

Commented [MC20]: future SPSs will need to cover WG priorities for what the sector actually delivers for customer ...

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 phase 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 water and 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 companies 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 and Biodiversity Targets legislation. Working within the wider, reserved, framework for competition and markets and consumer protection, Ofwat will continue to regulate Welsh companies subject to Welsh Ministerial direction and in alignment with Welsh 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 its successor body, to maintain effective regulation of Welsh water companies. 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 and the Environment Agency.

Ofwat and its successor body 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 should take steps to ensure there is an appropriate structure and resourcing to ensure that Wales and Welsh water companies have a proper level of focus and there is sufficient technical expertise and strategic leadership capacity to fully engage in informing water reform in Wales and the eventual transition to a new economic regulator for water in Wales – where relevant Ofwat staff would form the core of the new organisation.

Commented [SH21]: The wider statutory framework should achieve this i.e. companies' general duties under s.37 and 94. The SPS is for Ofwat not companies who provide the essential services.

Commented [SH22]: To align with statutory language this should be "functions carried out wholly...." rather than companies. The SPS is about Ofwat's functions not companies directly.

Commented [KE23]: I'm assuming this should be a comma?

Commented [SH24]: There is currently no power for Welsh Ministers to issue general directions to Ofwat. In certain circumstances directions may be issued, e.g. a direction for Ofwat not to proceed with a proposed licence modification, but this is a much broader statement. Could this say "guidance" instead? This is important for accuracy and to preserve Ofwat's independence

Commented [KE25]: From [REDACTED]: Does this refer to the 'first period of transition' or Phase 1?

Commented [GD26]: Should this be companies based wholly or mainly in Wales?

Commented [SH27R26]: Yes - or perhaps a definition e.g. after first reference "(these companies are called "Welsh water companies" in this document)"

3.1 Price Review 2029 (PR29)

Preparing for the next Price Review: Ofwat should take the actions it deems appropriate to prepare for the next Price Review (Price Review 2029) to be carried out effectively.

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.

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 to develop agreed priorities for Wales which we expect Ofwat to respond to. We expect Ofwat to work openly and constructively through this forum 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 a separate economic regulator for water in Wales – Ofwat should work closely with Welsh Government and the Welsh PR29 Forum to ensure its preparations for the Price Review align with planned reform.

Ofwat should ensure that the methodology for Price Review 2029 is updated in line with reforms set out in the 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 appropriate to Wales and Welsh companies in future.

~~In close consultation with the Welsh Government, adopt an interim supervisory approach to company regulation that is distinctly rooted in a Wales focused model. This approach will prioritise early risk identification, foster continuous dialogue, and deliver proportionate, outcomes-led interventions. Central to this model is a There should be commitment to~~ closer collaboration and genuine partnership working, ensuring that regulatory practice is aligned with Welsh Government priorities and reflects the collective ambition for sustainable economic and social outcomes in Wales.

~~Ring-fence~~ base capital maintenance allowances and consider options to link Regulatory Capital Value (RCV) run-off more closely to the economic depreciation of assets, protecting intergenerational equity.

Ensure the PR29 methodology supports a bridging approach during transition in Wales and provides clarity for long-term investment planning.

Engage with rating agencies to understand their methodologies and criteria and to develop a regulatory approach to maintain their confidence in the water industry to facilitate the improvement of the credit rating of the water companies in Wales with

Commented [KE28]: From [REDACTED] This makes more sense for English companies than for Dwr Cymru, with its not-for-dividend model (meaning it's financed solely by debt and retained earnings, not equity). I'm not averse to leaving it in as boilerplate text, I'm just a little unsure what it means in the Welsh context.

Commented [RW29]: "to develop"?

Commented [MC30]: could imply Ofwat is outside the Forum? add language about Ofwat being a core participant?

Commented [AC31R30]: Something along the lines of PR24 Forum ToR - will check

Commented [SH32]: This may be too strong as we will need to make decisions in accordance with the applicable statutory framework, which may need to change in order to implement reform. Can this be changed to "take account of planned reform"

Commented [SH33]: There is no PR29 methodology to update - "set" would be more accurate. As above, we will need to set any methodology in accordance with the statutory framework in place at the time, which may not make it possible for the PR29 methodology to be set "in line" with reforms which require later legislative change. Can this say "set taking account of reforms"

Commented [MS34]: Defra supports withdrawing the QAA in the long-run but maintaining some business plan incentives (for quality, not ambition) to ensure plans remain of a reasonable quality for PR29 recognising that supervisors will not be in place by then. WG may want to think how that might apply in Wales. But to leave open the door for BPI

Commented [SH35]: Does this mean necessarily different to PCs for companies wholly/mainly in England? There may be examples where there is good reason for PCs to be the same, we would not want our hands to be tied either way

Commented [SH36]: This is very vague and could hold us to any whim of WG - which policies specifically? Or say "takes account of" rather than "is aligned with"

Commented [KE37]: What about supervision during the transition period to PR29? Should this be in the section above?

Commented [AC38]: Supervision is wider than PR29. In the wider context we would need to know from WG if they are happy with the wider supervisory framework being designed for England which can then be tailored for Wales. Risks around running two totally separate processes before economic reg set up in Wales.

Commented [SH39]: Is this missing part of the sentence - "We expect Ofwat to ring-fence..."? I'm also not sure what is meant by ring-fencing capital maintenance allowances or whether this is possible in practice. Is this something to be checked by base costs, Daniel Mitchell?

Commented [KE40]: From [REDACTED] This is really niche for an SPS! It may be more meaningful to talk in terms of better linking maintenance spend to depreciation, to promote asset health without the specific mechanism of RCV run-off. Then we can also lose the "intergenerational equity" point, which looks a bit odd in this context.

the objective of keeping the costs of financing water companies (which is largely met by customer bills) as low as possible.

3.2 Governance and Accountability

Welsh Government expects high standards of transparency and integrity across companies operating in Wales. Regulatory decisions must reflect Welsh policy priorities — fairness, sustainability, public value — 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 in all regulatory activities must comply with the Welsh Language (Wales) Measure 2011.

Commented [MS41]: this may want to be amended - as low as possible - it would in theory be feasible to absolve water companies of any risk and thereby reduce company borrowing costs to the risk free rate - but that wouldn't be in customer interests as it would transfer all risk to them and create perverse incentives for companies. Maybe to minimise overall costs and maintain a low borrowing cost.

Commented [KE42]: From [REDACTED] : Price controls and parameters should be designed in accordance with our duties, not to satisfy the methodologies of the credit rating agencies. Furthermore, credit rating agencies cannot be said to be independent as they generate their fees from the companies themselves. Predictability and stability of the regulatory regime also links to the role of Gvt which is not in Ofwat's gift - if this section is included in the final version, we feel that this document should recognise that.

Commented [SH43]: No - they must reflect the statutory framework in which we make decisions. We should not sign up to mandatory reflection of Welsh policy priorities generally which may change. Which policy priorities? Can this say "should take account of"

Commented [SH44]: additional text relating to Ofwat's duties has been added here as "fairness, sustainability, public value" is ambiguous