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Cabinet Office

MANAGEMENT AND PERSONNEL OFFICE

From the Minister of State
Privy Council Office

The Rt Hon Richard Luce MP

Great George Street
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Telephone 01-233 8610

The Rt Hon Kenneth Baker QC MP
Secretary of state for the Environment
2 Marsham Street
LONDON SW1P 3EB

10 January 1986

NBM

Dear Kenneth,

file with DN

WATER PRIVATISATION - WHITE PAPER

I have seen your minute to the Prime Minister of 23 December and the attached draft White Paper on Water Privatisation.

As you know I have responsibility for policy on NDPBs, and I am therefore interested in the arrangements envisaged for protecting consumer interests (paragraphs 4.24 and 4.25). I should like to raise two points.

As currently drafted, the arrangements differ from the OFTEL and OFGAS models. You propose a network of regional consumer councils with members appointed by the Director General of Water Services. In both the OFTEL and OFGAS case there is a national consumer council, with regional representatives. Members are appointed by the Secretary of State. I believe that your officials see good reasons for the differences in approach, but we shall need to be ready to explain why the alternative model is not right for the water industry.

My second point is that the White Paper proposals appear to result in an increase of 20 in the quango count. Paragraph 4.25 proposes that consultative committees (on water matters) should be set up at authority level and that recreation and conservation committees (RCCs) should be retained. I understand that members of the RCCs and divisional consultative committees on water are currently appointed by the Water Authorities but that, after privatisation, all their members will be appointed by the DG of Water Services. As such, all these bodies will then count as NDPBs. As you know, our policy is to resist setting up NDPBs wherever possible. I accept that these will not, strictly speaking, be new bodies. But they will come into the quango count for

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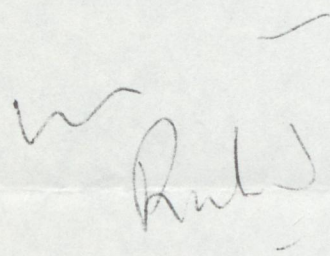
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the first time and there is no denying that the change in the appointment arrangements gives them a closer relationship to central Government. I wonder therefore whether this is in an area that you could look at again to see if alternative arrangements could meet the need for consumers' interests to be represented without this unwelcome increase in the numbers of quangos.

Leaving appointments to these bodies in the hands of the water authorities would of course achieve this. I realise though that this may be seen as prejudicing their independence from the water authorities and you are better placed than I am to judge how strong an objection this is in practice. If that option had to be ruled out, an alternative would be to have one body in each area rather than two; or, if one body could not adequately cover both aspects, you might consider whether an existing body, with appropriate changes to its terms of reference and membership (e.g the Countryside Commission) could represent consumer interests in relation to recreational and conservation issues.

I do not want to delay publication of your White Paper while this subsidiary issue is looked into. If the bracketed phrase "(in parallel with the English recreation and conservation committees which will be retained)" were removed from paragraph 4.24, this would leave us sufficient flexibility to explore options for the best structure for consumer representation. I think the final sentence of paragraph 4.24 gives the necessary assurance that customers' interests will be properly looked after.

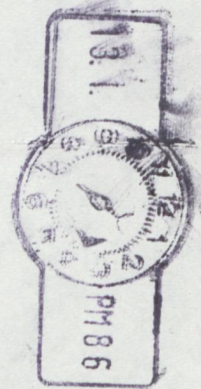
I am copying this to the Prime Minister and other recipients of your minute of 23 December.



RICHARD LUCE

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local Antri, Water Ind. Pt 3



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Department of the Environment
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Minister for Housing,
Urban Affairs and Construction

Ref: B/PSO/10280/86

21 January 1986

David Richard

NRBN

WATER PRIVATISATION - WHITE PAPER

Thank you for your letter of 10 January to Kenneth Baker about Water Privatisation.

I recognise that we will have to have our arguments ready to explain the differences between our consumer arrangements and those which apply in the Telecommunications and Gas cases. The main reason why each Water Services Public Limited Company is to have its own Consumer Council is that each will be independent of the others and operating in a different part of the country. The degree to which there will be common issues, requiring a common consumer approach, will be limited.

The role of the Director General of Water Services will also be different in significant respects from those for Telecom and Gas cases. In particular, he will be concerned (and indeed responsible, through the licensing mechanism) with issues of service provision and standards of service which will be a crucial part of our regulatory mechanism. This will bring him into close contact with a wider range of issues of concern to consumers, and we consider it appropriate for the Director General to make appointments to the Consumer Councils. They will be his regional watchdogs.

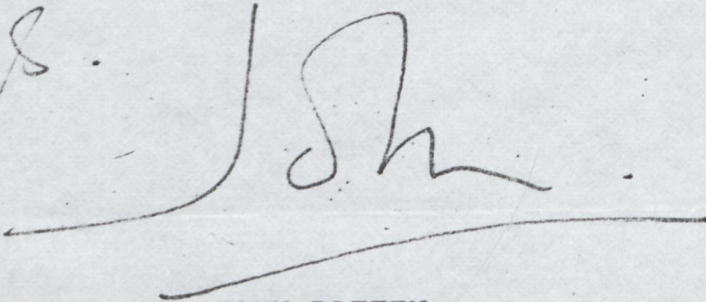
I appreciate what you say about creating a new series of quangos. That was one of the considerations in our minds when we set up Consumer arrangements for water authorities under the Water Act 1973 on the basis that each water authority would appoint its own on a Ministerially approved models. But has it been established that bodies appointed by a Director General are in fact quangos? In any event, we cannot leave responsibility for appointing Consumer committees in the hands of the bodies themselves once they have been privatised. It was difficult to gain acceptance for the present consumer committees given their system of appointment; under a privatised regime it would be impossible.

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Of the other changes you propose, I think we can agree to the proposed merger of consumer and recreation/conservation committees. The latter were not in our original proposals when the Water Act 1983 was in Parliament but there was strong pressure from the environmental recreation lobbies for their establishment. To abandon separate committees now would be difficult. Nevertheless I am prepared to adopt your proposal in the interests of efficiency. We have adopted your amendment to the text, which is not specific on this point, but our intention is as I have stated it.

I believe we can present our proposals as a significant reduction in bodies and bureaucracy. At present there are 59 committees in all. Under the new proposals there would be 13. Even if the 59 do not count against the quango total I am sure we can put forward these figures with advantage.

Copies of this letter go to recipients of yours.

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JOHN PATTEN

The Rt Hon Richard Luce MP

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LOCAL GOVT; Water Ind: R3.

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PRIME MINISTER

WATER PRIVATISATION - WHITE PAPER

Following consideration in E(A) on 19 November of the memorandum on Water Authority Privatisation submitted jointly by Nicholas Edwards, Michael Jopling and myself, we now submit a draft White Paper for colleagues' approval. This has been drafted to provide a clear statement of our policy and to meet the various points raised during the E(A) discussion.

In developing and clarifying our views on the form of regulation, John Patten and I have had the benefit of a report from Professor Littlechild which it is my intention should be published at about the same time as the White Paper. Section 4 of the draft White Paper follows his lead in proposing a system of regulating prices and service levels together; and the management would be motivated to make profits by achieving both as efficiently as possible. Our proposals also take full advantage of the potential for competition between the ten authorities in the stock market and in all other possible ways.

Flood prevention and land drainage cannot be dealt with in this White Paper though paragraph 3.10 states the new context in which the administration and financing of these functions must now be reviewed. On pensions we cannot go beyond the statement on para 7 of Section 1 until we have had discussions with the water authorities and the Treasury; the statutory water companies' employees are in the same pension arrangements as the authorities' and careful negotiation will be needed when the broad shape of our proposals has been disclosed. Tax issues too cannot be resolved unambiguously before water authority asset registers have been reviewed, but we shall not be under immediate pressure to show our hands on taxation. The proposals in Section 5 should allay the inevitable misgivings of the environmental interests, with careful presentation. The investors will have to accept them if water authorities are to be privatised at all.

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On water metering, the White Paper does I hope reflect your views as expressed in your Private Secretary's minute of 9 December. In particular it makes clear our support for the extension of metering, the advantages of economies of scale in installation and the need for large scale trials.

In conclusion I would just like to mention the statutory water companies. They are already in the private sector, so they are not the main focus of our policy. However, we do see advantage in their agreeing to convert themselves into PLCs and to come within the same regulatory framework as that to be established for the WSPLCs; our bill will provide for this voluntary transition. I am pleased to report that the initial response to this suggestion from the Water Companies Association has been quite encouraging.

As our policy paper E(A)(85)64 made clear, our aim is to legislate for water authority privatisation in the 1986/87 session, to incorporate all water authorities as WSPLCs as soon as possible after Royal Assent, and to be ready during 1987 to begin a sequenced flotation of all the authorities. This is a very tight timetable, and to hold to it is essential for the White Paper to be published very early in the New Year. I would therefore ask all colleagues to let me have any comments on the draft White Paper by Monday 13 January at the latest.

I am copying this minute to all Cabinet Colleagues and to John Wakeham, Bertie Denham, Sir Robert Armstrong and Brian Griffiths.

SW Henderson

for

K B

*Approved by the Secretary of State and
signed in his absence*
23 December 1985

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