

PRIME MINISTER

Prime Minister!
Agree to write as proposed?
(Malvern, by the way, has had water
metering for more than a
century!)

10 January 1985

WATER PRIVATISATION

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- No - leave it
alone. There
are more
things to
do.

This draft White Paper is admirably clear and well-written.
It proposes:

1. privatisation of all 10 Water Authorities;
2. transformation of the authorities into PLCs;
3. retention by the authorities of almost all their present functions (so that they remain responsible for management of the entire water systems in their areas, except for the financing of land drainage and flood protection);
4. establishment of a Director General, who will license the authorities, control their charges and ensure that they meet set standards of quality;
5. establishment of a new independent consultative committee for each authority, reporting on any complaints to the Director General;
6. permission for the authorities to undertake compulsory metering experiments (forcing the inhabitants of given areas to instal meters);
7. the setting of new 'quality objectives' for drinking and river water;
8. clear powers for the authorities to control pollution;
9. permission for the (small) private water companies to become PLCs and to act in their own right; (at present, these are statutory companies that act only as agents for the Water Authorities);

10. establishment of a new appeal system for companies whose activities are regulated by the Water Authorities to ensure that they are treated even-handedly.

Comments

1. The paper gives the impression of introducing a substantial amount of regulation of the water industry in order to protect the environment and to ensure quality and efficient performance. But it in fact does little more than convert existing regulation to fit the new framework. The balance seems about right.
2. The Paper is weaker when it deals with the advantages of emulation between water authorities. This is not even mentioned in the principal sections on competition. But the Paper does ^{ve} clearly propose linking the RPI-X price control to a moving average of all the water authorities performances (para 4.12). This will ensure that the most effective companies will make the largest profits, and will therefore encourage all of them to be more efficient.
3. The Paper rightly makes clear that the Government is in favour of improving water quality and reducing pollution; but it leaves the impression that this is something which the Government would wish to improve ad infinitum. That is dangerous. True, the Mersey must be brought up to the Thames' new standard; but there is less reason for expensive improvements beyond that level. Everyone wants tap water of good drinking quality, but few may wish to pay for continually rising standards of purity. The paper does not, in fact, say in so many words that standards should be raised indefinitely, but care will need to be taken to ensure

that this impression is not given during the debates in the House.

4. The one major defect of the White Paper is the section on water metering (para 4.21). It pays lip service to the benefits of compulsory meter installation but only proposes legislation for experiments in compulsory metering. It fails to include three vital items mentioned in your Private Secretary letter of 9 December:

- i. a timetable for the trials;
- ii. legislation enabling compulsory water metering to be extended by Affirmative Order once the experiments have been completed;
- iii. compulsory installation of water meters in all new dwellings.

Conclusion

We recommend that you should:

- welcome the White Paper; but
- ask for changes on water metering, to bring the proposals into line with your Private Secretary letter of 9 December; and
- ask for greater emphasis to be placed on the emulation and efficiency gains that would be caused by a clever pricing mechanism of the kind suggested.

Ol Letwin

OLIVER LETWIN

Peter Warry

PETER WARRY

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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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