



PRIME MINISTER

WATER PRIVATISATION - WHITE PAPER

With my minute of 23 December I enclosed a copy of the draft of the White Paper on Water Privatisation. Your Private Secretary wrote in response on 13 January, and I have also had helpful comments from a number of colleagues.

Generally, we have been able to accept colleagues' points and I am writing to them individually to explain how we have handled the issues of substance which they have raised. We have also made our own revisions, to tighten the drafting and in particular to spell out more clearly the benefits which will arise from privatisation. The text is much improved.

I should draw attention to one point where I am now proposing to draw back from what we agreed in E(A), namely on the future arrangements for a public body to finance land drainage and flood protection. I believe we should keep our options open on this pending advice from officials in the Interdepartmental group on the Financing and Administration of Flood Defence, and have written to Michael Jopling accordingly.

We aim to publish the White Paper on Wednesday 5 February and delay must be avoided if we are to meet our timetable for legislating in the next session. I am circulating this revised text in the expectation that colleagues will not be seeking further changes. If they do, however, I must have them please by midday on Friday 24 January. If we do not hear by then, we will assume colleagues are content.

I am sending a copy of this to members of the Cabinet, John Wakeham, Bertie Denham, Sir Robert Armstrong and Brian Griffiths.

K.B.

K B

22 January 1986

Prime Minister 4

To note the two
parts marked below.

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cc:SG

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10 DOWNING STREET

From the Private Secretary

29 January 1986

Dear Robin,

WATER PRIVATISATION - WHITE PAPER

The Prime Minister has seen the revised version of the White Paper on Water Privatisation attached to your Secretary of State's minute of 22 January, and has noted that the aim is to publish it on Wednesday 5 February.

I am copying this letter to the Private Secretaries to members of the Cabinet, Murdo Maclean (Chief Whip's Office), David Beamish (Government Whips' Office, Lords) and Michael Stark (Cabinet Office).

Yours ever

David

(David Norgrove)

Robin Young, Esq.,
Department of the Environment.

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DRAFT WHITE PAPER

PRIVATISATION OF THE WATER AUTHORITIES IN ENGLAND AND WALES

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1: INTRODUCTION

1.1 On 7th February 1985, the Minister for Housing and Construction announced in the House of Commons that the Government would examine the prospects for privatisation in the water industry. At the beginning of April, he published a discussion paper, to which responses have been received from the water industry and others. After studying the responses and examining the issues, the Government has now decided to transfer the ten water authorities in England and Wales to private ownership.

1.2 This White Paper sets out the reasons for the decision and the basis for the legislative proposals which the Government intends to put to Parliament as soon as possible.

Why private ownership?

1.3 The Government believes that the privatisation of the water authorities will benefit their customers and employees, and indeed the nation as a whole, in the following ways:

- * the authorities will be free of Government intervention in day to day management and protected from fluctuating political pressures;
- * the authorities will be released from the constraints on financing which public ownership imposes;
- * access to private capital markets will enable more cost-saving investment and higher standards of service to be achieved than would otherwise have been possible;
- * the financial markets will be able to compare the performance of individual water authorities against each other and against other sectors of the economy. This will provide the financial spur to improved performance;
- * a system of economic regulation can be designed to ensure that the benefits of greater efficiency are systematically passed on to customers in

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the form of lower prices and better service than would otherwise have occurred;

- * measures will be introduced to provide a clearer strategic framework for the protection of the water environment;
- * private water authorities will have greater incentive to ascertain the needs and preferences of customers, and to tailor their services and tariffs accordingly;
- * private authorities will be better able to compete in the provision of various commercial services, notably in consultancy abroad;
- * privatised authorities will be better able to attract high quality managers from other parts of the private sector;
- * there will be the opportunity for wide ownership of shares both among employees and among local customers;
- * most employees will be more closely involved with their business through their ownership of shares, and motivated to ensure its success.

1.4 The Government has therefore decided to seek from Parliament powers to turn the water authorities in England and Wales into water service public limited companies (WSPLCs) and to transfer them to private ownership as rapidly as possible. Aerospace, motor manufacturing, oil, ports, road transport, shipping, telecommunications and other businesses have already been privatised; plans for airports, airways, buses and gas have been announced. Water will be a substantial addition to the privatisation programme, setting free 10 major businesses and adding a further 51,000 jobs to the 400,000 that have already been transferred to the private sector.

Who will benefit from private ownership?

1.5 The interests of customers, employees, the environment and the nation will not only be safeguarded in privatisation but will also benefit from it.

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1.6 Customers in particular will benefit from the prospect of higher standards, greater efficiency in the provision of services, a charging policy designed to pass on efficiency savings and keep bills down, and the opportunity to hold shares in the undertaking. There will be protection from monopoly power over charges, and levels of service will be defined. Drinking water quality standards are already laid down.

1.7 Employees will benefit from employee shareholdings, closer identification with their businesses, greater job satisfaction, better motivation, and the prospect of the rewards that enterprise has brought to those who work for other industries that have been privatised. Water authority pensions form part of the Local Government Superannuation Scheme, and the Government will consult the industry about future arrangements. Employees will be entitled to preserve pension rights already accrued in the Local Government Scheme.

1.8 The environment will benefit from a new system of Government approval for the objectives set for each river and estuary, defining the standards to which each is to be maintained or improved.

1.9 By setting explicit objectives for drinking water quality for river quality, and for other key service standards before the authorities are sold into private ownership, the Government will protect the consumer and the public. Prospective shareholders will also be able to take stock of obligations inherent in explicit objectives, when assessing the businesses in terms of assets, worth, and profitability.

1.10 The nation as a whole will benefit from higher standards and greater efficiency in the provision of services which are of key importance to industry and public health, from greater job opportunities arising from new enterprise, and the prospect of higher earnings through successful endeavours overseas.

The new shape of the water industry

1.11 The principle of integrated river-basin management - a single body controlling water and sewerage in each river-catchment - has worked well since it was introduced by the Water Act 1973, and should be retained. The water

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authorities will be privatised on the basis of their existing boundaries. The Government intends that the water authorities should continue to carry out their responsibilities for the management of rivers, control of pollution, fisheries, environmental conservation, recreation and navigation. Special arrangements will be made for land drainage and flood protection, and these are discussed in paragraph 3.8-3.10. An overall aim will be to keep the structure of the industry as simple as possible.

1.12 Water authorities regulate other users of their water including abstractors of water and dischargers of waste. At the same time the authorities are themselves major abstractors and dischargers. There will continue to be strong safeguards and a proper channel of appeal to ensure that the new WSPLCs act even-handedly.

1.13 To protect the interests of the customer, the Government will appoint a regulator to prevent the abuse of monopoly power through charges, to see that standards are observed and to be responsible for consumer consultation.

1.14 The Government also intends to modernise existing water and sewerage law much of which has its origins in the 19th Century, and parts of which are unclear and outdated.

1.15 The proposals in this White Paper represent a significant extension of the Government's successful programme of privatisation, and will put a major national industry onto a new and dynamic basis, while protecting the interests of all who use water, and safeguarding public health and the environment.

SECTION 2: THE WATER AUTHORITIES NOW

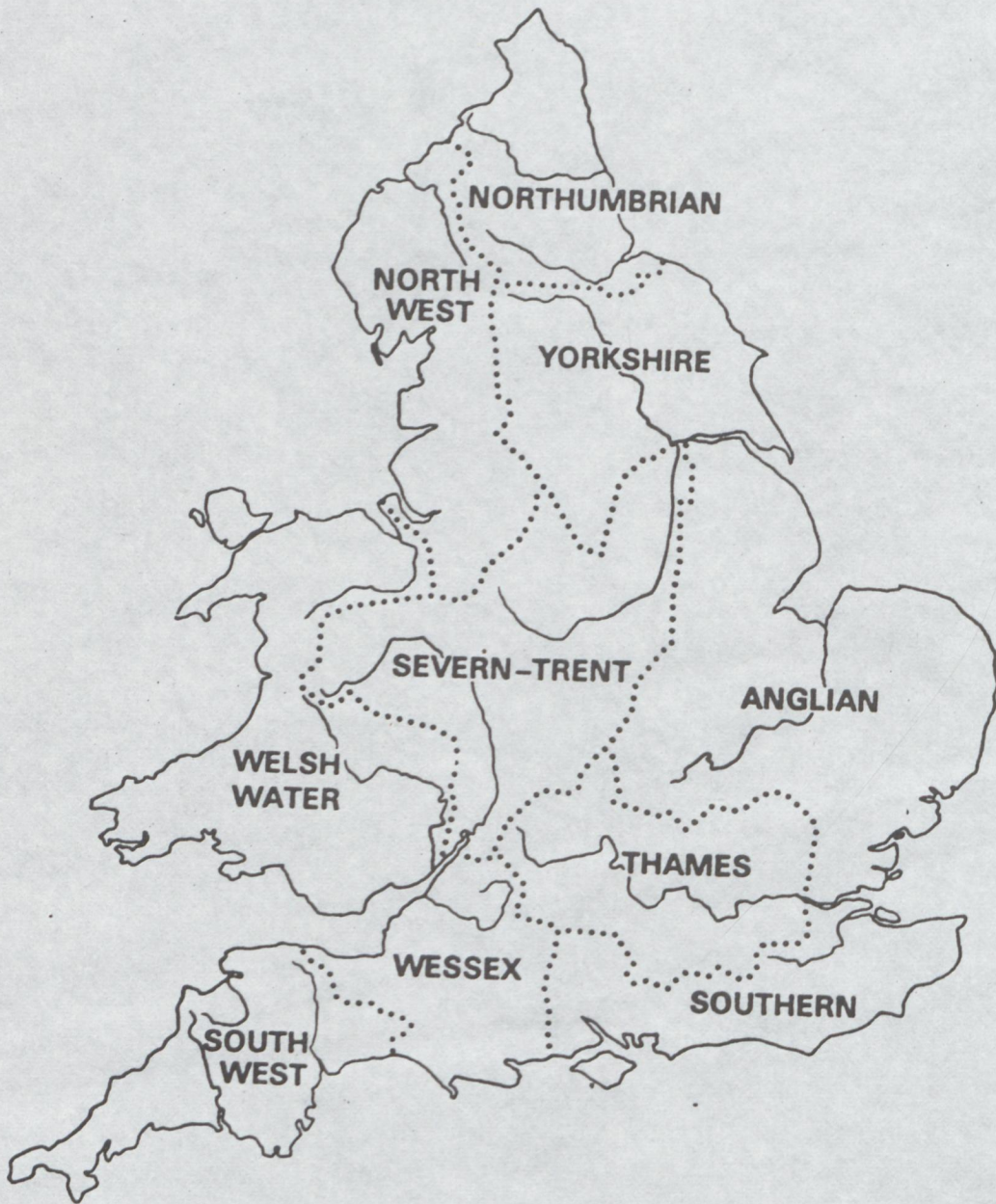
Integrated River-Basin Management

2.1 The nine English regional water authorities and the Welsh Water Authority were set up under the Water Act 1973 on the principle that a single body should plan and control all uses of water in each river catchment. Previously, nearly 1,600 local undertakings had been responsible for water services. There were inevitable working difficulties and conflicts of interest, which the water authorities were created to overcome. The authorities assumed responsibility for water supply, sewerage and sewage disposal, as well as for water-resource planning, pollution control, fisheries, flood protection, navigation, water recreation and environmental conservation. The area of each authority comprises one or more river basins; boundaries are shown on the map opposite.

2.2 The River Thames is a classic example of integrated river basin management. The catchment area supports 3,500 abstractions - 1,200 for agriculture, 500 for water supplies (by statutory water companies and the Thames Water Authority itself), and 1,800 for industrial and other uses. The river receives 6,500 discharges from industry and 450 discharges from the Authority's own sewage treatment works. In addition, the river is used for fishing (193,000 rod licences are issued annually) and for boating (19,000 boats are registered and a million passages a year recorded through the river's 45 locks). The river and its tributaries are regulated and managed to ensure that discharges do not pollute water supplies and abstractions do not lower the level of the river and put at risk natural life or the enjoyment of those who use the river for recreation.

2.3 As the water authorities control and regulate all the uses to which their rivers are put, they have generally been able to meet all requirements even in conditions of extreme difficulty, and they have been able to plan for increasing demands at least cost and without detriment to existing users. During the drought of 1984, when rainfall in its region was less than half the average for the months April to July, the South West Water Authority, with one of its three strategic reservoirs still under construction, went to exceptional lengths to tap new resources, to reduce river levels, and to pipe water from one river basin to another; the public exercised exceptional economy, and although certain inessential uses of water were

WATER AUTHORITIES IN ENGLAND AND WALES



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prohibited the Authority was able to maintain supplies without resort to water rationing, and without detriment to the rivers themselves and the natural life they support. Water shortage of a different kind will be overcome by the Southern Water Authority by another application of the principle of integrated river basin management. The Authority will meet increasing demands for water in East Kent and East Sussex not only by taking more water from the North Downs aquifer, but also by improving the quality of the River Medway through more stringent consents for industrial discharges, so allowing more water to be taken from it and transferred across country.

2.4 The catchment-based structure of the water industry has worked well in practice. It has been recognised throughout the world as being a good and cost-effective model for other countries to follow. It is the main reason why the Government intends to retain the structure of the water authorities essentially as they stand in the transfer to private ownership.

Constitution and Functions

2.5 The water authorities are large undertakings. They employ some 51,000 people; their annual turnover is about £2,600m; and their capital investment for 1986/7 will exceed £900m. Their assets include 137,000 miles of water mains, 141,000 miles of sewers, 6,500 sewage treatment works and 1000 water treatment works. An analysis of the authorities' capital and operating expenditure is shown in Figures 1 and 2.

2.6 Until 1983, the authorities were run by large boards with a majority of local authority representatives. The Water Act of 1983 set up the present boards, which are smaller and more business-like. All members are appointed by Ministers.

2.7 Over 99% of the population of England and Wales is connected to a public water supply. The water authorities supply about 75% themselves; the privately owned statutory water companies supply the remainder. About 96% of the population is connected to a public sewer. The water authorities own and are responsible for the sewers, and undertake all sewage treatment and disposal. Before the 1973 Water Act, local authorities built and maintained the sewers, and in most areas district councils continue to do so on an agency basis.

**OPERATING EXPENDITURE: WATER AUTHORITIES
England & Wales Inc. Land Drainage 1984/85**

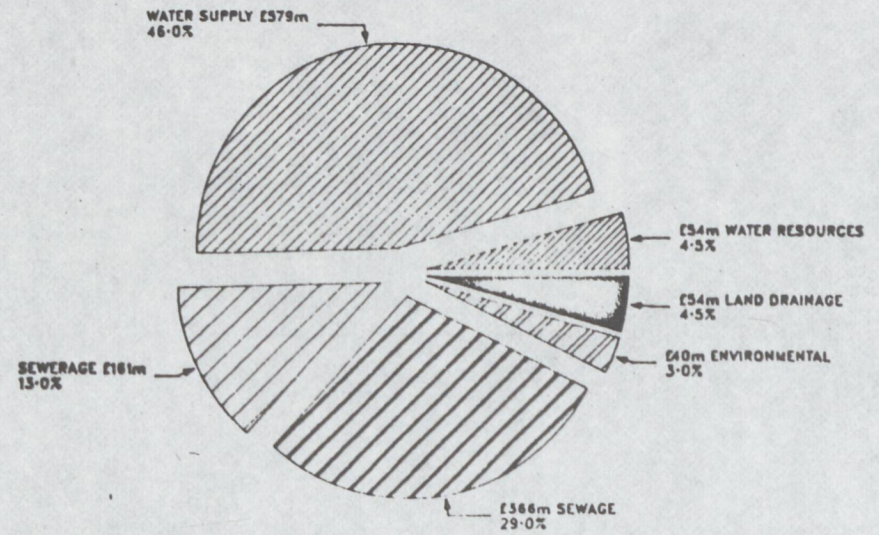


Figure 1

**CAPITAL EXPENDITURE: WATER AUTHORITIES
England & Wales Inc. Land Drainage 1984/85**

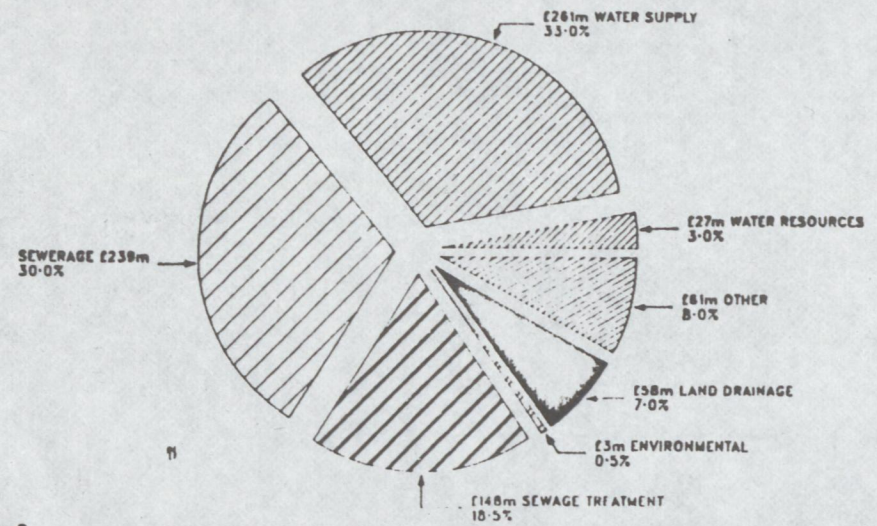


Figure 2

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2.8 In addition to providing these main services, water authorities also regulate other users of water. They control through a licensing system the abstraction of water from rivers and other sources. Their consent is needed for the discharge of effluent into lakes, rivers and other places where water might be contaminated by the discharges. They grant licences and consents in the light of the standards of quality for each stretch of river and coast. The Secretary of State approves water authorities' own discharges and hears appeals against their decisions on abstractions and discharges by others in the few cases where these are made.

2.9 Water authorities are also responsible for environmental conservation, fisheries, navigation, flood defence and land drainage. These account for less than 10% of the authorities' operating expenditure but are important areas of activity.

Present State and Progress of the Industry

2.10 The water authorities' ability to operate on the basis of integrated river-basin management and to plan and develop water resources regionally has enabled them to improve their services and to keep pace with rising demand.

- Water Supply

2.11 Between 1961 and 1971, domestic water supply rose from 2,400 million gallons a day to 3,100 million gallons a day. By 1984, it had increased to 3,600 million gallons a day. In addition, about 6,600 million gallons a day were abstracted in 1984 for non-domestic purposes, about a third of this being used by the Central Electricity Generating Board, mainly for cooling.

2.12 The authorities' improved ability to cope with demand for water was demonstrated by their performance in the droughts of 1976 and 1984. In 1976, Anglian Water was able in a period of weeks to lay a main from Rutland Water to the River Witham, establish a new treatment works at Etton, and reverse the flow of the Ouse to increase supplies from Grafham. The drought also provided some useful lessons, so that by the time of the 1984 drought many schemes for safeguarding water supplies had been completed and more are in hand. The Yorkshire Water Authority, for instance, had developed a regional water grid which

allowed it to transfer supplies to many areas of acute shortage. It has now extended the grid to serve fully the conurbations of West Yorkshire and South Yorkshire. All the authorities mobilised resources of finance, management and engineering to tackle shortages in ways which would have been impossible before the 1973 Water Act.

- Water Quality

2.13 The quality of water supplied has been maintained and in some cases improved. In the Summer of 1985, in accordance with the Drinking Water Directive of the European Community, the Government completed a review of the quality of all drinking water supplies and an assessment of the shortcomings. 90% of supply areas meet all the requirements of the Directive. The water authorities are putting right all defects arising from lead or microbiological pollution. The Government has granted derogations within the terms of the Directive for nitrates, manganese, iron and other standards, where it is satisfied that there is no risk to health.

- Sewerage

2.14 In the last decade, the industry has developed sophisticated techniques of sewer survey and renewal by remote control. Although much has been said about the need for heavy investment in the renovation of Britain's sewers, about half the 140,000 miles of sewers in England and Wales have been built since the Second World War, and less than a quarter predate 1914. Properly laid and maintained, sewers last a very long time, and it is not generally realised that most failures are due to blockage rather than collapse. The Water Research Centre's Sewerage Rehabilitation Manual has codified the best available techniques for dealing with sewer dilapidations and the problem is now technically manageable. So substantial progress has been made, but much also remains to be done to establish the scale of the problem and to make good the dilapidations of the past.

- Pollution Control

2.15 River quality lies at the heart of the water authorities' performance of their functions. The benefits of clean rivers for the local environment and for making an area more attractive to potential investors are immense. The authorities have tackled pollution both by controlling their own discharges and those of others. The discharge of raw sewage into rivers such as the Tyne and Mersey has

been a major cause of pollution. In many areas, the sewage works inherited by water authorities were small, outdated and inefficient. Where possible, authorities have updated or replaced them in projects such as Severn-Trent Water Authority's Black Country strategic sewage treatment scheme, which will significantly improve the quality of the River Tame. The North West Water Authority has started cleaning up the Mersey by means of a 25-year, £2.5 billion scheme, combining higher investment in sewage works, increased sewerage capacity and a progressive tightening of consents for industrial discharges. A similar programme of works has already improved the quality of the Tyne estuary.

2.16 The last national survey of river quality showed that grossly polluted rivers had been reduced in length from 792 miles in 1975 to 506 miles in 1980, while lengths of "grossly polluted" and "poor" tidal river were reduced by 21% and 47% respectively in the same period. The indications are that this improvement has not been sustained in the last two years. A comprehensive new survey will be carried out in 1986.

2.17 Many authorities are taking action to prevent the pollution of bathing waters by sewage, in accordance with standards laid down by the European Community Directive on the Quality of Bathing Water (76/160/EEC). For instance, Wessex Water has built a £33 million sea outfall to free the beaches around Weymouth and Portland from pollution and to prevent flooding. The cost of the scheme had been beyond the means of the predecessors of Wessex Water. Welsh Water has recently brought into service a long sea outfall at Tenby, costing £2.2 million, and plans to spend a further £75 million on similar schemes by the turn of the century in order to reduce the pollution of coastal waters and improve popular beaches.

Operating Efficiency and Financial Performance since 1979

2.18 Although the reorganisation of the industry following the 1973 Act enabled water authorities to make significant improvements in the service provided, it is only in the years since the present Government took office that they have made comparable improvements in their operating efficiency and financial performance.

2.19 Consultants who reviewed the water authorities' budgets for 1981/2 and 1982/3 found scope for reducing costs without damaging standards of service. In addition, the Monopolies and Mergers Commission reported on the Severn-Trent Water Authority

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in 1981 and has published three further reports on aspects of the water industry, which contain valuable suggestions for improvement. The water authorities have responded positively and the Government has agreed performance aims which have reversed the rising trend in operating costs. Targets for further cost reductions by 1986/7 have been agreed. Nearly every authority has streamlined its headquarters and many have cut the number of operating divisions, sometimes to half the previous number. Table 1 shows the number of staff employed by the authorities over the period from March 1976 to September 1985. Numbers rose between 1976 and 1979, but since 1979 there has been a saving of nearly one-fifth. At the same time, standards of service have been maintained and improved.

2.20 With improved financial performance, the water authorities have become more self-financing, and capable of standing independently as commercially viable entities. When the authorities were set up in 1974, internal finance contributed little to capital expenditure, but by 1980/81, when authorities' capital expenditure was £692 million, only 41% was financed from borrowing and by 1986/87, with planned capital expenditure having risen to £942 million, about 10% only is to be financed from borrowing.

Investment Needs and Plans

2.21 As Figure 3 shows, the principal investment carried out by the authorities is that needed to sustain their business and replace assets as they wear out or become obsolete. The water industry has net assets of about £500,000 per employee at replacement cost, so capital investment in renewing and upgrading the assets is important.

2.22 The present position is as follows:

a. Water Resources

Water resources in most regions will meet demands (expected to grow by about 1% per annum overall) until the year 2000 and beyond. But more water is needed in the South West (Roadford scheme in Devon), East Midlands (Carsington scheme in Derbyshire), in the Thames area and in Kent (as described in paragraph 2.3). Water resource schemes account for less than 5% of the annual investment of water authorities.

WATER AUTHORITY - MANPOWER (AT 31 MARCH EACH YEAR)

	<u>1976</u>	<u>1979</u>	<u>1982</u>	<u>1985</u>	30 September <u>1985</u>
Anglian	6726	6978	6700	5549	5388
Northumbrian	2279	2448	2151	1759	1707
North West	9005	9379	8782	8166	8096
Severn-Trent	10464	11240	10502	9269	9080
Southern	4120	4207	3948	3336	3281
South West	2315	2551	2276	2023	1989
Thames	11810	12061	11753	9089	8981
Welsh	5330	5594	5677	4709	4799
Wessex	2260	2425	2291	2050	2029
Yorkshire	6340	6338	6506	5835	5680

TOTAL	60649	63221	60586	51785	51030

Note: Figures prior to 1979 were calculated on a slightly different basis to later figures

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WATER AUTHORITY CAPITAL EXPENDITURE

TABLE 2: £ million cash

Service	1975/6	1978/9	1981/2	1984/5	1985/6* (est)
Water resources	35.7	56.3	41.3	27.6	33.0
Water supply	128.8	148.8	193.9	261.4	278.0
Sewerage	} 308.8	161.0	191.5	238.8	267.0
Sewerage treatment and disposal		111.4	148.5	147.5	167.0
Environmental	1.6	3.5	5.0	3.3	6.0
Other water services	9.4	17.2	31.8	61.1	68.0
Land drainage and flood protection	27.0	52.5	84.4	58.0	48.0
TOTAL	511.3	550.7	696.4	797.7	867.0

Note: 1985/6 total based on water authorities' latest estimates. Distribution by service is based on 1985 plans and given only as a guide.

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CAPITAL EXPENDITURE BY PURPOSE (1984/85)

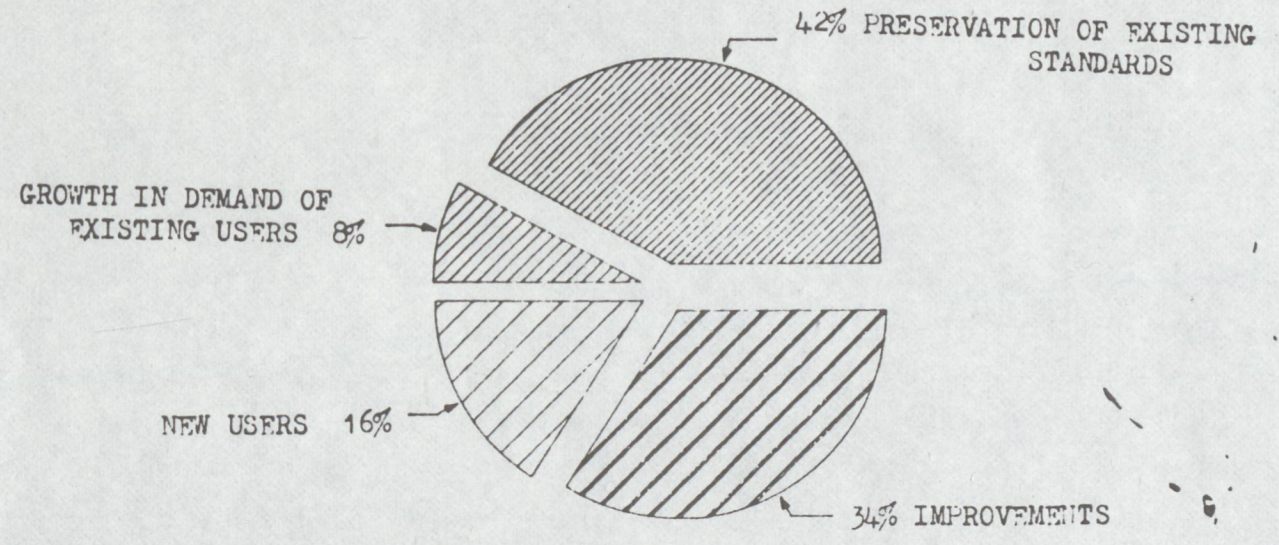


Figure 3

b. Water Supply

In a number of areas water mains need to be replaced and enlarged to accommodate increasing demand. The authorities will be spending about £345m on water supply investment in 1986/87, and good progress is being made in dealing with the problems that have been identified.

c. Sewerage and Sewage Treatment

Investment has increased from about £200m in 1980/81 to about £325m in 1986/87 and the Government expects expenditure at the present level or above to continue in the foreseeable future. The need for investment in treatment and disposal will be affected by future quality objectives for rivers and coastal waters.

d. Flood Protection and Land Drainage

Substantial expenditure is likely to be necessary on flood protection schemes over the next 4 years and there will be a continuing need for such work into the 1990s. The financing of flood protection will, however, remain in the public sector.

The Government considers that the present level of planned investment is adequate to maintain the delivery of services and to effect improvements where these are most needed. The water authorities' consider that a somewhat higher level would be justified, and they bid in their recent corporate plans for an investment level in 1988/89 no more than 13 per cent in real terms above the provision for 1986/87 (ie £910 million). In future, WSPLCs will be free from the constraints of public expenditure control. They will be free, therefore, to make their own plans for meeting the required levels of service, which they are expected to do more quickly than would otherwise have been the case, and to increase the rate at which cost-saving technology is introduced.

2.23 The nationalised water industry in England and Wales has been transformed into ten modern businesses. The finances of the industry have been considerably strengthened, a great deal of worthwhile investment has been carried

out, efficiency and performance have been substantially improved. The industry is now in a state where it can be privatised. This will enable it to achieve further improvements in service more easily than it could in the public sector. Private enterprise is both more flexible and readier to pursue energetic and innovative approaches than the public sector. The demands of the market will give management and staff the impetus they need to secure greater efficiency. Freeing the authorities from the constraints imposed by state ownership will help them to carry out their tasks with vigour and imagination.

SECTION 3: STRUCTURE OF THE PRIVATISED WATER INDUSTRY

3.1 Once privatised, water undertakings will be able to organise their affairs without reference to central Government and, in particular, will be free to focus on their primary responsibility - providing a service to their customers while safeguarding the environment. Privatisation should lead to improved standards, greater efficiency, and a better allocation of resources within the water industry. Provided the interests of customers are fully protected - and Section 4 of this White Paper sets out how the Government intends to do this - the water industry, their customers, and the nation as a whole should all benefit.

3.2 In developing its plans for privatisation, the Government has thought it right to take as its starting point the present organisation of the water industry, so as not to lose the benefits of the 1973 and 1983 Water Acts, described in Section 2. Subject to the necessary legislation, it has decided, therefore, to convert existing water authorities into ten new water services public limited companies (WSPLCs) and to transfer them to the private sector with their present functions largely intact. This Section explains the reasons for the organisational and company structure chosen, the changes that are proposed, and why the Government has rejected the alternative of franchising.

Scale of Operation

3.3 The Government has considered whether the benefits of unified river basin management could be retained if water authorities were to be sold in operational units smaller than the present authorities - say, based on their present divisional structure. It does not believe that there would be any advantage in this approach. On the contrary, the size of the authorities as presently constituted allows both the planning and development of water resources on a regional basis and the fullest use to be made of scarce professional skills. Some of the benefits have been illustrated in Section 2.

Statutory Companies or PLCs

3.4 At present there are twenty-eight statutory water companies supplying water to about a quarter of the population of England and Wales. They provide a precedent for

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precedent for private-sector operations in this industry. The Government has considered whether it would be appropriate for the water authorities to be privatised as statutory companies rather than as public limited companies. It has concluded that this would not be the better course. To establish statutory companies is an out-dated method of forming a business. Powers necessary to protect investors are already provided by general company legislation. Writing a privatised water authority's constitution into an Act would be unnecessarily restrictive. PLC status under the Companies Act 1985 on the other hand would provide a framework within which enterprise can flourish. It would afford all the normal protection of company law, and would automatically be kept up to date as that law was revised. If necessary, additional safeguards can be made, as in previous privatisations, through Government ownership of a "special share" for purposes defined in the WSPLCs' articles of association.

Statutory Water Companies

3.5 Under the Water Act 1973, some water authorities discharge their water supply functions in parts of their areas through the statutory water companies. Financial controls are written into the companies' statutes, limiting the maximum rate of dividend, the size of reserves, and the amount of balances that can be carried forward from one year to another. The Government sees advantage in ending the constitutional link between the water companies and the authorities once they become WSPLCs, and in bringing the companies under the same form of financial regulation as will apply to the WSPLCs. At the same time, the companies would be able to convert to PLC status, and take advantage of the greater scope for enterprise that this would offer. The Government will be discussing these proposals further with the companies.

Sewerage

3.6 The local authorities have proposed a return to the pre-1973 situation, when they were responsible in their own right for sewerage. The Government does not believe that this would be in the best interests of efficiency nor would it be consistent with the principle and practice of integrated water management. It would also blur the link between investment in sewers, the efficient development of sewage treatment and disposal and wider environmental considerations.

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3.7 It would be inconsistent with the aims of privatisation for the district councils to continue to have the presumptive right to act as sewerage agents, which they enjoy under S15 of Water Act 1973. The choice of agents, or whether to carry out the work in-house should rest with the privatised authorities themselves.

Land Drainage and Flood Protection

3.8 Land drainage and flood protection, in which the emphasis nowadays is mainly on defences against river and coastal flooding, involve capital and maintenance expenditure of around £100 million a year. Their non-commercial nature would make it difficult to vest them in private sector bodies having no commercial incentive to carry out works desirable in the public interest. On the other hand, these activities are an integral part of the unified system of river basin management and it would be counter-productive to divorce them from other WSPLC activities.

3.9 The Government proposes to reconcile these needs by new arrangements for the financing of flood defence activities through public bodies which will make the fullest possible use of WSPLC expertise. Maximum use of competitive tendering for works is envisaged to protect the public purse.

3.10 The detailed arrangements will be considered as part of the review of flood protection and land drainage being undertaken in the light of responses to the Green Paper (Cmnd 9449) issued in March 1985.

Franchising and Competition

3.11 The Government has considered, as an alternative to full-scale privatisation, the possibility of requiring the water authorities to franchise out the whole of their main operational functions, for which potential franchisees would bid. This system is widely practised in France, and has been advocated as a means of introducing competition into a monopoly situation. It is difficult, however, to see competition arising from this approach in an effective form. Competition on this model would only arise when the franchise came up for renewal, and because of the high cost of termination, such franchises would need to be granted for

substantial periods - say 25 years. In addition, there would be little incentive to invest in new equipment and infrastructure, particularly during the later part of the franchise period. Operating franchises, where the franchisee leases the assets could be renewed more frequently - at up to 10 year intervals - but the division of responsibility between owner and operator would be prejudicial to a properly planned programme of maintenance, renewal and replacement.

3.12 The Government does not rule out and indeed favours franchising or contracting out by the WSPLCs themselves. In some cases this may well produce significant operational and financial benefits. However, the Government does not propose to put WSPLCs under a duty to enter into such arrangements. The regulatory system described in Section 4 provides continuing incentives for the industry's managers to find the most efficient ways to achieve standards and make profits. They can be expected to franchise operations, where this is cheaper and more effective than doing the job themselves.

Regulatory Responsibilities

3.13 In safeguarding water resources, the authorities impose costs and constraints on other parties. At the same time, they are actual or potential dischargers and abstractors themselves. The statutory basis of regulatory control will ensure that WSPLCs deal with abstractions and discharges even-handedly and in the public interest, and the existing rights of appeal to the Secretary of State on individual cases will be reinforced.

Environmental Services

3.14 The water authorities' responsibilities for fisheries, pollution control and monitoring, navigation, recreation and amenity services cannot be discharged on a straightforward commercial basis. All these services receive some support from the present Environmental Services Charge. Expenditure amounts to no more than 2.5% of any authority's income. The future financing of these services is described in paragraph 4.22 below.

3.15 To summarise, the Government proposes to make only those minimum changes to the structure of the industry which are necessary to secure the privatisation of the water authorities as public limited companies, or to enable the present statutory water companies to come within a similar corporate and regulatory

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framework. The safeguards described in Sections 4 and 5 avoid the need for a fundamental restructuring of the industry, and enable the existing advantages of integrated, regional management to be retained.

SECTION 4: REGULATION AND CUSTOMER PROTECTION

The Need for Regulation

4.1 The water authorities are for the most part natural monopolies. The work required to create their infrastructure makes it more efficient for the services to be provided by one company than by several. The services they provide are essential to public health, as well as to the protection of the environment. Therefore, safeguards are obviously necessary to prevent the WSPLCs from overcharging or providing a low standard of service, while not inhibiting their enterprise.

4.2 Although similar in its local distribution networks, the water industry differs both from telecommunications, where there is more scope for competition which the Government is encouraging, and from gas, which has to compete with alternative sources of fuel. New technology is unlikely to increase the scope for competition in water, as it has done for telecommunications, and regulation of prices will remain a permanent feature of the industry.

4.3 The water industry does not, however, consist of a single authority, but ten. This offers scope for competition, even though each authority is responsible for the provision of main services within its area. Authorities will be competing in the capital market for funds, and there are increasing opportunities for competition in services such as overseas consultancy and recreation. The Government would expect that WSPLCs would expand such entrepreneurial activities considerably. The regulatory system will enable comparison of performance to be made between WSPLCs, and this will both act as an impetus to improvement and - by providing a yardstick for investors to make judgements - facilitate competition between WSPLCs on the capital market.

4.4 As with telecommunications and gas, the Government intends that the main water services should be regulated by a Director General of Water Services, through licences granted to the WSPLCs. The terms of these licences will limit what customers can be charged and set requirements about standards of service. The Director General's principal duty will be to safeguard the interests of the customers and ensure at the same time that the companies have every incentive to

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perform well in the interests of their shareholders. He will also be responsible for setting up and maintaining the consumer consultative arrangements described in paragraph 4.24. The costs of the Director General and his staff will be met by fees charged for the granting of licences. In considering the elements of the regulatory system the Government has been assisted by a report, "Economic Regulation of Privatised Water Authorities", commissioned from Professor Littlechild of Birmingham University, which is being published separately.

4.5 The licence will formally designate the WSPLCs as bodies licensed to provide water supply and sewerage services, to conserve rivers and other water resources, to do so for profit, but with attendant obligations. The licences will not replace existing statutory duties, but they will amplify those duties where necessary.

4.6 The purpose of the licensing system is that once the charging limit and the performance standards have been set in the licence, the principal incentive for the owners and the managers should be the opportunity to make profits. By making a profit, the management of the company will satisfy its shareholders, and by meeting the prescribed standards of performance it will satisfy its customers. Managers will then be driven by the normal commercial motivation of the private sector. Apart from the disciplinary measures provided for in the licence, and applied by the Director General, they will be subject to the disciplines of the capital market, including the possibility of management change.

4.7 Given the long life of assets created by WSPLCs, the licence itself would need to run for a considerable period of time (the licence for British Telecom and that proposed for British Gas are both for 25 years). The price formula would, however, be subject to periodic review within that period (5 years in the case of British Telecom and British Gas). Target standards of service would need to be agreed over a rather longer period than prices, but interim stages could be set to coincide with price reviews. There would be provision for the Director General to make interim changes under special circumstances with the agreement of the licensee. In the absence of agreement, proposals for change would be referred to the Monopolies and Mergers Commission. The relationship between the Director General and the Monopolies and Mergers Commission and the Director General of Fair Trading will need to be clearly defined, and the existing powers under the competition legislation in relation to water authorities reviewed.

4.8 The terms of the licence would be enforceable in the courts. In extreme circumstances the licence could be revoked, and the company taken over - for example by another WSPLC. It will also be necessary to ensure that there are adequate contingency schemes for responding to emergencies and for civil defence provision. WSPLCs, like other private technology-based organisations, will need a sound research and development capability. The licence would require WSPLCs to carry out or obtain adequate research and development for their responsibilities.

Limiting of Charges to Customers

4.9 Charges to customers can be limited in two main ways. The method with which the water industry is most familiar is that applied to the statutory water companies, where the principal control is a limit to the rate of dividend that may be paid to their shareholders. However, profit controls of this kind provide no incentive to efficiency, since increases in expenditure are allowed to feed through directly into prices.

4.10 Price controls are more attractive. They provide an incentive to efficiency and are therefore to be preferred. A precedent has been established with the privatisation of British Telecom and the proposed privatisation of British Gas. It is for further consideration what formula should be applied to the water industry. Price controls would need to cover the main services of WSPLCs, in which they have a monopoly. It is for consideration whether a single price formula should be applied to these services (water supply, sewerage, and sewage disposal), or whether separate formulae should be applied to each. The more the application of the price control formula is differentiated, the more protection is provided to individual groups of customers. On the other hand, a single formula has the advantage of simplicity.

4.11 The controls will not need to be applied to services where direct competition is possible. The Government would like to see WSPLCs expand their entrepreneurial activities, such as the provision of consultancy services, particularly overseas. Authorities are already beginning to enter the market for customer services, such as meter installation and pipe repairs. WSPLCs could also compete to provide other WSPLCs with services, such as laboratory analysis or sewage treatment, if these were franchised out. In some instances, WSPLCs might compete directly for customers situated on the borders of their areas.

4.12 It would not be right to allow competitive kinds of business to be sustained by hidden subsidy from the customers of the main services. So it will be necessary to ensure that such businesses are run at arm's length from the main services. The Director General, the competitors and the public will be better able to satisfy themselves that there is no unfair subsidisation, if unregulated, non-monopoly business is carried out by a subsidiary company.

Service Standards

4.13 The second area for regulation is service standards. Water authorities already have a number of duties imposed on them by law but these are of a general character. It is intended that statutory standards, relating to public health and environmental protection should continue to be set by the Government. For drinking water, standards are laid down in the European Community Directive on the Quality of Water Intended for Human Consumption (80/778/EEC). Implementation of its standards has rested on administrative interpretation of the water authorities' duty to supply "a wholesome water" (as set out in DOE Circular 25/84). The legal basis of these standards will be clarified as part of the privatisation legislation; but that will not alter the standards themselves or the departures from them which the Government has already approved; in future, as now, departures will be allowed only in exceptional circumstances with specific Government authorisation.

4.14 The standards of effluent discharge from sewage treatment works are already matters for Government decision in the light of river quality objectives, which the authorities agree with Government. Section 5 sets out the Government's proposals for putting the river quality objectives on a statutory basis; again this change would be a change of legal form, to clarify the framework within which effluent discharge standards are set.

4.15 In addition to their statutory duties, the water authorities already publish details of their performance against a set of twenty-five "levels-of-service indicators" covering such matters as response time for new connection, reliability of water supplies and the incidence of sewer failures. They provide a basis for setting targets for key aspects of service quality, and for monitoring progress. Progress has been made against almost every indicator in each area. It could be a requirement of the licences that WSPLCs should continue to publish their

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performance against such indicators. For some indicators, specific targets could be set by the Director General on a common basis for all WSPLCs. In some instances, these targets would be the basis for the improvement of services over a period of years.

4.16 The remaining levels of service indicators could be subject to targets set and monitored by the WSPLCs themselves, in consultation with their consumer consultative committees (see paragraph 4.24).

Form of Regulation

4.17 In applying price controls and target standards, there is a choice between:

- i. tailoring standards and price controls individually to each WSPLC, taking account of its geography and investment needs; and
- ii. setting uniform standards and price controls throughout the industry.

The first allows for greater flexibility, but would involve the Director General in complex and repeated negotiation with each WSPLC, making it difficult to judge the success or failure of an individual company, and leading to the risk that the Director General would usurp some of the management's functions. It would also be difficult to demonstrate even-handedness between the regulated companies. The second method has the advantage of simplicity once it is in operation. The variations in their situation would be reflected in their capital structures and the prices they command on the market. By encouraging direct comparisons between authorities by investors, it would also promote efficiency by means of competition. The threat of takeover would become a spur to poor performers as would sanctions available to the Director General himself. If the price formula were set to reflect changes in the average performance of the industry as a whole, it would provide two further advantages: it would pass on to the customer the benefit of the average cost reduction, and would give WSPLCs an incentive to be more effective than the average, and so to be more profitable.

Charges

4.18 While the rate of increase in the average level of water charges would be governed by price control, the general principle now expressed in Section 30 of the Water Act 1973 that charges for water services should be cost-related and non-discriminatory between classes of customers would still be applicable.

4.19 Most domestic customers still choose to be charged for water services on the basis of rateable value. In the Green Paper 'Paying for Local Government' the Government has proposed that the present system of domestic rates should be phased out within ten years, starting in 1990, in favour of a community charge levied as a flat rate on all resident adults. This suggests that it would in any case be necessary to discontinue the use of domestic rateable value as the basis for water charges, at least as regards new or substantially modified properties.

4.20 There are obvious attractions in principle in charging for water services on the basis of consumption, particularly where private-sector companies are selling to customers. At present, all industrial and many commercial customers are already metered for consumption, but few domestic consumers have so far seen sufficient advantage in this method of charging to be prepared to incur the cost of having a meter installed. The recently published report of the Watts Committee, however, suggests that in some circumstances compulsory domestic metering of whole areas, installation costs being met in the first instance by the WSPLC, could be worthwhile. This would secure economies of scale in the purchase, installation and administration of meters. By reducing demand, it would tend to reduce, or defer, the need for new investment in supply capacity. This Committee recommends legislation to make more extensive trials possible. The Government will make provision accordingly in its privatisation Bill. It would clearly be premature to require from the outset universal reliance on metering for domestic charges, but this is an option which could be considered by the Director General in due course if the results of the trials were to justify it.

4.21 Another aspect of water charging policy over which the Government considers it will be important to retain some general powers is the supply of water in bulk between undertakings. The right of appeal will remain when undertakers are unable to agree terms for such transfers, but this will be to the Director General, rather than the Secretary of State. In determining appeals, he will apply the same general principles as apply to other aspects of charging policy - that charges should be cost-related and should not be discriminatory.

4.22 As a general principle, WSPLCs should aim for the maximum possible cost recovery for those services which currently receive a contribution from the Environmental Services Charge (ie fisheries, pollution control and monitoring, navigation, recreation and amenity services. Some areas of enterprise could well be undertaken on a profit-making basis. However, some desirable activities may have to continue to be run at a loss. WSPLCs will be able to meet the net cost of these services from main service charges. The size of the contribution, which is at present no higher than 2.5% in any part of the country, would be determined by the Director General, after consultation with the appropriate advisory committees. There is no question of repealing duties, whether general or specific, currently placed upon water authorities in this area of activity. The duties and obligations of the WSPLCs will have to be taken into account by the Director General in assessing the reasonableness of the subsidy proposed.

Customers

4.23 Arrangements will also be made for more direct account to be taken of customers' interests. The Water Act 1983 provided for the creation, for the first time in the industry, of formal arrangements to represent customers' interests. Each regional authority's divisional consumer consultative and regional recreation and conservation committees provide a forum in which customers' representatives discuss with the appropriate authority its policies and actions and their effect on customers. The Government considers that these arrangements (and their Welsh equivalents) have worked well and it intends to retain their essential features.

4.24 It believes, however, that they should be strengthened in various ways so that consumer bodies can assume an additional responsibility after privatisation. It therefore proposes that in future consumer consultation, which is organised divisionally at present, should be simplified and based on regional consultative committees. The regional committees will be independent of the water authority they monitor and will report to the Director General. They will be financed from the licence fee charged to WSPLCs. In addition to their existing duties, the Government wants them to investigate specific complaints, including complaints of maladministration, on behalf of consumers, in cases where they have not received a satisfactory response from the WSPLC themselves. They will have an ultimate right of complaint to the Director General. Accordingly the Government intends to remove water authorities from the jurisdiction of the Commission for Local

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Administration (the local Ombudsman). The Directors General's office will, however, be subject to investigation by the Parliamentary Commissioner for Administration (the Parliamentary Ombudsman).

4.25 Privatisation itself will encourage the WSPLCs to compete effectively in fields where they can do so. Where this is not practical, the Government's aim is to introduce a system of regulation which will stimulate a competitive approach. Profit is a more effective incentive than Government controls. It is right, therefore, that successful WSPLCs should be able to retain the rewards of their effort. Success must, however, be achieved by genuine gains in efficiency, and not by cutting services. By setting targets in terms of standards of service, the Director General will be able to ensure that services are not only maintained, but improved, and customers benefit. Customers will also benefit from the system of price-control, which keeps price increases within limits which are pre-determined in relation to the trend of retail prices. These are the cornerstones on which the Government will establish the regulatory system.

SECTION 5: SAFEGUARDING THE ENVIRONMENT

5.1 The Government has placed great emphasis on the conservation and improvement of the water environment, and on promotion of the recreational opportunities it provides. Last year, in particular, it implemented Part II of the Control of Pollution Act 1974. This section describes how the Government will ensure that sound environmental policies continue after privatisation and the part which WSPLCs will play in them.

Environmental Water Quality

5.2 Rivers provide both a source of water supply and a means of disposing of sewage and other liquid wastes. So the conservation of rivers lies at the heart of the water authorities' activities. As explained in Section 3, the Government has decided that the privatised water authorities should retain executive responsibility for the protection of rivers and other natural waters from pollution.

5.3 The responsibilities for water pollution control and monitoring are important, but they do not consume enormous resources. For instance, the Thames Water Authority, which has been notably successful in cleaning up the Thames, directly employs about 75 people on pollution control and monitoring (out of a total staff of 9,000) and spends about £3.3 million (including full corporate overheads) on these purposes each year, as compared with a total turnover of some £500 million.

5.4 The steady improvement in water quality in recent decades has been achieved largely through the introduction of a series of enactments designed to improve pollution controls. Their central feature is the licensing by water authorities of all discharges of trade effluent and sewage effluent. In carrying out these responsibilities, water authorities have developed, in consultation with local interests, a system of river quality objectives to define the quality of water necessary for the uses to which the river is to be put, and to show what discharges can be safely permitted. The authorities' inspectors monitor individual effluent discharges against the limits that have been set, and they also monitor the river water quality. The inspectors play a critical role in the prohibition of dumping and spillages of polluting matter.

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5.5 The authorities' regulatory functions will be retained by WSPLCs. The recent implementation of Part II of the Control of Pollution Act 1974 has put the regulatory system on a firmer footing. The system will work as follows. Applications by third parties will normally be decided by WSPLCs. Their own applications for discharge consents will, as now, be decided by the Secretary of State. As now, there will be a system of appeal by third parties to the Secretary of State and, as now, applications may be called in by the Secretary of State, who may hold a public inquiry. The WSPLCs will inherit their predecessors' expertise in dealing with such matters, and their need to abstract water for their own supply will provide a continuing incentive to them to maintain the quality of rivers and groundwater.

5.6 Certain changes will be necessary to underpin the exercise of these functions by private bodies. A clearer strategic framework of national policy for the water environment will be needed (paragraphs 5.7-5.9), along with public involvement (paragraphs 5.16-5.18) and a satisfactory system of finance and management for environmental purposes (paragraphs 5.19-5.21).

5.7 The following measures will be introduced to provide a clearer strategic framework for the protection of the water environment:

- i. quality objectives, developed in recent years for rivers and estuaries, will become part of a formal statutory system and will require approval by the Secretary of State. They will reflect national policies for the water environment. The Director General's licence will provide targets and performance measures for the achievement of quality objectives. The aim will be for the Secretary of State to approve these long-term river quality objectives before prospectuses are issued for the sale of the WSPLCs. This will enable guidance to be given to investors about the cost implications of river improvements, and those who use or enjoy the resources of our rivers will be able to foresee with confidence the standards to which they are to be maintained or improved;

- ii. the Control of Pollution Act allows water authorities to require other parties to take precautions and to regulate their activities in order to avoid water pollution. These powers will provide a protective regime for the water resources on which WSPLCs will depend and for those areas of the water

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environment of particular importance to nature conservation. These provisions will supersede authorities' present byelaw making powers and provide a more effective means of tackling sources of pollution not susceptible to regulation through discharge consents.

5.8 At present the Secretary of State has the duty under the Water Act 1973 to give effect to a national policy for the restoration and maintenance of wholesome of rivers and for related environmental purposes. The Act gives the Secretary of State the power to give water authorities general directions. In practice, it has never been necessary for the Secretary of State to give such a direction, because water authorities have readily responded to advice and guidance given less formally.

5.9 These public sector arrangements will need revision before the water authorities are transferred to private ownership. Ministers will remain responsible for environmental policy, but a private company will expect any policy instructions or guidelines from the Government to be conveyed explicitly. A wide power of general direction is clearly inappropriate. It will however be necessary for the Secretary of State to have a power, subject to Parliamentary procedure, to require WSPLCs, in their capacity as pollution control authorities, to give effect to European Community and national environmental policies. The legislation will be drafted accordingly, and will include the provisions described in paragraphs 5.20 and 5.21 below to enable WSPLCs to recover the costs arising from their environmental functions and responsibilities.

Environmental Services

5.10 These arrangements will enable the Government's long-standing commitment to maintain and improve water quality to be carried forward effectively after privatisation. They will also provide a sound basis for meeting objectives for the environmental services which are dependent upon it.

- Wildlife and Conservation

5.11 The Water Act 1973, the Control of Pollution Act 1974, and the Wildlife and Countryside Act 1981, require water authorities to have regard to the conservation of the natural environment and to exercise their other functions so as to further

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conservation. Authorities have promoted more effective consultation on conservation issues and developed greater sensitivity in the design and execution of capital projects. A number have produced their own conservation guidelines, published specific objectives and standards of service, or carried out detailed surveys of wildlife in specific areas.

5.12 The Government intends that the various activities undertaken by water authorities to support nature conservation and protect amenity should be continued. The privatisation of the water industry will provide an opportunity to consolidate their achievements and carry them forward within a new statutory and administrative framework. The measures described in paragraph 5.7(ii) will provide a basis, when necessary, for special protective regimes for particular areas.

- Fisheries

5.13 Water authorities have a statutory duty to maintain, develop and regulate fisheries for salmon, trout, eels and freshwater fish. They are required to consult affected interests through statutory fisheries advisory committees. These duties are important to large numbers of anglers, to riparian owners and, in coastal areas, to commercial netmen. They also have a bearing on river water quality, since the health of fish provides a sensitive indicator. It is the Government's intention that the WSPLCs should retain the full range of fisheries responsibilities. The Minister of Agriculture, Fisheries and Food and the Secretary of State for Wales will continue to exercise the general responsibilities placed on them under the Water Act 1973 and their specific responsibilities for making and approving regulatory measures under the Salmon and Freshwater Fisheries Act 1975.

- Navigation

5.14 In common with certain other private and public bodies, three water authorities at present exercise extensive navigation responsibilities set out in local acts in relation to a public right of navigation. The Government accept that these responsibilities can pass to their successor bodies either through

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the amendment of existing statutes or by establishing agency arrangements. The terms of their operating licences will leave them free to develop facilities and levy charges in accordance with the principles of the navigation statutes.

- Recreation

5.15 Water authorities already provide wide opportunities for enjoyment of the water environment. They have a statutory duty to make the waters they control, and any associated land, available for recreation, as far as reasonably practicable. As a result there has been a dramatic increase in recent years in opportunities for active water-based recreation. These opportunities must be preserved. Conditions within the operating licence will provide for the maintenance of the existing range and level of facilities, including those for private clubs. There will remain many opportunities to expand and develop the recreational potential of the water environment. The Government considers that WSPLCs will be best placed to undertake this in a vigorous and innovative manner and with sensitivity to customer preference. The arrangements for privatisation will ensure that they are free to do this.

Public Information and Consultation

5.16 The Government recently implemented the public register provisions of the Control of Pollution Act, which ensure public access to information on discharge consents and samples of discharges. These provisions are a model for public information on environmental matters and enjoy wide support among environmental and industrial interests. There is no reason to depart from the principles and practices already established. In the light of the arrangements proposed for privatisation the Government will consider how to extend the provisions for registers to include information on the receiving waters, their quality objectives and incidents.

5.17 The Government proposes to consolidate and streamline existing requirements for the submission of information for national and European Community purposes, so far as possible on an annual basis. In conjunction with the River Quality Survey, which is undertaken every five years, this information will provide a full account of changes in environmental water quality and a basis for reviewing the effectiveness of environmental protection measures.

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5.18 Arrangements for consultation on environmental matters will be maintained, and it will be the responsibility of the Director General to ensure that a reasonable balance is struck between the provision of recreation and conservation facilities and the costs to shareholders and customers.

Management and Finance

5.19 Government approval of local water quality objectives (paragraph 5.7(i)), provisions for the protection of water resources (paragraph 5.7(ii)), and the specific Ministerial power of direction in matters of pollution control (paragraph 5.9) will ensure a consistent framework for environmental policy. The development of public information (paragraphs 5.16-5.18) will provide a stimulus to action. WSPLCs themselves will have every reason on the grounds of efficiency to improve their expertise, and they will be free, as private companies, to use and sell their skills at home and overseas.

5.20 Investors in the new companies will be concerned about the financial implications of their environmental duties. The expenditure is not large but the Government considers that, consistently with the polluter pays principle, WSPLCs should be able to recover the necessary costs of carrying out their responsibilities for environmental control and monitoring. Industrial and other dischargers should be given a direct incentive to help maintain and improve water quality. The Government will therefore work out in consultation with the water industry and other interests how the costs of monitoring and controlling effluent discharges can be assigned to those who make them, and the costs of averting or remedying pollution incidents can be assigned to those whose actions make that necessary.

5.21 There must also be a sound general basis for financing those amenity and recreational services which are socially important but for which the full costs cannot be directly recovered. To the extent necessary, the terms of their licences will permit WSPLCs to reflect such costs in their general charges.

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SECTION 6: NEXT STEPS

6.1 The Government intends to introduce legislation at the earliest opportunity to

- restructure the ten water authorities in England and Wales as Water Service Public Limited Companies;
- establish a system of regulating them;
- modernise water and sewerage law;
- permit domestic water metering trials on a compulsory basis;
- improve the legislative framework for the control of drinking water and river water quality.

6.2 As soon as the necessary legislation is in place, the Government will formally appoint a Director General of Water Services and convert all the authorities into WSPLCs. Initially, they will be wholly-owned by the Secretary of State, who will proceed to float them individually, as rapidly as market conditions and the circumstances of the individual companies allow.

6.3 Preparatory work for the flotation of the WSPLCs will be carried out in parallel with the drafting and passage of legislation. The Government will be discussing with each authority the appropriate restructuring of its balance sheet. It will also be considering the effect of its present policies for rates of return, borrowing and investment to see whether changes are necessary, either in relation to particular authorities or more generally. It is recognised that a WSPLC will not necessarily and appropriately have the same board members as the present water authorities, and the Secretary of State will select new members with an eye to the future as appointments expire. He will no longer consider himself committed to appoint members nominated by local authorities or who possess local government experience. He also intends that the legislation should provide for the possibility of other changes in membership and chairmanship before flotation.

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6.4 As noted in paragraph 3.10, the Government is reviewing the responses it has received to the Green Paper, 'Financing and Administration of Land Drainage, Flood Prevention, and Coast Protection in England and Wales' (Cmnd 9449), which was issued in March 1985. The review is being carried out in the light of the Government's commitment to privatisation, and a further announcement will be made following its completion.

6.5 Consultation papers will be issued shortly on the Government's proposals for modernising water and sewerage law, and on the arrangements for environmental protection.

6.6 The Government will be holding discussions with the Water Companies Association on the proposals in paragraph 3.5 and will be consulting other interested parties on a number of detailed issues.

FURTHER INFORMATION

Further information can be obtained from the following publications:

1. Annual Reports and Accounts are published by each water authority and are on sale from their headquarters. (Prices range from £2.00 to £5.00.)
2. Corporate Plans are published by each water authority. (Prices range from no charge to £10.00).
3. Water Facts (Water Authorities' Association, £3.50).
4. River Quality Survey (HMSO, £5.45).
5. The Water Industry: United Kingdom Service and Costs 1984 (CIPFA, 3 Robert Street, London WC2N 6BM, £6.50).
6. Who's Who in the Water Industry (Water Authorities' Association, 1 Queen Anne's Gate, London SW1H 9BT, £13.00).
7. Water Industry Review 1982 (National Water Council, £6.00.)
8. Sewerage Rehabilitation Manual 1983 (Water Research Centre, PO Box 85, Frankland Road, ~~Slagmore~~, Swindon, Wilts, SN5 8YR).
9. The principal Acts relating to water authority affairs are: the Public Health Act 1936, the Water Act 1945, the Water Resources Act 1963, the Water Act 1973, the Control of Pollution Act 1974, the Salmon and Freshwater Fisheries Act 1975, the Water Charges Act 1976, the Drought Act 1976, the Land Drainage Act 1976, the Water Act 1983.
10. Joint Study of Water Metering: Report of the Steering Group 1985 (HMSO £5.85).
11. Economic Regulations of Privatised Water Authorities, a report submitted to the Department of the Environment by Professor S C Littlechild.

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