



2 MARSHAM STREET
LONDON SW1P 3EB
01-212 3434

My ref:

Your ref:

31 January 1986

Prime Minister

Another good draft
Statement. Content?

JWS

3/2

L. Mallett mt

Dear David

PRIVATISATION OF WATER AUTHORITIES: STATEMENT

I attach the draft of a statement which my Secretary of State is to make on Wednesday about the privatisation of water authorities.

The Secretary of State will be working on it over the weekend but, as time is pressing, I thought it might help if I circulated this text now to see if there are any points which you or copy recipients wish to have taken on board. I should be grateful for comments on Monday 3 February if at all possible.

I understand that the Secretary of State for Wales is also to make a statement. The draft as written covers both England and Wales. We will need to consider this aspect of handling next week, and perhaps Colin Williams could contact me on Monday about that.

I am sending a copy of this to the Private Secretaries to members of E(A), to the Private Secretaries of the Lord President and of the Chief Whips of both Houses and to Michael Stark in Sir Robert Armstrong's office.

Yours sincerely

Sue Vandervord

MISS SUE VANDERVORD
Private Secretary

DRAFT STATEMENT BY THE SECRETARY OF STATE

PRIVATISATION OF WATER AUTHORITIES

With permission, Mr Speaker, I will make a statement about the future of the Water authorities in England and Wales.

On 7 February 1985, the then Minister for Housing and Construction, my hon. Friend the Member for Eastbourne, announced that the Government would examine the prospects for privatisation in the water industry. A discussion paper followed in April. In the light of the responses, and of professional advice on the financial issues, the Government has now decided to transfer the ten water authorities in England and Wales to private ownership.

With my rt hon. Friends, the Secretary of State for Wales and the Minister for Agriculture, Fisheries and Food, I have today presented to Parliament a White Paper setting out our proposals. Legislation will be necessary, and we shall put the water authorities on the market as soon as possible thereafter.

Our privatisation programme already covers a wide range of businesses, from motor manufacturing to telecommunications. But transferring water to the private sector will offer unique opportunities and challenges. For water authorities are not merely suppliers of goods and services. They are managers of natural resources. They safeguard the quality of our rivers. They control water pollution. They have important responsibilities for fisheries, conservation, recreation and navigation. These functions are inter-dependent and inseparable.

With one exception - land drainage and flood protection, which will remain in the public sector - we will privatise the authorities with all their existing responsibilities and on their existing boundaries.

The authorities are, of course, natural monopolies. The public will, rightly, expect us to set up a firm regulatory framework.

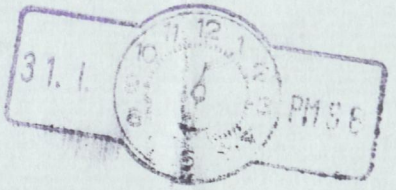
We will appoint a Director General for Water Services. He will control the authorities through an operating licence. This will lay down strict conditions on pricing and on service standards. The system of promoting the interests of consumers will be based on a report which I am publishing today from Professor Littlechild of Birmingham University. Under the Director General there will also be strong machinery for representing consumer interests and investigating complaints.

Water authorities are responsible in England and Wales for the implementation of national policy for the water environment. Necessary present safeguards - including appeals against water authority decisions on discharges and Government controls on the authorities' own discharges - will continue. And we shall strengthen the system of pollution control in two main ways; first, we shall legislate to make their river quality objectives subject to Ministerial approval; second, we shall provide for new requirements to be laid down through a Parliamentary procedure. In these ways water environment policy will be both more effective and more explicit than before.

Mr Speaker, when we came to power in 1979 the water authorities showed signs of public-sector-itis. Since then their operating costs have been reduced in real terms, even while the demand for their services has been growing. Manpower has been reduced by 20 per cent. The number of board appointments has been reduced even more dramatically - from 313 to 123. When we came in, investment was falling; it is now above its 1979/80 level and rising. In 1979/80 (half) their investment was financed by borrowing; next year they will be 90 per cent self-financing. In the last six years we have made the water authorities fit and ready to join the private sector. And, as reported to the Public Accounts Committee, the quality of water services has been improving in almost all respects in almost all regions.

Privatisation is the next logical step. It will bring benefits to customers, to the industry itself and to the nation as a whole.

With the disciplines and freedoms of the private sector I expect the industry to move from strength to strength. I know these proposals will be welcomed.



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NBSM.

CJG

Treasury Chambers, Parliament Street, SW1P 3AG

Miss Sue Vandervord
Private Secretary to the
Secretary of State for the Environment
Department of Environment
2 Marsham Street
LONDON
SW1P 3EB

February 1986

Dear Sue

PRIVATISATION OF WATER AUTHORITIES: STATEMENT *with pm*

Your letter to David Norgrove dated 31 January enclosed the draft statement on water authority privatisation that your Secretary of State intends to make this Wednesday.

As I told you on the telephone, the Financial Secretary has the following comments:

- (i) the draft says that land drainage and flood protection will remain in the public sector. It is not however intended that operational activities related to these responsibilities will remain and the statement should refer to "decisions on the financing of land drainage and flood protection" remaining.
- (ii) The statement emphasises that water authorities are natural monopolies. This is of course true for most of their activities in most places but the possibility of competition should not be ruled out. The statement should say "largely natural monopolies".
- (iii) The draft says that the regulatory system for promoting the interests of consumers will be based on Professor Littlechild's report. This goes too far given that Ministers have not yet considered the detail of the report and the statement should say no more than "The system of promoting the interests of consumers will take into account advice contained in a report"

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(iv) In talking about strengthening the system of pollution control, the statement says that "We shall provide for new requirements to be laid down through a Parliamentary procedure". This could be taken as meaning that all sorts of new requirements are waiting in the wings and it would be better to say "We shall provide that any new requirements will be laid down through a Parliamentary procedure".

(v) The statement says nothing about the Government's intentions towards water companies. There will be quite a lot of interest in this, not least in the market, and they deserve an explicit mention.

I am sending a copy of this letter to David Norgrove at No 10, to the Private Secretaries to members of E(A), to the Private Secretaries of the Lord President and of the Chief Whips of both Houses and to Michael Stark in Sir Robert Armstrong's office.

*Yours
Vine*

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Private Secretary

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FILE

DA

VBC



10 DOWNING STREET

From the Private Secretary

3 February 1986

Dear Sue,

PRIVATISATION OF WATER AUTHORITIES: STATEMENT

The Prime Minister has seen the draft statement attached to your letter to me of 31 January, and is content, subject to the views of colleagues. The Prime Minister found it admirably clear.

I am sending copies of this letter to the Private Secretaries to members of E(A), Joan MacNaughton (Lord President's Office), Murdo Maclean (Chief Whip's Office), David Beamish (Government Whips' Office, Lords) and Michael Stark (Cabinet Office).

Yours ever

David

(David Norgrove)

Miss Sue Vandervord,
Department of the Environment.

cc	CWO	WFO	CST
	CWO	WPSO	DOT
	LPO	DTI	CO
	HMT	CAZ	PGO
	NIO	DTM	
	DTN		
	SO	MAFF	

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Dear David

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The Secretary of State will be working on it over the weekend but, as time is pressing, I thought it might help if I circulated this text now to see if there are any points which you or copy recipients wish to have taken on board. I should be grateful for comments on Monday 3 February if at all possible.

I understand that the Secretary of State for Wales is also to make a statement. The draft as written covers both England and Wales. We will need to consider this aspect of handling next week, and perhaps Colin Williams could contact me on Monday about that.

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Yours sincerely

Sue Vandervord

MISS SUE VANDERVORD
Private Secretary

cc Questions
Press
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STATEMENT BY THE SECRETARY OF STATE FOR THE ENVIRONMENT
PRIVATISATION OF WATER AUTHORITIES

With permission, Mr Speaker, I will make a statement about the future of the water authorities in England and Wales.

On 7 February 1985, the then Minister for Housing and Construction my hon. Friend the Member for Eastbourne, announced that the Government would examine the prospects for privatisation in the water industry. A discussion paper followed in April. In the light of the responses, and of professional advice on the financial issues, the Government has now decided to transfer the ten water authorities in England and Wales to private ownership; already, 25% of water is supplied by private sector water companies.

With my rt.hon. Friends, the Secretary of State for Wales and the Minister for Agriculture, Fisheries and Food, I have today presented to Parliament a White Paper setting out our proposals. Legislation will be necessary, and we shall put the water authorities on the market as soon as possible thereafter.

Our privatisation programme already covers a wide range of businesses. But transferring water to the private sector will offer unique opportunities and challenges. The water authorities are not merely suppliers of goods and services. They are managers of natural resources. They safeguard the quality of our rivers. They control water pollution. They have important responsibilities for fisheries, conservation, recreation and navigation. These functions are inter-dependent and inseparable.

We will maintain the principle of integrated river basin management and we will maintain existing boundaries. The water authorities will be privatised with all their existing responsibilities but for the one exception of land drainage and flood protection. Financing and co-ordination of that function will remain a public sector responsibility.

The authorities are largely natural monopolies. The public will, rightly, expect us to set up a firm regulatory framework. We will

appoint a Director General for Water Services. He will control the authorities through an operating licence. This will lay down strict conditions on pricing and on service standards. The system of promoting the interests of consumers will take into account a report which I am publishing today from Professor Littlechild of Birmingham University. Under the Director General there will also be strong machinery for representing consumer interests and investigating complaints.

Water authorities are responsible in England and Wales for the implementation of national policy for the water environment. Necessary existing safeguards - including appeals against water authority decisions on discharges and Government controls on the authorities' own discharges - will continue. And we shall strengthen the system of pollution control in two main ways; first, we shall legislate to make their river quality objectives subject to Ministerial approval; second, we shall provide for any new requirements to be laid down through a Parliamentary procedure. In this way we will use the opportunity of privatisation to improve environmental standards on a continuing basis.

Mr Speaker, over the last seven years considerable progress has been made in improving the management efficiency of water authorities. Their operating costs have been reduced in real terms, even while the demand for their services has been growing. Manpower has been reduced by 20%. The number of Board appointments has been reduced even more dramatically - from 313 to 123. In 1979 their investment was falling; in real terms it is now above its 1979 level and it is rising. In the last six years we have made the water authorities fit and ready to join the private sector. And, as reported to the Public Accounts Committee, the quality of water services has been improving in almost all regions.

Privatisation is the next logical step. It will bring benefits to customers, to the industry itself and to the nation as a whole in improved quality, more efficient service, greater commitment of the staff to the work they are doing, and greater awareness of customer preference.

With the disciplines and freedoms of the private sector I expect the industry to move from strength to strength. I know these proposals will be welcomed.



DF

With permission, Mr Speaker, I wish to make a statement about the privatisation of the Welsh Water Authority.

As my Rt Hon Friend, the Secretary of State for the Environment, has told the House, the Government have decided to transfer the water authorities in England and Wales to private ownership and a White Paper setting out our proposals has been presented to Parliament.

The House will be aware that the Water Authorities in England and Wales were established so that a single body controls water and sewerage in river catchment areas; and that the Welsh Water Authority excludes that part of mid Wales which drains into the Severn but does cover those parts of England that drain into the Wye and Dee.

During the consultation that followed the publication of our discussion paper last April the Welsh Water Authority urged that the present integrated river basin management should continue if the industry was



privatised. We agree with that recommendation and the Authority will therefore be privatised with its existing boundaries and functions intact, with the exception of the co-ordination and financing of flood defence and land drainage.

The privatised Welsh Water company will operate under a licence from the new Director General of Water Services who will lay down strict conditions on pricing and service standards. The Director General will appoint a Regional Consumer Committee representing all consumer interests and in Wales this Committee will be assisted by divisional committees.

The privatisation of the WWA will for the first time enable employees and customers in Wales to have a direct stake in the industry.

The regulatory regime will provide general powers with regard to the supply of water in bulk between undertakings. The right of appeal will remain when water 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 in that charges should be cost related and should not be discriminatory.

Considerable progress has been made since the Authority was reorganised in 1982. Services and efficiency have been greatly improved and a large investment programme undertaken. I pay tribute to the Chairman, Board and employees for these achievements. I believe that privatisation will enable them to get on with their job with greater freedom and without the constraints on financing which public ownership imposes. Customers will benefit from the improving service that will result.