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Oddi wrth yr Is-Ysgrifennydd Seneddol

From The Parliamentary Under-Secretary

CT/4234/86

10 April 1986

NBPM

Dear Kenneth,

WATER PRIVATISATION - ENVIRONMENTAL PROTECTION

I am replying, in his absence to your letter of 26 March to Nicholas Edwards.

We fully share your view that the protection of the water environment is a matter of the highest importance in the context of Water Privatisation and believe that the environmental lobby are going to prove a difficult group to persuade of the merits of our proposals. I agree that the consultation paper goes a long way towards meeting some of the likely objections they will have. It is necessary, however, to do all we can to demonstrate that our intention to protect the water environment is genuine and I am sure that the national policy proposals, supported by a statutory framework of controls overseen by the Government through an Inspectorate, is the right way forward. I am broadly content with the proposals set out in the paper, although my officials will continue to be in touch with yours on some minor drafting points which need to be addressed.

I am copying this letter to the Prime Minister, Michael Jopling, Malcolm Rifkind, Paul Channon, David Young, John Moore and to Sir Robert Armstrong.

Yours ever,

MARK ROBINSON

The Rt Hon Kenneth Baker MP
Secretary of State for the Environment
Department of the Environment
2 Marsham Street
LONDON

Local Govnt: Water Industry Pt 3

CCBA

JU10
Secretary of State for Trade and Industry

DEPARTMENT OF TRADE AND INDUSTRY
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15 April 1986

The Rt Hon Kenneth Baker MP
Secretary of State for
the Environment
Department of
the Environment
2 Marsham Street
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NBPM

Dear Kenneth.

WATER PRIVATISATION: ENVIRONMENTAL PROTECTION

Thank you for sending me a copy of your letter of 26 March to Nicholas Edwards, which enclosed a draft of the consultation paper you propose to issue on this subject.

Your letter emphasised the need to take account of the concerns of the environmental lobby about the possible implications of the proposed transfer of regulatory functions to private sector companies. As I am sure you recognise, this concern is not confined to environmental interests. Industry too is concerned with the proposal that manufacturers discharging effluent into rivers etc should be subject to regulatory controls exercised by what are in effect competitor companies.

The proposals in your draft consultation document are understandably designed principally to allay the fears of environmental rather than industrial interests. While some are welcome - for example, your proposal to adopt cost recovery charges for pollution control, rather than incentive or distributive charges - others, for example, your proposals to extend regulation in a number of areas are less so. I share your reservations, for example, over the reference in paragraph 6.10 to the possibility that WSPLCs should be required to levy penalty charges where effluent discharge consents are exceeded.

While I am content that the consultation paper should be issued, I must therefore reserve my position on the detailed changes proposed until we have had an opportunity to consider responses from industry and others to the consultation exercise. I should be grateful if your officials could keep officials here in touch with developments.

I have one comment to offer on the drafting. The paper includes a large number of proposals in a variety of forms - the bringing into force of some existing statutory provisions, the abolition or amendment of others, and some wholly new powers. I think it would aid the reader greatly if a chapter were to be added listing in summary form the main changes proposed.

I am copying this letter to the Prime Minister, Nicholas Edwards, Michael Jopling, Malcolm Rifkind, David Young, John Moore and Sir Robert Armstrong.

PAUL CHANNON

LOCAL GOVT: Water PTS

CC 13A

FROM THE MINISTER FOR LOCAL GOVERNMENT AND THE ENVIRONMENT

SCOTTISH OFFICE
NEW ST. ANDREW'S HOUSE
ST. JAMES CENTRE
EDINBURGH EH1 3SX

The Rt Hon Kenneth Baker MP
Secretary of State for the Environment
2 Marsham Street
London
SW1P 2EB

15 April 1986

NBPM.

Dear Kenneth,

Thank you for copying to Malcolm Rifkind your letter of 26 March and your consultation paper on environmental protection.

As you know we have quite different arrangements in Scotland for the provision of water services and for the protection of the aquatic environment. These arrangements appear to be working very satisfactorily and we have no plans to go for privatisation at this time. Nevertheless we have been watching the development of your proposals on environmental protection with interest. Your officials have helpfully let mine see an earlier draft of the consultation paper and the present version takes account of the points we made. I have therefore no comments to make on the paper itself.

We are conscious, however, that many of your proposals would lead to amendment of the Control of Pollution Act 1974 which generally applies to the whole of Great Britain. There is no need for us to adopt all of these changes but we have identified a number on which it would be helpful and sensible to maintain a common line. I recognise that there will be many demands on the Water Privatisation Bill but I would be grateful for your acceptance that our proposals, which are modest, should be accommodated in the Bill. I am leaving it to my officials to convey the details to yours but I shall, of course, be keeping in touch with developments.

I am sending a copy of this letter to the Prime Minister, Nicholas Edwards, Michael Jopling, Paul Channon, David Young, John Moore and Sir Robert Armstrong.

Yours
Michael

MICHAEL ANCRAM

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Local Govt: Water
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The Rt Hon Kenneth Baker MP
Secretary of State
Department of Environment
2 Marsham Street
London SW1

11 April 1986

Dear Secretary of State,

WATER PRIVATISATION: ENVIRONMENTAL CONTROLS

Thank you for copying to me your letter of 26 March to Nicholas Edwards about new regulatory arrangements for the protection of the water environment.

I view with some alarm any consultation document that has seven long and complex chapters. I hope that the final version will carry a summary which distinguishes clearly between new controls that would affect new water companies and those which would directly affect existing industrial and agricultural businesses.

I notice that some of the latter type of new proposals are still tentative, for example 'water source protection zones'. If, as a result of your consultation, you decide to proceed with these it would be most helpful if your officials could provide preliminary compliance cost assessments for the Enterprise and Deregulation Unit.

I am copying this letter to the Prime Minister, Michael Jopling, Malcolm Rifkind, Nicholas Edwards, Paul Channon, John Moore and Sir Robert Armstrong.

Yours sincerely,

(Approved by the Secretary
of State and signed in his absence)

Local Govt; Water Pt 3

010

2 MARSHAM STREET
LONDON SW1P 3EB
01-212 3434

My ref:

Your ref:

26 March 1986

Dear Mike,

WATER PRIVATISATION: ENVIRONMENTAL PROTECTION

As you know, John Patten and I have all along seen protection of the water environment as a matter of the highest importance in the context of water privatisation.

This is partly because transferring a regulatory system to the custody of private companies is unusual, and raises genuine concern to ensure that they operate their powers fairly, and in the public interest. It is partly because of genuine concern that private bodies may not have sufficient regard to the conservation of the environment. It is also because there will be a number of other concerns, justified or otherwise, which the increasingly powerful environmental lobby will bring to the fore as our proposals go forward.

That was why we devoted a whole section of our White Paper to the subject. There has been a muted response to this so far. A recent Times leader questioned whether private bodies ought to be exercising regulatory functions, and there has been a limited amount of press and other public comment in the same vein. There are signs that we can expect more criticism of this kind unless we can show convincingly that our intention to protect the water environment will be given good effect. In the White Paper we promised to produce a consultation paper on this subject and I attach a draft.

This has been produced following very helpful discussions at official level with your own and other Departments. We have tried to reflect a wide variety of departmental concerns and I very much hope that you and colleagues will agree that this has been done. The draft of course builds on section 5 of the White Paper. Its most important recommendations are:

a. retention by Ministers and privatised water authorities of their essential responsibilities, with some development of these where essential;

b. river quality objectives to be given statutory force;

c. greater protection for sensitive areas from which water resources are derived (this would be derived from present legislation);

d. stronger safeguards against accidental pollution;

e. development of the "polluter pays" principle;

f. simplification of effluent discharge consent procedures.

In my view, this set of proposals will provide a much needed measure of improvement in our arrangements for environmental protection. It should go some way to settling the environmentalist's concern, whilst at the same time not imposing any unreasonable burdens - and indeed producing some benefits - for those who use our river system for discharging effluent.

Could I please have any comments by Friday 11 April? I will need to issue it by mid April if we are to take account of public comments in the drafting of legislation.

I am sending a copy of this letter to the Prime Minister, Michael Jopling, Malcolm Rifkind, Paul Channon, David Young, John Moore and Sir Robert Armstrong.

Yours

Kenneth

KENNETH BAKER

The Rt Hon Nicholas Edwards MP

010

CCBG

DEPARTMENT OF TRANSPORT
2 MARSHAM STREET LONDON SW1P 3EB

The Rt Hon Kenneth Baker MP
Secretary of State for the Environment
2 Marsham Street
LONDON SW1

22 January 1986

NBPM.

Dear Kenneth

WATER PRIVATISATION

I have read your White Paper with great interest. Both the British Airports Authority and water authorities are continuing monopolies and we therefore have similar, but very far from identical problems, in applying "RPI-X" formulae. I shall shortly be commissioning consultants to advise me, and I think it will be useful if our officials keep in contact in order to see that we benefit from each other's work.

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

Yours ever
Nicholas

NICHOLAS RIDLEY

CC BG

NBM

2 MARSHAM STREET
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01-212 3434
My ref:
Your ref:

8 January 1986

Dear Nick

WATER PRIVATISATION

Thank you for your letter of 23 December.

It is of course important that the White Paper should give full recognition to any special features of the situation in Wales, and my officials will be in touch with yours to ensure that this is done. Meanwhile, we will seek to improve the detailed drafting and would be glad of any specific suggestions you may have to make. Again, our officials can discuss.

I am copying this letter to the recipients of yours.

Yours ever

Kenneth

KENNETH BAKER

The Rt Hon Nicholas Edwards MP

Local Govt; Water Industry Pt 3

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.

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.

S Wanderson

for

K B

Approved by the Secretary of State and signed in his absence

23 December 1985

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From The Secretary of State for Wales

The Rt Hon Nicholas Edwards MP

23 December 1985

Dear Secretary of State,

NBPM.

WATER PRIVATISATION - WHITE PAPER

I understand from my officials that you have issued instructions for the draft White Paper to be sent to the Prime Minister.

You will appreciate that, as the draft only reached me today, I have only had a very quick look at it. My officials have drawn my attention to a number of issues having a Welsh dimension, including consumer representation where separate provision for Wales may well be desirable. I must therefore reserve my position until we have reached agreement on such issues. In terms of drafting it needs a good deal of sharpening and the general argument for privatisation needs to be better presented.

I am copying this to the Prime Minister, colleagues on E(A) and Sir Robert Armstrong.

Yours sincerely,

J Slater
(Approved by the Secretary of State and signed in his absence)

The Rt Hon Kenneth Baker MP
Secretary of State for the Environment
2 Marsham Street
LONDON
SW1 2EB

Local Govt Pt 3

THE WATER INDUSTRY