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PRIME MINISTER

**WATER PRIVATISATION: PUBLIC RELATIONS**

Nicholas Ridley reported to you on this subject on 9 May (attached). You may find it helpful to have this update on how we now see the position and our plans for the period up to flotation in November.

**AIMS**

We have three main aims over the next four months. First, a successful flotation which widens and deepens share ownership: second, to impress on the public that the new structure for the industry is a major "green" initiative, which will ensure improved water quality, at the tap, in rivers and for bathing, in the longer term; and third, to ensure that those who oppose privatisation understand how change of ownership will help us achieve quality improvements.

We know what the problems are. The attitude of the public and the media to the industry is more negative and opposition to privatisation of water is more widespread than in previous public asset sales. Our strategy to change the view of media and public alike has been consistent and we have begun to see successes, notably with the announcement of "K" figures for price ceilings and the "green dowry", which were very well received. The impact of the capital restructuring should lay a solid foundation for the sale. Many commentators have recognised that we have 'got it right'.

With completion of the legislative phase, and acceptance that the sale will take place, coverage of the policies has greatly improved. The enclosed explanatory leaflet 'The Water Act 1989' sets out the structure of the policies, following the well-received series of 5 leaflets we produced on the Water Bill. My launch of the booklet was well covered on national television news bulletins and in stories in

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a wide range of newspapers, national and regional, linked to comment that it was now clear that privatisation was going ahead and a successful sale was likely. Our City and PR advisers are working hard to ensure that this view continues to gain strength as the flotation nears and as more analysts publish reports on the industry and its prospects.

The key to changing public attitudes continues to be wider understanding of the regulatory structure, and of the benefits of private sector resources and efficiency. Lord Crickhowell and Ian Byatt are respectively making satisfactory headway in publicising the key roles of the NRA to protect the water environment and the Director General of Water Services to look after consumers' interests. The NRA marked Vesting Day (1 September) with a successful launch in London and simultaneous smaller events at the regional NRA unit headquarters around the country. The Director General of Water Services is now recognised in the press as the consumer's watchdog.

There is, of course, some tension between our drive to have watchdogs - consumer and environmental- who are clearly capable of using their teeth, and the need for a regulatory structure which gives financial markets confidence in the water companies' reliability as investments. The NRA and DGWs have shown sensitivity to these tensions and so far the balance is working fairly well. The coverage of the NRA launch was both wide and positive, yet did not raise concerns amongst the financial press. Some of the excellent coverage on vesting is attached.

#### THE OFFERS FOR SALE

There is evidence from previous flotations that disapproval of privatisation as a policy is not a barrier to investment. We are testing this carefully and regularly through the research MORI are conducting for us. The industry's corporate image advertising brought about significant improvements in general awareness of the

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water and sewage businesses. But the indicators of a positive image for the companies have shown a disappointing lack of consistency against the sustained weight of hostile political and media comment, and growing public concern about the environment. We will be watching carefully whether interest in buying develops as details of the offers are announced over the next few weeks.

A difficult issue affecting the industry throughout the summer has been shortage of water in some areas. Generally the industry has coped much better with the hot summer than it did in 1976.

Nevertheless, there have been reductions in supply in some areas, most notably in South East London and the West Country, and people have seen this as further reason for criticism of the industry. However, most commentators have attributed the present problems to public ownership and lack of investment, and looked forward to an improvement after privatisation, so the news has not undermined the sale. The industry have publicity efforts on this sensitive topic in hand in case the problem continues through the autumn.

We have now begun marketing the flotation to the general public. The Water Share Information Office opened on 6 September with a press statement by me, a major press conference chaired by Schroders, and the start of the advertising campaign, designed to inform potential investors of the offer and tell them how to obtain further information. The clear lead taken by the merchant banks ensured that the political nature of the story was defused and indeed hardly touched on in the press, although TV coverage did focus more on the advertising in the wake of Panorama. As well as some balanced stories in the quality press promoting the sale slogan - H2 Ownership - and the sense of registering early, and trailing effectively our announcement on the structure of the incentives package on Tuesday, the Sun and Mail carried enthusiastic pieces (selected copies enclosed).

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This will be followed by a mailing from Chairmen to all their 20 million water and sewage customers and also to existing shareholders in other parts of Britain, encouraging them to pre-register for information and to become eligible for incentives. The details of the offer, including incentives, will be unwrapped gradually over the first few weeks of the TV, press and poster campaign, leading to a Pathfinder press conference on 3 November, when we will announce all the other major elements of the offer except the price.

We will be watching the development of retail and institutional interest carefully to determine which sector could best take the lead in creating a momentum for the sale in the first few weeks of the campaign. Familiarisation visits to water authorities for local brokers, institutional analysts and financial journalists began in June and Michael Howard continues to meet key people as he has done since the Act became law. A major programme of roadshows in the UK and overseas is also well developed.

#### SUMMARY

We now have the arrangements in place for a major marketing effort designed to secure what many commentators are already predicting will be a successful flotation in November. The National Rivers Authority and the Director General for Water Services have a substantial part to play in getting across the benefits of our policies for the environment and the consumer, and with them and the industry we will be continuing to devote our efforts to the achievement of the objectives which I earlier identified.

A handwritten signature in blue ink, appearing to be the initials "CP".

C P

12 September 1989