PREM 19/830

PART 1 ends:-

CPRS to Environment 4.10.82

PART 2 begins:-

L(82) 85 27.10.82.

TO BE RETAINED AS TOP ENCLOSURE

Cabinet / Cabinet Committee Documents

Reference	Date
E(81) 37	27.3.81
E(81) 13th Meeting, Minutes	2.4.81
E(EA) (81) 28	16.7.81
E(EA) (81) 11th Meeting, Minute 3	21.7.81

The documents listed above, which were enclosed on this file, have been removed and destroyed. Such documents are the responsibility of the Cabinet Office. When released they are available in the appropriate **CAB** (CABINET OFFICE) CLASSES

Signed C Wayland Date 27 September 2012

PREM Records Team

SE - SU

Wed Gov

MBPM

Mis 5/10

CABINET OFFICE

Central Policy Review Staff

70 Whitehall, London SW1A 2AS Telephone 01-233 7765

From: John Sparrow

Qa 06071

4 October 1982

M Brasher Esq
Private Secretary to the
Minister for Local Government
2 Marsham Street
LONDON S W 1

Dear Martin,

Water Authority Objectives

Mr Sparrow hasseen a copy of your Minister's letter and enclosure of 22 September setting out revised objectives for the water industry, and is content that these should now be put to the Chairmen of the Regional Water Authorities.

I am sending a copy of this letter to the Private Secretaries to the recipients of Mr King's letter.

Yours ever

George Spence

G B Spence

Y Swyddfa Gymreig
Welsh Office

Gyda Chyfarchion yr
Is-Ysgrifennydd Seneddol

With the Compliments of the
Parliamentary Under-Secretary of State

Telephone :
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London, S.W.1.

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From The Parliamentary Under-Secretary

local govt

NBPM

MDS 4/10

Our Ref: CT/4436/82

1st October 1982

Dear Tom,

You sent Nicholas Edwards a copy of your letter of 22 September to Geoffrey Howe, about objectives for the water industry.

I agree with you that the revised objectives are a considerable improvement on the earlier version, and I am content for you to send them to the Chairmen of the English Regional Water Authorities. We will also use them as the basis of the objectives which we will send to the Chairman of the Welsh Water Authority. In doing so we will include the substance of all your objectives. But as I indicated in my letter of 29 July to Geoffrey Howe we will need, in the case of the WWA, to lay down more stringent objectives in relation to financial control.

I am sending copies of this letter to Geoffrey Howe and other E(NI) colleagues.

Yours ever
Wyn

WYN ROBERTS

The Rt Hon Tom King MP
Department of the Environment
2 Marsham Street
LONDON SW1

Local Govt, March '81
Water Industry

Local Gov
cc JV

NBPM
MWS 27/9

Treasury Chambers, Parliament Street, SW1P 3AG

The Rt Hon Tom King MP
Minister for Local Government
and Environmental Services
Department of the Environment
2 Marsham Street
London SW1P 3EB

27 September 1982

Dear Minister,

WATER AUTHORITY OBJECTIVES

You wrote to Geoffrey Howe on 22 September attaching revised objectives for the water industry.

I cannot say I am entirely happy with the references to pay and conditions in objective (e). The main priority must be to keep manpower costs to a minimum, and that is already covered in objective (c). However, since (e) is only a supporting objective I would not wish to press the point, and agree that you should send the objectives to the Chairman.

I am copying this to recipients of yours and Nicholas Edwards.

Yours sincerely

for LEON BRITTAN
(approved by the Chief Secretary & signed in his absence)

Local Govt.

Water Industry

March 81

PA

cc: Mr. Mount

MR. SCHOLAR

WATER AUTHORITY OBJECTIVES

I do not think you need trouble the Prime Minister with the revised Water Authority objectives circulated under cover of Mr. King's letter of 22 September. I am sure that the Treasury and the CPRS between them will crawl over the details; the particular point that concerned us - and on which you wrote on 28 June - is taken care of by the reference in (c) to performance aims for manpower and other operating costs. These do now have to be agreed with the Secretary of State, which should give the Government a measure of control over the National Water Council or whatever body succeeds it in dealing with water workers' pay negotiations.

You will have seen reports of the breakdown of this year's pay talks with the water workers and the call for an official 24 hour strike on 18 October. There are three unions involved, NUPE, GMWU and TGWU, and they agreed last summer to make a strong pitch for a once and for all increase of 15% or so to bring water workers' earnings up into the upper quartile of manual workers' earnings. The breakdown was unexpected, and the atmosphere was no doubt worsened by NUPE's involvement in the NHS dispute and by the Government's declared intention to legislate to abolish the NWC. No doubt Mr. Heseltine will be giving his assessment of the situation (if not, I think you may want to ask for it in time for the Prime Minister's return); a one day strike is not a particularly threatening event in the water industry, but you will recall that the work of MISC 61 did not indicate much likelihood of being able to withstand extensive industrial action. In fact, we thought it highly unlikely that such a situation would arise, given the hitherto responsible attitudes prevailing in the water industry and the demonstrable unwillingness of the NWC to stand up to the unions. If there is a strike on 18 October, it will be quite useful to us in providing an assessment of the extent of militancy, and in particular the extent to which

/middle management

middle management is prepared to cooperate over remedial measures in the event of breakdowns in supply.

J VEREKER
23 September 1982

Prime Minister ②

To note MCS 23/9

DEPARTMENT OF THE ENVIRONMENT
2 MARSHAM STREET
LONDON SW1P 3EB
01-212 3434

NBPM
MCS 27/9

MINISTER FOR LOCAL GOVERNMENT
AND ENVIRONMENTAL SERVICES

My Ref: K/PSO/33607/82

22 September 1982

Dear Chancellor of the Exchequer,

WATER AUTHORITY OBJECTIVES

My Private Secretary's letter of 15 July to the Prime Minister's Private Secretary explained that a small working group had been set up with the water industry to improve on the draft objectives for water authorities, which were attached to the paper I circulated to E(NI) colleagues in June, "Objectives of and for the Water Industry".

I now attach a revised version which is based on that produced by the working group. It is, I believe, a considerable improvement on what we had before. In particular it identifies clearly the three major objectives of providing adequate services, doing so at least cost, and meeting government financial requirements. A distinction is made between these main objectives and a number of supporting objectives, including manpower policies, effective consultation with consumers and extension of opportunities for private sector involvement. Finally, the section on implementation describes the key role of plans in quantifying the objectives and measuring progress towards achieving them.

The National Water Council (which includes the chairmen of all the water authorities) has commented on the working group's draft and the present version incorporates some but not all of their suggestions.

I am satisfied that these objectives provide the right framework for our policies for the industry and I believe that chairmen will find them acceptable. I invite my colleagues' endorsement of this version, which I hope can be given in correspondence. Perhaps you or other E(NI) colleagues could let me know by 27 September if you see any difficulties. Subject to any comments I shall then send them to chairmen.

Yours Sincerely,

M.L. Brasher (Private Secretary)

(pp) TOM KING
(approved by the Minister and
signed in his absence)

The Rt Hon Sir Geoffrey Howe QC MP

WATER AUTHORITY OBJECTIVES

Consistently with its statutory obligations and powers to provide a range of water-related services:

MAIN OBJECTIVES

(a) to offer a quality of service that is acceptable, having regard to costs and to effects on the environment, and to remedy recognised deficiencies over a reasonable period;

(b) to achieve these service objectives at the least cost and with steadily improving efficiency, making the best possible use of manpower and physical assets;

(c) to comply with financial targets and external financing limits set by th Secretary of State after consultation with water authorities and to achieve demanding performance aims, agreed with the Secretary of State, for manpower other operating costs based on detailed budgets for each part of its activiti and manpower targets;

inserted as requested by the P.M.

SUPPORTING OBJECTIVES

(d) to promote research and technical improvements necessary to meet these objectives;

(e) to promote the training and manpower development needed to meet these objectives and in determining pay and conditions of service to have regard to their effects on charges, the need to recruit, retain and motivate staff, improvements in manpower utilisation and other relevant factors;

(f) to achieve effective consultation with users and others affected by its activities about their needs and to deal with any problems as promptly effectively and sympathetically as possible;

(g) to pursue export markets for its skills on a commercial basis either directly or in support of the private sector;

(h) to seek the extension of suitable opportunities for private sector participation in its activities;

(i) to dispose of surplus property.

In pursuing all the objectives the authority will seek to conduct its activities with the efficiency characteristic of a well-run major business, and to arrive at a satisfactory balance between the quality of the various services it provides and the costs borne by its customers as a result.

IMPLEMENTATION

The authority will produce a medium term corporate plan, to be updated annually, which will be the main vehicle for elaborati these objectives and setting out the programme for achieving them. The plan will refer, inter alia, to the adequacy and wholesomeness of water supply, the adequacy of sewerage and sewage disposal, the quality of rivers and tidal waters, and intentions for land drainage, fisheries, recreation and amenity. It will describe, quantitatively as far as possible, the levels of service the authority regards as acceptable and the changes in them it intends over the plan period and beyond The plan should show the resources required to support the proposed levels of service, on both revenue and capital account, including those required for necessary maintenance or improvement of the fabric of the system. In particular it should bring out the prospective financial implications, including external financing requirements and charges to users It should also bring out changes in priorities compared with previous plans. For its part, the Government in agreeing performance aims and setting external finance limits will have regard to the implications for levels of service and charges as indicated in the corporate plan.

In support of its plan proposals the authority will develop further its methods of assessing and monitoring cost-effectiveness, including its system for appraisal of investment projects before and after completion.

Local Govt, Water Ind,
March '81

Local Govt / cc JV

2

Prime Minister

The Chief Secretary remains unconvinced that this is a suitable candidate for private finance.

WM 24/8

Treasury Chambers, Parliament Street, SW1P 3AG

Rt Hon Michael Heseltine MP
Secretary of State
Department of the Environment
2 Marsham Street
London SW1

23 August 1982

MT

Dear Michael,

PRIVATE FINANCE FOR THE WATER INDUSTRY: SEWAGE TREATMENT IN MERSEYSIDE

Thank you for your letter of 16 July. The Chancellor and I have given a lot of thought to this, and to the papers from Ferdinand Mount and Alan Walters. I am afraid we still see problems with the particular proposals, but it is not for lack of enthusiasm for a new approach.

If it would cost the same to build a sewage treatment plant in Merseyside with private finance as with public finance, I should be for private finance every time. You do not need to persuade me that the public sector should not do anything which the private sector can do equally well or better.

But the public sector can raise money more cheaply than the private sector; and in the particular case of the Merseyside plant, I cannot see how private finance could bring savings sufficient to offset its extra cost. My worry is that it would be more expensive to clean up the Mersey with private finance than with public finance.

This follows not from any universal law, but from the physical characteristics of the specific scheme. The plant would be built by private contractors whoever finances it; and once built, it would be run by very few people. So it is difficult to see how private finance could make much difference to the non-financing costs of building or operation: yet on the financing side, it would cost more to raise the money privately than publicly.

I am attracted by the new point you make that a private consortium would have an incentive to hold down pay. But the private contractors who would build the plant would have that incentive anyway: their contract would surely not be cost-plus.

I also see Ferdinand Mount's argument that, in principle, the private sector might be able to undertake "building-and-treatment" more cheaply than "construction alone". But as I say, building would be private anyway; and in this particular project, treatment would be little more than letting sewage settle in concrete tanks. There cannot be great scope for savings there.

We both want private finance promoted in general; and I am grateful to you for trying so energetically to find applications. But it would do immense damage to our shared objective if private finance came to be associated with higher costs; and I fear that is what would happen in the Merseyside case. It would be no favour to Merseyside consumers.

I am as sorry as you are to come to this conclusion. But this particular scheme really does not seem a good candidate for private finance. I would of course readily reconsider this if any fresh evidence came to light showing that private finance for this project would in fact be no more expensive.

I am sending copies of this letter to the Prime Minister, Patrick Jenkin, Ferdinand Mount and Alan Walters.

Yours
Leon

LEON BRITTAN

cc JV

Management and Personnel Office
Whitehall London SW1A 2AZ
Telephone 01-273 } 4400
GTN 273 }

WR 2/8

5 August 1982

The Rt Hon Peter Walker MBE, MP
Minister of Agriculture, Fisheries
and Food
Whitehall Place
LONDON SW1A 2HH

Dear Peter,

INTERDEPARTMENTAL REVIEW OF LAND DRAINAGE AND FLOOD PROTECTION

I have been following the correspondence between you and Leon Brittan about the proposed review.

I am glad that you have reached an understanding about the scope and coverage of the review. The agreed terms of reference give the Committee a good basis for a thorough look at some important questions and I look forward to seeing their eventual report.

Among other issues, the Committee will be looking at the scope for financial and manpower savings in the administration of the grants. The experience of efficiency work in your own department as elsewhere suggests that, for the best results, it is essential to see the work where it is actually being done. I hope therefore that the Committee will wish to (and be able to) commission someone to carry out a detailed study of the basic administrative functions and report to them. There should be no difficulty in doing so within the timetable provided the work is set in hand at an early stage.

The MPO would be glad to help in any way it can out of a good deal of experience in reviews of administrative operations and what makes for an efficient and effective operation. Moreover the administration of the grants raises some machinery of government issues; again we have certain interests and expertise here, as well as responsibilities. I am glad therefore that your officials are already in touch with mine about the review.

I am copying this letter to the Prime Minister, the Secretaries of State for the Environment and Wales, the Chief Secretary and the Secretary of State for Trade, and also to Sir Robert Armstrong, Sir Derek Rayner and Mr John Sparrow.

Yours ever

Janet

BARONESS YOUNG

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JV Local Govt.

Prime Minister (2)

REC 30/7

WELSH OFFICE
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Tel. 01-233 3000 (Switchboard)
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From The Parliamentary Under-Secretary

CT/5341/82

29 July 1982

Dear Geoffrey,

MT

WELSH WATER AUTHORITY

You wrote to me on 9 July in reply to my letter of 29 June, and I must say that I found the terms of your letter surprising in a number of respects.

You seem to have taken no account of the fact that we have taken a firmer grip on the Welsh Water Authority in the last few months than any Government Department has ever done on a "trading" quango. We have radically altered the nature and membership of the Board and insisted on the engagement of consultants to suggest ways of improving efficiency.

This has been done against a background of legislation which gives a large measure of independence to the Authority, widespread antagonism towards our proposals by local authorities and other interests, a vigorous political campaign against the higher charges, and a hostile enquiry by the Select Committee on Welsh Affairs.

When we came to draft objectives for the new Authority, we took the view that those drafted by the DoE for the English Water Authorities were not strong enough, and prepared a tougher version.

I must therefore reject the suggestion that our approach has been "surprisingly bland"; on the contrary, it has been vigorous and positive.

You will now be aware from Tom King's secretary's letter of 15 July that a small working group is to be established to finalise objectives for the water industry. These will form a framework to which will be added specific objectives for individual authorities. We can consider the matter further after this group has reported.

/With the new ...

Rt Hon Sir Geoffrey Howe QC MP
Chancellor of the Exchequer
HM Treasury
Parliament Street
London SW 1

With the new WWA Chairman and Board in place, we must give them a chance to sort themselves out, and they are already showing encouraging signs of doing this. They are actively engaged in planning cost reductions, and, as you say, we are expecting them to produce a new Corporate Plan. This plan will include proposals for capital investment which we will be able to consider. As far as manpower and other operational costs are concerned, I can assure you that we lose no opportunity to impress on the WWA the need to reduce these costs.

Lastly, you mentioned the matter of bulk supply charges. I must emphasise that the Secretaries of State for Wales and the Environment are in a quasi-judicial position in this matter, and we must all avoid any prejudicial comment one way or the other. But I cannot understand why you think that any charge which the importing authority found worth paying was a subsidy. The issue before us is essentially: what is a fair price for the purchase of water by one Authority from another. If you are saying that the WWA should not sell water at all because that decreases the pressure on it to reduce its costs, the consequence would be costly and unnecessary capital investment by the Severn Trent Water Authority to secure alternative supplies within its own area. I cannot believe that that is what you have in mind.

Copies of this letter go to the recipients of yours.

Yours ever

Wyn

WYN ROBERTS

cc JV

Local Govt

NBPM

Mis 27/7

Treasury Chambers, Parliament Street, SW1P 3AG

Rt Hon Peter Walker MBE MP
Minister of Agriculture, Fisheries
and Food
Ministry of Agriculture, Fisheries
and Food
Whitehall Place
London SW1A 2HH

26 July 1982

Dear Peter.

LAND DRAINAGE AND FLOOR PROTECTION: INTERDEPARTMENTAL REVIEW

Thank you for your letter of 22 July.

I note your continued views regarding financial support for land drainage although I must make it clear for the record that I reserve the right to take a contrary view. But I also note that you accept the work of officials should cover the basic policy. This is most helpful.

As far as Chairmanship is concerned I accept that a MAFF officials should be in the Chair.

I also agree that there should be a low key announcement on the lines suggested in your letter of 13 May provided it is made clear the review is covering financing and administration (not just administration as mentioned in your letter).

I hope that your officials will now get in touch with officials of other departments as a matter of urgency in order to start the review as quickly as possible. I do accept, however, that the target date for completion of the review should be 31 December and not 30 October.

I am sending copies of this letter to the Prime Minister, Michael Heseltine, Nick Edwards, Arthur Cockfield and Janet Young and to Sir Robert Armstrong, Sir Derek Rayner, John Cassels and John Sparrow.

Yours ever

LEON BRITTAN

Local Gov
cc

CONFIDENTIAL

2 MARSHAM STREET
LONDON SW1P 3EB

NBPM

MIS 23/7

My ref: H/PSO/15001/82

Your ref:

23 July 1982

Dear Leon

Thank you for your letter of 12 July about the British Waterways Board, our objectives for it and the Inbucon report.

I had not forgotten our earlier correspondence. Events are proceeding more slowly than I had hoped. I have just had a preliminary discussion with the whole Board about Inbucon's recommendations and a range of policy issues, some of which arise from what Inducon had to say and others which arise from our own thinking about what sort of role BWB should have in future, and I shall give them an opportunity formally to let me have their views in response to a consultation document I shall put to them. I think that will probably prove to be a more fruitful way of proceeding, though rather longer drawn out, than simply putting to them our own views. I am, nevertheless, fully aware of, and wholly in sympathy with, the need to improve BWB's efficiency, formulate its objectives and cut out loss making activities.

I shall keep you informed of events.

I am copying this to members of E(NI), John Sparrow and Sir Robert Armstrong.

Yours ever

MICHAEL HESELTINE

Rt Hon Leon Brittan QC MP

Local Govt.

File 2

bc: Mr. Mount

10 DOWNING STREET

From the Private Secretary

22 July 1982

PRIVATE SECTOR FINANCE FOR THE WATER INDUSTRY

The Prime Minister mentioned to the Chancellor this morning that she had received a paper from Ferdie Mount about the introduction of private sector finance into the water industry.

I attach a copy of this paper. The Prime Minister would be grateful if the Chancellor could give sympathetic consideration to these ideas.

I am sending a copy of this letter (but not enclosure) to Terry Mathews (Chief Secretary's Office, HM Treasury).

M. C. SCHOLAR

John Kerr, Esq.,
H.M. Treasury.

CONFIDENTIAL

c/c JV
Local Govt.

MINISTRY OF AGRICULTURE, FISHERIES AND FOOD
WHITEHALL PLACE, LONDON SW1A 2HH

Prime Minister (2)

MCS 22/7

From the Minister

CONFIDENTIAL

Rt Hon Leon Brittan QC MP
Chief Secretary to the Treasury
Treasury Chambers
Parliament Street
London
SW1P 3AG

22 July 1982

LAND DRAINAGE AND FLOOD PROTECTION: INTERDEPARTMENTAL REVIEW

Thank you for your letter of 12 July about the terms of reference for this review. As I have said in my previous letters, my own position on the need for financial support for land drainage is quite clear. I consider that by this means the basic productive resource of the nation is increased valuably; and it was for this reason that, with the agreement of my Ministerial colleagues, I decided that there should be special treatment for the parallel case of field drainage capital grants. Similarly, on urban flood protection, where serious problems occur virtually every year, I imagine that I would not be the only Minister to foresee political difficulties if the Government appeared to decide that it was not very interested in these problems.

So I would not want officials to direct much of the effort put into this review into an unproductive attempt to reconcile my policy position with any contrary view the Treasury might want to advance. The question to which officials can make an important contribution is the efficiency of the administrative arrangements; and I hope that the Committee will devote the major part of its time to a study of the complex issues in this field.

As long as my position on this is understood, I accept the terms of reference enclosed with your earlier letter, except in relation to timing. It is now quite impossible for this review to be completed by 30 October next; indeed I am doubtful whether it can be done by 31 December, but let us set that date as the target.

/You have .....

You have not said whether you accept my views on the Chairmanship of the Committee and on the need for a low key announcement. I hope that, in the light of the views which I have already expressed on these points and the need for us to reach agreement quickly so as to enable the review to begin very soon, you will agree to my proposal for a MAFF Chairman and for an announcement on the lines suggested in my letter of 13 May.

I am sending copies of this to the Prime Minister, Michael Heseltine, Nick Edwards, Arthur Cockfield and Janet Young and to Sir Robert Armstrong, Sir Derek Rayner, John Cassels and John Sparrow.

PETER WALKER

Prime Minister (2)

MCS 21/7

21 July 1982

Policy Unit

PRIME MINISTER

PRIVATE SECTOR FINANCE FOR THE WATER INDUSTRY

Michael Heseltine's idea of a private consortium building and operating a sewage treatment works on Merseyside seems to me both imaginative and practical.

The Treasury argues, however, that such a project offers little scope for savings on construction, or faster progress or competition or labour savings on running costs; and that it could never be a genuinely private venture because it would have to maintain contractual arrangements with the water authority.

At worst, as Michael points out, if privatisation offers no advantages over the conventional public sector method, it offers no marked disadvantages either.

But I wonder whether Leon's dismissal of the potential merits of privatisation in this case may be a little hasty.

A private sector sewage treatment works would surely:

(a) Create some downward pressure on wages in the industry, however slight. A small group of workers would be removed from the water authority negotiations and would have to bargain with private employers who would have a genuine self-interest in bargaining hard.

(b) Provide an alternative model of providing sewage treatment facilities. The North-West Water Authority and other water authorities would be able to see whether the private sector arrangement did offer savings in construction or operation and, if so, would be encouraged to imitate it.

(c) Attract private capital into the utilities. The Chief Secretary tends to regard this as a fudge, arguing that there is little real distinction between money so raised and ordinary government borrowing, because of the government guarantees, implicit or explicit, and because of the captive market enjoyed

by a monopoly public utility. But again, if the expenditure is justified at all (as it clearly is in the case of sewage treatment - and sewer construction and maintenance) there can at worst be no disadvantage in raising the money privately. And at best, there is more of an incentive to use the capital economically in order to maximise the return.

The sort of system we have in mind is as follows. The authorities would invite tenders for a sewage treatment plant with a specified minimum and maximum through-put. The tender would be not merely for building the plant, but also for operating it for a period of, say, 10 or 15 years. (The tenders could be split, but leave that aside for the time being.) The contract would specify a payment per cubic meter of sewage treated to a specified minimum standard. These payments could be fixed at the average cost of treatment of other public sewage plants in the area. (Or one might specify a discount of, say, 2% below those values.) Then after 10 or 15 years, the contract price per unit of treated sewage could be renegotiated.

If the "standard" price of treatment, as determined by the average cost of other plants, were considerably higher than the price at which a private operator felt he could deliver, then the bids for the building-and-treatment contracts might be below the bids made under the present-day system for construction alone. Then the Treasury would reap the benefits of the greater efficiency in the private sector.

If, on the other hand, the private sector bids for building and treatment were higher than the bids for construction alone plus the specified standard payment for treatment, then Leon's propositions would be established. It would then be best for the plant to remain in the public sector. But this certainly would provide a fair test.

In general, the Treasury seems to me to underestimate the dynamic, innovative effects of even the imperfect competition which may be achieved in such a situation.

If the water authorities begin to make a habit of privatising their sewage treatment facilities, more firms are likely to be attracted into the business and more ingenuity will be expended in ways of

building and running them more cheaply and effectively. The fact that minimum standards of design and maintenance will still have to be ensured by the authorities is no more of an argument for continued nationalisation than weights-and-measures or food-and-drugs laws are arguments for nationalising greengrocers.

I am copying this note to Leon Brittan, Michael Heseltine and Patrick Jenkin, who have seen the previous correspondence.

FM

FERDINAND MOUNT

Local Govt

10 DOWNING STREET

From the Private Secretary

19 July, 1982.

Private Sector Finance for the Water Industry

The Prime Minister has seen a copy of your Secretary of State's letter to the Chief Secretary dated 16 July.

Mrs. Thatcher notes your Secretary of State's view that there is no reason why the private sector should not build and operate a sewage treatment works. She has commented that, if this really were to be done by the private sector, there would have to be no public guarantee.

I am sending copies of this letter to Jonathan Spencer (Department of Industry). and Terry Mathews (Chief Secretary's Office, HM Treasury).

M. C. SCHOLAR

David Edmonds, Esq.,
Department of the Environment.

Original filed on Econ Pol Public Exp Pt 20.

DEPARTMENT OF THE ENVIRONMENT
2 MARSHAM STREET
LONDON SW1P 3EB
01-212 3434

Prime Minister (2)

MINISTER FOR LOCAL GOVERNMENT
AND ENVIRONMENTAL SERVICES

MCS 19/7

16 July 1982

Dear Geoffrey,

In your letter of 29 June to the Prime Minister on the public sector monitoring report, you asked me to let you know what options I thought we had to put the brake on the special water negotiations.

Since your letter we have of course announced the abolition of the NWC and have put out a consultation document as to which of the present functions of the NWC need to be continued, and, of these continuing functions, what are the best ways in which they could be discharged. One of the key current functions is, of course, the national wage negotiations for the various groups of employees in the water industry. At the present moment it is therefore not clear under what arrangements the special water negotiations and the normal wage negotiations will take place. In this new situation I am very much seized of exactly the dangers that concern you about the possible progress on the separate negotiations. For the reasons that I have mentioned I cannot at this moment give you any accurate forecast of exactly how the immediate situation is likely to develop but my purpose in writing is to confirm that I shall keep in as close touch as possible with developments and with a number of key people concerned and will report to you again as soon as I am able to do so.

I am sending a copy of this letter to the Prime Minister and to those to whom you copied your minute.

Yours

TOM KING

SECRETARY OF STATE FOR THE ENVIRONMENT

2 MARSHAM STREET
LONDON SW1P 3EB

Prime Minister (2)

Mrs 16/7

My ref:

Your ref:

16 July 1982

Dear Leon

PRIVATE SECTOR FINANCE FOR THE WATER INDUSTRY

There has been an exchange of correspondence, beginning with my letter of 19 November 1981 to Geoffrey Howe, about how to tackle the problem of cleaning up the Mersey. Under Tom King's direction we are now going to go ahead and approach the North West Water Authority to get their appraisal of the public and private sector costs, and the time scale, involved, both for the estuary and the upsteam part of the river. However, there is one basic point I want to raise again with you and, if necessary, with colleagues.

In your letter of 17 May you seem to assume that I have accepted that we should abandon the idea that a private consortium should build and operate a sewage treatment works on Merseyside. I have not. I am convinced that we should try to proceed in that way. Your position is that you are not against it in principle but you consider that there would be no advantages in practice. You were kind enough to set out your objections in some detail in your letter of 16 April. You said that there would be little scope for savings in construction; little scope for faster progress; little scope for savings from competition; little scope for labour savings in running costs; little scope for getting the public sector out of the project. Let us suppose you are right. All you have done is to acknowledge that to proceed in the conventional way and have the works built by the NWWA would have no advantages either. You are simply defending the established way of doing things and inhibiting any new approach. Everything depends on one's starting point. Yours is a little like that of a guard on the frontiers of the public sector. Mine is that the public sector should not do anything which the private sector can do equally well or better. If one begins by looking at the Merseyside problem with a fresh mind, there is no reason why the private sector should not build and operate a sewage treatment works. There are 28 statutory water companies which successfully meet about a quarter of the demand for water. I would like to see more of them, and in due time I hope to return to that theme.

In the particular case of Merseyside, there is an additional reason why I am sure that a private consortium would be the right answer. We are all agreed on the importance of discouraging excessive pay increases. We should do everything we can to create the conditions to make that work. A private consortium's wage negotiators' minds would be fixed on making a success of the building contract because the return on capital would be geared to construction costs. They would have no one to pass the costs on to. They would be resistant to irrelevant arguments about what is going on in the economy at

large. There would be the best conditions for the success of wages policy.

Merseyside has been damaged enough by public sector attitudes. I am quite ready to go to colleagues for their ruling on this, but I do urge you to change your mind.

I am copying this to the Prime Minister and Patrick Jenkin.

Yours ever

MICHAEL HESELTINE

2F

Chief Sec

ERC

f/c JV
Local Govt

DEPARTMENT OF THE ENVIRONMENT
2 MARSHAM STREET
LONDON SW1P 3EB
01-212 3434

MINISTER FOR LOCAL GOVERNMENT AND ENVIRONMENTAL SERVICES

My Ref: K/PSO/32996/82

NBPM

15 July 1982

MS 16/7

Dear Michael,

WATER INDUSTRY OBJECTIVES

Thank you for your letter of 28 June passing on the Prime Minister's point about including an appropriate reference to manpower costs in the objectives.

The performance aims referred to in objective (v)(b) embrace manpower costs, and hence pay. Mr King is, however, quite ready to include a more explicit reference to manpower costs along the lines you suggest.

More generally, Mr King discussed the draft objectives with water authority chairmen on 29 June. They agreed the broad content of the objectives, but felt there were defects in the present drafting. Mr King agreed that a small group should be set up jointly with the industry to produce a better draft as a matter of urgency. The results will need to be discussed with the industry before being reported to (E(NI) but we can ensure that the Prime Minister's point is taken account of in the revised version.

I am copying this letter to the recipients of yours.

Yours Sincerely,

Martin Brasher

M BRASHER
Private Secretary

Michael Scholar Esq

cc PS/Chancellor
Financial Secretary
Economic Secretary
Minister of State (C)
Minister of State (R)
Sir D Wass
Sir W Ryrie
Mr Quinlan
Mr Burgner
Mr Kitcatt
Mr Broadbent
Mrs Case
Mr Ridley

Treasury Chambers, Parliament Street, SW1P 3AG

Rt Hon Michael Heseltine MP
Secretary of State
Department of the Environment
2 Marsham Street
London SW1P 3EB

12 July 1982

Dear Michael,

BRITISH WATERWAYS BOARD

We agreed in April (my letter of 1 April and your reply of 30 April) that when the Inbucon report was available we should take a radical look at BWB and our objectives for it. Moreover, although we have not been able to implement fully the new system of Performance and Corporate Plan Reviews for nationalised industries this year, the recommendations in the report and the issues which Inbucon were considering seem likely to provide a valuable input to the IFR now under way.

I understand that you have been considering Inbucon's report and I think it would be useful, in the context both of the IFR and of longer term work, if we could discuss the conclusions you have reached even if only on a preliminary basis, before the Recess.

I am copying this letter to members of E(NI), John Sparrow and Sir Robert Armstrong.

Yours

Leon

LEON BRITTAN

ecJ.V.

NBPM
13/7

Treasury Chambers, Parliament Street, SW1P 3AG

Rt Hon Peter Walker MBE MP
Minister of Agriculture
Fisheries and Food
Ministry of Agriculture
Fisheries and Food
Whitehall Place
London SW1A 2HH

12 July 1982

Dear Peter,

LAND DRAINAGE AND FLOOD PROTECTION: INTERDEPARTMENTAL REVIEW

I had hoped that we were getting close to agreement on the terms of reference for this review. But your letter of 25 June makes me fear that there is still a degree of misunderstanding between us.

Your letter proposes that the policy of Government financial support for land drainage and flood protection should be excluded from the review. I understand that you mean by this support from central Government through a system of specific grants or subsidies, since, if specific grants were abolished overnight, land drainage and flood protection schemes would still receive Government support in the form of NLF loans through the water industry's EFL and the local authorities' capital allocation. I must press you to reconsider your position on this point. I am not asking you to agree to a different policy, but only to accept that the present policy should be reviewed. There is an issue of principle here - namely that, as part of sound financial management spending policies should be periodically reviewed.

There is a particular reason for such a review in the present case. One of the main points made in the Cooper-Lybrand report is the need for MAFF to develop explicit policy objectives, which would then be subjected to regular review. The authors of the report comment that they:

> "Were struck by the lack of explicit policy objectives and of specific targets ... derived from them" in MAFF.

The section of the report dealing with land drainage and flood protection says simply:-

> "There is no explicit policy for land drainage and floor protection".

As I pointed out in my letter of 1 June, Cooper-Lybrand go on to propose that this deficiency should be remedied, but that before doing so the Government should examine a number of fundamental issues, in particular whether:

"(a) payment of grants;

(b) at the given rates is the most effective/efficient way of achieving necessary land drainage and flood protection for the country".

Will reply by cc

Neither the statement of objectives in your letter of 13 May nor your letter of 12 June answers any of these points. They beg the questions as to what standards of land drainage and flood protection should be regarded as acceptable, why special central Government support in the form of grants or subsidies should be thought necessary to achieve them and whether the normal Government financing on NLF terms should not be provided for this as for other Water Authority investments. When a reputable firm of outside Management Consultants has raised questions along these lines, they cannot be ignored; and it is legitimate for the Treasury to ask that they should be properly considered by all the interested Departments. If your view is that the Cooper-Lybrand comments are ill-founded or that the present system of grants is broadly satisfactory, that view can be argued by your officials in the course of the review.

If you can confirm that you are prepared to agree that the inter-departmental review should cover the questions raised by the Cooper-Lybrand report and spelt out in the last two paragraphs it should be easy enough for our officials to agree on revised terms of reference providing for this. If you still see any difficulty over this, I suggest that all of us had better meet quickly to sort it out.

I should perhaps add that I am not saying that these are the only or even the most important questions which should be covered by the review. All of us, I think, accept that it is equally important to have a thorough look at the cost and effectiveness of the present arrangements for the administration of that expenditure.

I am copying as before to the Prime Minister, Michael Heseltine, Nick Edwards, Arthur Cockfield and Janet Young and also to Sir Robert Armstrong, Sir Derek Rayner, John Cassells and John Sparrow.

Yours ever
Leon

LEON BRITTAN

Prime Minister (2)

cc J.V.

Treasury Chambers, Parliament Street, SW1P 3AG
01-233 3000

9 July 1982

Wyn Roberts Esq MP
Parliamentary Under Secretary of State
Welsh Office
Gwydyr House
Whitehall
LONDON SW1A 2BR

Dear Wyn

You wrote to me on 29 June enclosing a paper on the Welsh Water Authority, together with draft objectives for the Authority.

I must say I found the general tone of the paper surprisingly bland in the light of the difficulties experienced this winter. In particular, I find it surprising that an Authority, at least 12 per cent of whose customers are receiving unacceptable or inadequate water supplies, should choose to cut its investment programme to enable it to borrow to fund a current account deficit. I find it more surprising that paragraph 2 of the paper implicitly approves rather than condemns this cut back in investment. It may have helped to keep the charges down; but it has been detrimental to the level of service the Authority can provide, and it has allowed the Authority to avoid taking difficult decisions to cut manpower and generally improve operating efficiency.

But I realise that the policies of the Authority are in a state of flux at the moment, as the new Chairman and Board get to grips with the substantial problems they have inherited. I understand they are due to submit a revised Corporate Plan, and that will need to be considered by officials before we decide whether anything more needs to be done. I do not, therefore, propose a discussion in E(NI) at this stage.

But I would like to take the opportunity to comment on the current disagreement about bulk supply charges, mentioned in paragraph 6 of your letter. I understand the new Authority are reviewing their position, but I would like to make clear at this stage that I would resist any proposal which is intended to provide an explicit or implicity subsidy to the Welsh Authority. That can only weaken the pressure on them to put their house in order. The right way to reduce charges is to improve efficiency and cut operating costs, and there can be no easy escape from that.

/I am

I am copying this to the Prime Minister, members of E(NI), Nicholas Edwards, Alick Buchanan-Smith, Sir Robert Armstrong and John Sparrow.

GEOFFREY HOWE

Prime Minister (2)

cc JV

MCS 9/7

Treasury Chambers, Parliament Street, SW1P 3AG
01-233 3000

8 July 1982

The Rt. Hon. Tom King, MP
Minister for Local Government and
Environmental Services,
Department of the Environment
2, Marsham Street
LONDON
SW1P 3EB

Dear Tom

OBJECTIVES OF AND FOR THE WATER INDUSTRY

I read with considerable interest your paper on our aims for the Water Industry attached to your letter of 23 June.

You seem to be making encouraging progress on a number of fronts. I was pleased to see not only quantified objectives for manpower and for the level of charges, but the tight performance aims for the industry (shown in Annex 2 of your paper) which should bring down real operating costs in 1983-84 to below the level in 1979-80, despite the growing demand for water services.

I hope that the structural changes we have now agreed to will help you to maintain progress. I do not think we need to discuss the paper in E(NI). A number of the issues you mention - such as the level of investment and the degree of self-financing will in any case come up in the forthcoming Investment and Financing Review, which for the first time this year covers the Regional Water Authorities.

I am copying this to the Prime Minister, members of E(NI), Nicholas Edwards, Wyn Roberts, Alick Buchanan-Smith, Sir Robert Armstrong and John Sparrow.

Yours

GEOFFREY HOWE

Local Govt

PRIME MINISTER

Re-organisation of the water industry

Tom King's statement met with some predictable criticism both from the Opposition and from the Government's backbenches. Denis Howell's main theme was that the new structure proposed for the water industry was a blow to local democracy, and a step towards "corporate centralism". He also said that the burning issue was the level of water rates, and the proposed re-organisation was not going to do anything to reduce these charges. He was outraged by the dissolution of the National Water Council, especially as the Government had made no proposals for replacing its role in wage negotiations and setting the priorities for investment.

A group of Opposition Members consisting of Messrs. Ennals, Huckfield, Cryer and English said that the re-organisation was a move to allow more Conservative political appointments to water authorities.

Some Government backbenchers expressed concern that the newly appointed authorities would display the faults of every other Quango, and would not be responsive to local needs.

Mr. King said that there would be economies stemming from the re-organisation, but he could not quantify these at present. He was also issuing a Consultation Paper on how to replace the wage negotiating and investment machinery of the Water Council. He rejected Mr. Howell's accusation of "corporate centralism" by saying that the re-organisation did away with the National Water Council, and devolved more authority to the regions.

GM

7 July 1982

With permission, Mr Speaker, I would like to make a statement on the future organisation for water in England and Wales.

The Regional Water Authorities were set up in 1974 with large memberships, the majority of such members being appointed by local authorities in their areas. The original intention was that these members should represent the interests of consumers. There has for some time been concern that this system is not working as intended. Consumers have not felt that they were really represented and few people knew who their representatives were on the Water Authority. At the same time, large memberships have led to a proliferation of committees and bureaucracy and inhibited efficient decision taking. The Monopolies and Mergers Commission, in its report on the Severn-Trent Water Authority, recommended that the present membership should be substantially reduced and not based predominantly on local government representation. The Welsh Water Authority has already been reconstituted on these lines. Earlier this year we issued a consultation paper for England on this question.

The Regional Water Authorities are substantial undertakings requiring a high level of management ability. Having considered the responses to the consultation paper the Government has decided to create smaller boards of between 9 and 15 members, appointed by Ministers and including executive members on every board. We propose that County and District Councils should have the opportunity to nominate people for some appointments to these Boards. In addition, land drainage and fishery interests will continue to be represented. Chairmen and Members of the new boards will be paid, and will serve for fixed terms.

Together with these new boards improved arrangements can then be made for consultation with consumers, local authorities, and other interested parties. Water Authorities have already established various kinds of liaison arrangements at divisional level, and we intend to build on these.

Our proposal is that Water Authorities should appoint an advisory committee for each division, which would include representatives of Local Authorities, but also representatives of industrial, commercial and domestic consumers, and agricultural

and amenity interests.

We shall issue guidelines for the establishment of these committees, and will require the Water Authorities to satisfy us that proper arrangements have been made.

In considering the structure of the water authorities we have also examined their relationship with the National Water Council. The National Water Council played a valuable role both during and after reorganisation in assisting the new authorities and helping represent them to Government. They are now fully established and the Government has developed a more direct relationship with the individual authorities. The Government therefore believes that they are able to carry out their responsibilities without an additional central statutory body. We have therefore decided to dissolve the National Water Council. We shall be consulting those affected by this decision, including the Trade Unions. The Water Space Amenity Commission will also be dissolved.

The legislation which will be required for these changes which cover both England and Wales will be introduced at the earliest opportunity.

Mr Speaker, we believe these proposals represent an improvement in the arrangements for the organisation of the water industry, and that they will command wide support both among consumers and in the water industry itself. I commend them to the House.

Local Gov

Water Industry (Reorganisation)

3.31 pm

The Minister for Local Government and Environmental Services (Mr. Tom King):

With permisssion, Mr. Speaker, I should like to make a statement on the future organisation for water in England and Wales.

The regional water authorities were set up in 1974 with large memberships, the majority of such members being appointed by local authorities in their areas. The original intention was that these members should represent the interests of consumers. There has for some time been concern that this system is not working as intended. Consumers have not felt that they were really represented and few people knew who their representatives were on the water authority. At the same time, large memberships have led to a proliferation of committees and bureaucracy and inhibited efficient decision taking. The Monopolies and Mergers Commission, in its report on the Severn-Trent water authority, recommended that the present membership should be substantially reduced and not based predominantly on local government representation. The Welsh water authority has already been reconstituted on these lines. Earlier this year we issued a consultation paper for England on this question.

The regional water authorities are substantial undertakings requiring a high level of management ability. Having considered the responses to the consultation paper, the Government have decided to create smaller boards of between nine and 15 members, appointed by Ministers and including executive members on every board. We propose that county and district councils should have the opportunity to nominate people for some appointments to these boards. In addition, land drainage and fishery interests will continue to be represented. Chairmen and members of the new boards will be paid, and will serve for fixed terms.

Together with these new boards improved arrangements can then be made for consultation with consumers, local authorities, and other interested parties. Water authorities have already established various kinds of liaison arrangements at divisional level, and we intend to build on these.

Our proposal is that water authorities should appoint an advisory committee for each division, which would include representatives of local authorities, but also representatives of industrial, commercial and domestic consumers, and agricultural and amenity interests. We shall issue guidelines for the estabishment of these committees, and will require the water authorities to satisfy us that proper arrangements have been made.

In considering the structure of the water authorities, we have also examined their relationship with the National Water Council. The National Water Council played a valuable role following reorganisation in assisting the new authorities and helping to represent them to the Government. They are now fully established and the Government have developed a more direct relationship with the individual authorities. The Government therefore believe that they are able to carry out their responsibilities without an additional central statutory body. We have therefore decided to dissolve the National Water Council. We shall be consulting those affected by this decision, including the trade unions. The Water Space Amenity Commission will also be dissolved.

The legislation which will be required for these changes which cover both England and Wales will be introduced at the earliest opportunity.

We believe that these proposals represent an improvement in the arrangements for the organisation of the water industry, and that they will command wide support both among consumers and in the water industry itself. I commend them to the House.

Mr. Denis Howell (Birmingham, Small Heath): Why have the Government decided to treat the House with such contempt? When the major proposals for the Water Act 1973 were being formulated they were put to the House in a Green Paper and White Paper and the House was given an opportunity to debate them. When the previous Administration issued their White Paper in 1977, they followed the same procedure. Were the Government so ashamed of what they were doing that the House could not even be consulted before this announcement was made?

Do not these proposals result from considerable national concern about the level of water charges, which gave rise to angry debate throughout the country, led by local authorities—which is no doubt why they are now being killed off? Even at the Conservative Party conference in 1980 the right hon. Gentleman made a brave speech, during which he talked about faceless, remote water authorities.

Is it not a fact—if I am wrong, perhaps the Minister will give the facts—that nothing in these proposed changes will reduce water charges to the consumer by a penny? That is what all the agitation has been about.

Why have the Government decided to eliminate local democracy in the water industry? Why do they carry on this vendetta against local authorities of all political persuasions? Why do they believe that it is better to replace that democracy by a system of corporate centralism, the like of which we can expect to find only behind the Iron Curtain or in other totalitarian States?

Will the right hon. Gentleman confirm that every regional water authority and local authority association that was consulted about these proposals was opposed to them? In that case, why are the Government ignoring those views?

The National Water Council is to be dissolved, but the statement was unsatisfactory and silent on some matters that are of great concern to the nation. I mention three. The first is the level of national investment policy. When so much of our creaking system, particularly the sewage system, needs to be replaced, who will decide the total programme? Why have we not been told how that will be done?

National wage negotiations can be conducted only by the National Water Council. It is important that we should know how wage negotiations in the water industry will be conducted but the Minister said nothing about that or about quality control, which is equally important.

Why will the consumers and local authorities have no representation, when the undemocratically constructed internal drainage authorities are to have a seat as of right? That cannot be right, and it is another blow to local authority representation.

The Government propose a system of advisory councils for consumers and local authorities which will be selective

[Mr. Denis Howell]

in make-up and which has proved unsatisfactory in all our nationalised industries. These proposals are retrograde in every respect and will be opposed by the Opposition.

Mr. King: The right hon. Gentleman said that the statement was silent about the investment programme. It deals with the structure of the industry and the investment programme will continue as it is now, with discussions between individual authorities and my Department.

The right hon. Gentleman also referred to the importance of national wage negotiations. That is the principal function of the National Water Council and it will be necessary to make suitable alternative arrangements. As I made clear in my statement, the change requires legislation. The National Water Council will continue until well into next year, depending on the legislation programme. It will be a matter for discussion, and this afternoon we are issuing a consultation paper on the alternative arrangements which will be available to all hon. Members.

There will be some savings in charges, because the National Water Council involves certain costs, but it will depend upon the alternative arrangements. The council employs about 450 people, some in training, fittings and pensions, which will need——

Mr. Nigel Spearing (Newham, South): To continue.

Mr. King: —to continue, but economies can be made in other areas. The water authorities also incur considerable costs in their committees. The National Water Council used to operate more than 100 but that number has recently been reduced. However, the individual authorities still have a large work load because they must come to London for committee meetings. I know that some of them believe that economies could be made there.

It is not correct to accuse the Government of corporate centralism when, first, we refused to go down the line adopted by the right hon. Gentleman of a national water authority with all-pervasive powers and when we are now abandoning the corporate centralism of which he accused us in favour of more decentralisation to regional water authorities.

Sir Marcus Kimball (Gainsborough): Is my right hon. Friend aware that the smaller and strengthened executive that he has just announced will go a long way towards meeting the criticism of large water authorities so often voiced by Conservative Members? Does he agree that the smaller divisional units will at least be sensitive to local pressures?

Mr. King: I am grateful to my hon. Friend. I believe genuinely that the previous arrangement was an attempt to meet both problems in one body. It led to real problems, as shown by the Monopolies and Mergers Commission which, in the Severn-Trent water authority, identified a sum of about £1 million that was attributable to the size of the membership and the paper work involved in servicing committees. It will now be possible to include many more consumer representatives who can get across their points of view.

Mr. Stephen Ross (Isle of Wight): Is the Minister aware that, of the five options that appeared in the discussion paper, none of which was satisfactory, he has chosen the worst? What is wrong with direct elections to the water authorities? Why cannot the public elect members? Is not his example of what happened in Wales very much regretted and resented there?

Mr. King: That view is advanced in some quarters, but I have never believed that there would be wide support for directly elected water authorities. They are substantial undertakings that require considerable commercial management skills in their operation, and direct elections to them would not be effective.

Mr. Spearing: Does not the first part of the Minister's statement show that either the 1972 Government, who introduced the previous reforms, have failed in their purpose, or that many local representatives, including Conservative representatives, have failed in their purpose since then? Does he agree that, apart from the functions that he mentioned in reply to my right hon. Friend the Member for Birmingham, Small Heath (Mr. Howell), many functions require national planning of water resources and disposal and that they are not best carried out by his Department in Marsham Street, where history has shown that civil servants, by their background, know little about water and its importance?

Mr. King: The basic reform in the Water Act 1973 was to convert about 1,600 bodies responsible for water supply, treatment and sewerage into 10 water authorities based on the river basin concept. That fundamental reform has been proved right.

Mr. Michael English (Nottingham, West): It is not based on river basins in the Midlands.

Mr. King: It is based on two river basins—the Severn and the Trent.

Mr. English: He does not even know the background.

Mr. King: The original concept, which is not the world's greatest secret, was along the lines that I announced. It was subsequently amended in the face of local authority opposition. On reflection, we believed it best to revert to the original concept.

Mr. Kenneth Lewis (Rutland and Stamford): Although I appreciate my right hon. Friend's real attempt to strengthen and streamline the management of water authorities, is he aware that the greatest criticism of those authorities has been that they do not include local representation? If the advisory bodies are weak against the strengthened management, the position could not be improved but might be worsened.

Mr. King: I accept entirely what my hon. Friend says. It is important to ensure that the advisory bodies are effective. I accept that that approach has been criticised in the past, but it is extremely difficult for organisations of that size—the Thames water authority has 11½ million customers—to ensure that we have effective management——

Mr. Spearing: They have just reorganised themselves.

Mr. King: —and effective consumer representation. We shall issue guidelines to the water authorities and we shall not allow matters to proceed until we are certain that consumer arrangements are satisfactory.

Mr. Peter Hardy (Rother Valley): Does the Minister agree that his announcement is premature, because he has

not given the water authorities time to reconsider their position in the light of recent evidence? To some of us, it looks as though the Government are about to go along a rather sordid road. Does he also accept that the future of the water industry should depend rather more on the Government considering the need to increase capital expenditure than on their obsession with tinkering with its structure?

Mr. King: It is important correctly to identify the needs of the industry. Those needs are different in different parts of the country. The North-West water authority would put collapsing sewers and derelict underground assets at the top of its list of priorities. In the hon. Gentleman's area, the quality of water is a problem. It is important not to try to deal with the problems globally but to identify them in each authority. Structure and value for money in investment go hand in hand.

Mr. John Cartwright (Woolwich, East): Does the Minister accept that consumers suffer from taxation without adequate representation? Does he agree that we should increase and not reduce accountability? Why does he rule out direct election in favour of creating yet another bureaucratic tier of divisional advisory committees?

Mr. King: If one distinguishes between electricity and gas, and water, one immediately draws attention to the fact that the major part of water supply is based on the rateable value and not on the amount consumed, measured by meter. There are some tentative signs that that is changing. The number of domestic consumers whose water supply is metered has doubled, although it is still extremely small. Directly elected bodies would not answer our problems. That was an alternative proposition, but we believe that this is the proper solution.

Mr. Den Dover (Chorley): Is it not true that business pays more than half the water rates? Does my right hon. Friend accept that business men will welcome the new divisional arrangements? Will my right hon. Friend the Secretary of State give due consideration to appointing business men to the water boards?

Mr. King: My answer to both questions is "Yes". We shall certainly need people with commercial and industrial abilities on the boards because they are major undertakings. The nine authorities in England and one in Wales are responsible for £750 million to £800 million of capital investment every year, plus more than £2,000 million of revenue expenditure.

Mr. David Ennals (Norwich, North): Bearing in mind the political axemanship of the right hon. Gentleman's colleague, the Secretary of State for Social Services, when he sacked the chairmen of regional health authorities who dared to disagree with him, is it not ominous that he is introducing a similar political approach to water authorities? Why does he deny any representation to local authorities, who will deeply resent that, and when will the House be able to debate this package of proposals which the Opposition find totally unacceptable?

Mr. King: The right hon. Gentleman has heard my statement. These proposals will require legislation and a full examination by the House at that time. I found his preliminary remarks extraordinary.

Mr. Teddy Taylor (Southend, East): Does this major money-saving reorganisation have any implications for places such as Southend where the water provision is subcontracted to private commercial companies? In Southend, that is the Essex water company.

Mr. King: My statement does not affect the position of the water companies—the statutory undertakers—in their areas. It deals purely with the structure of the water authorities.

Mr. Michael English (Nottinghamshire, West): We all understand that all Governments wish to provide jobs for their supporters. Will the Minister ensure that there is a maximum age for members beyond which he cannot appoint? Nobody above the retiring age of civil servants should sit on such authorities. The last quango appointed by the Government has an average age of 67 years. Water is rather more important than the history of the Falkland Islands.

Mr. King: There will be a considerable reduction in the number of appointments and the number of members on water authorities. The age of members will arise during legislation.

Several Hon. Members *rose*——

Mr. Speaker: Order. I propose to call the five hon. Members on both sides who have been rising throughout questions on this statement.

Mr. Toby Jessel (Twickenham): What will the effect be upon the River Thames, both on the tidal area below Teddington lock and the non-tidal area above it, on the flow of traffic along the river on the moorings, on the management and on the quality of the water?

Mr. King: I should need notice of that question to say exactly how my statement will affect the River Thames. I hope that my hon. Friend and his constituents will see an improved performance by the authority and a more accountable authority.

Mr. Andrew F. Bennett (Stockport, North): Will the Minister accept that most of my constituents resent the water authorities because of their remoteness, bureaucracy and charges? The Minister's proposals do nothing to help. He should return them to local democracy and alleviate the hardship caused by the charges by introducing a rebate system for pensioners and others on low incomes who cannot afford the extremely high water rate charges.

Mr. King: It is an interesting fact, as the hon. Member knows, that his water authority has one of the lower levels of charges in the country, although it has some important responsibilities to tackle. When the hon. Member used that rather easy phrase "return them to local democracy", I was not clear whether he meant returning to the system under which 1,800 bodies were responsible in different areas. These problems have to be looked at seriously and we believe that our proposal is a serious and sensible attempt to achieve the right balance.

Mr. Roger Moate (Faversham): Can my right hon. Friend confirm the impression that one has, that the majority of those who responded to his consultation document wanted to retain some direct local authority representation? If that is not so, will he comment on the nature of the responses that he received? I recognise the difficulty of reforming a bad system but has my right hon. Friend not fallen into the trap of converting what were semi-quangos into complete quangos?

Mr. King: The majority of responses received were from local authorities and water authorities. Because one of the proposals involves the diminution of numbers on the authority the majority of local authorities, but not all, were not in favour of the reduction. We had a similar response from the water authorities where local authority members are in the majority. The majority of outside bodies who responded were in favour of smaller boards with advisory committees. Advisory committees will be appointed by the water authorities. They will not be Government appointments, although they will be made under my guidelines.

Mr. Bob Cryer (Keighley): It appears that the Minister's proposals will save a few train journeys to London. It seems absurd to remove all vestiges of local authority and consumer participation to achieve that. There is a strong suspicion that the Minister is setting up a few quangos to put Tory placemen on them who will say "Yes" to central Government and shift the power to his right hon. Friend the gauleiter of Marsham Street. Is that not the position?

Mr. King: I am surprised by the hon. Gentleman's intervention. He seems unaware of the public anxiety that exists at the remoteness of the water authorities and the lack of opportunity for consumer involvement and representation. We believe that this attempt will improve the position.

Several Hon. Members *rose*——

Mr. Speaker: Order. I want to make it clear that I propose to call only those hon. Members on both sides whom I said earlier had been rising in their places.

Mr. Michael McNair-Wilson (Newbury) *rose*——

Sir David Price (Eastleigh): On a point of order, Mr. Speaker. Does that apply when a new fact has emerged from the Minister?

Mr. Speaker: Yes, I am afraid it does, or we should go on for ever.

Mr. McNair-Wilson: Will my right hon. Friend say something more about the accountability of the new regional authorities? Are they to be effectively autonomous in the way in which they handle the problems of their areas or are they to be answerable to him? If they are to be answerable to him, will he be answerable to the House for the way in which they conduct their business?

Mr. King: Yes, Sir.

Mr. Dennis Skinner (Bolsover): Will the Minister tell us whether, 24 hours after the Leader of the House made a statement about giving power back to the people, this Tory proposal for water authorities falls into that category, as the Secretary of State will arrogate all that power? Is it not ironic that the Government and the Secretary of State talked about quangos when they were elected to office yet they have now set up God knows how many more on top of all the others? Does he realise that when constituents read about it they will ask whether the Minister will tell them when the water rates will come down, and whether old age pensioners and others will get a rebate? Those are the questions that he has to answer. When will water rates come down? Answer that.

Mr. King: The answer to the first part of the hon. Gentleman's question is, "Yes Sir. It does conform with our policy". The hon. Gentleman is determined to maintain a central body when we are anxious to give the responsibility to the regional authorities, who clearly serve the consumer.

Mr. Skinner: When?

Mr. King: The hon. Gentleman's questions about reducing the charges show that he is uninformed about these matters, whatever structure exists.

Mr. Christopher Murphy (Welwyn and Hatfield): Is my right hon. Friend aware that his emphasis on real consumer consultation in the future will be welcomed by all water retepayers as they have found that their views have not been represented until now?

Mr. King: I am grateful to my hon. Friend, because one gets the impression from the questioning that we are attacking a well-established and well-respected system. Any hon. Member who has studied the matter will recognise that there is public anxiety about the present structure and a desire to see it changed.

Mr. Les Huckfield (Nuneaton): Will not the Minister accept that the reply he gave to his hon. Friend the Member for Chorley (Mr. Dover) about appointing more business men confirmed our worst fears about this being yet another extension of Tory party patronage? Will he not accept that his new authorities will still be too remote and even less democratic and that the customers still will not know their representatives? His proposals will do nothing to eradicate the faults that emerged from the two committee reports. How much does the Minister think he will save?

Mr. King: On the first point, about the appointment of people with industrial and commercial experience, as I made clear in my statement, we shall seek nominations from local authorities in the area, county and district councils, and from agricultural and amenity interests. We shall seek the best combination of people to contribute to the efficient operation of the water authorities. I am sure that the hon. Gentleman has looked at this matter and has his views upon the water authority in the area he represents. He will know that people are worried about who the members are. There is no system for consumer representation from outside the authority. We hope that what we propose will be more effective than the present position.

Mr. Huckfield: How much will it save?

Mr. Geoffrey Dickens (Huddersfield, West): I am not completely convinced that the proposals will have the results that we hope for, but on first inspection they can only be an improvement. However, is my right hon. Friend prepared to tell the House now that the new structure and streamlining of water authorities will help to reduce the wicked, cruel, unfair and unjust standing water charges that are financially crippling old-age pensioners?

Mr. King: I am glad that we appear to be passing my hon. Friend's first inspection, and I hope that his further inspections will be equally satisfactory to him. The wider issue about the system of charging has been a matter of considerable discussion. I understand my hon. Friend's point and I know that with more effective consumer representation by consumer committees, this issue will be examined.

Mr. D. N. Campbell-Savours (Workington): Have not these arrangements been introduced to accommodate a later privatisation of the industry? Which of the 11 chairmen supports what the Minister said at the Dispatch Box today?

Mr. King: The hon. Gentleman should not put ideas into our mind. Water authorities need this change in structure, and if the hon. Gentleman examines the position in his constituency he will find the problems and needs that exist. It will be helpful to have consumer representation in the North-West water authority that is closer to the people he represents.

Mr. Denis Howell: Has not the Minister repeatedly failed to satisfy the House that any substantial economies will be made? His list of savings was trivial and irrelevant, especially the saving on people coming to London by train. Does he agree that he cannot say—nor will it happen—that these proposals will reduce water bills in any way for water consumers?

The Minister proposes to replace the voluntary system of membership by nine to 15 full-time executives, according to the statement, which will far outweigh the cost of a chairman's odd visit to London to the National Water Council. Is the Minister not trying to blind consumers with Conservative science, which will not work because their agitation was to bring bills down, and this will do nothing to reduce any bill anywhere?

Two even more important points that the Minister should consider are those of investment and national wage negotiations. Is it not clear from what the Minister said that the Government have not thought out this matter? They are to issue a discussion document about national wage negotiations, which is one of the most crucial parts of wage negotiations. Further, they said nothing about maintaining investment.

What the North-West wants to replace the falling sewers is not a new structure but money and investment, and there is nothing in these proposals that will produce or guarantee that. Are not these things inadequately thought out and a disservice to the industry and the House? Can the Minister arrange a debate as early as possible before he introduces the legislation?

Mr. King: The question of a debate is not a matter for me, but the right hon. Gentleman's request will have been heard by my right hon. Friend the Patronage Secretary.

The right hon. Gentleman's comment about the North-West was singularly ill-informed. It appears that he is not aware that last year, the North-West water authority was not able to spend the full capital allocation which was available to help with sewer renovation. The right hon. Gentleman made an unfortunate reference.

As to economies, perhaps the right hon. Gentleman is not used to dealing with people who are modest and anxious not to make any claims before they can be demonstrated. Being a modest person, I simply said that there will be economies, and significant ones. I am not prepared to state now what their scale will be, because it will depend—[HON. MEMBERS: "Ah".] Hon. Members say, "Ah," because they want me to jump into an early announcement, but the scale of the economies will depend simply on the final decisions that are taken.

The right hon. Gentleman revealed once again what a centralist he is with his remarks on wage negotiation and other arrangements. The matter will depend on the judgments of the chairmen of the regional water authorities, on the best arrangements that they decide to make in agreement with the trade unions and negotiations about the wages and conditions for their employees. That is where those decisions should be taken.

Council House Rents (Freeze)

4.6 pm

Mr. David Winnick (Walsall, North): I beg to move,

That leave be given to bring in a Bill to freeze council house rents for 12 months.

The purpose of my Bill is to freeze council rents for 12 months from next April. In the past three years council rents have gone up by about 117 per cent. on average. The Secretary of State for the Environment, who is present today, announces each year the sum by which he expects local authorities to increase rents. The right hon. Gentleman has stated that he makes no apology for what can only be descrbed as exorbitant rent increases. In the same period that rents have gone up by 117 per cent., the increase in the retail price index has been less than half that figure.

This year, council rents have increased by nearly 20 per cent., and the Government's norm for incomes increases is 4 per cent. maximum. Only yesterday the Chancellor of the Exchequer said that he expects no increases in incomes for next year. These rent increases over the past three years have seriously undermined the living standards of a substantial number of tenants.

I am seeking permission to bring in my Bill because, with my Labour colleagues, I strongly believe that council tenants have been punished enough by this Government and it is time for at least a year without any rent increases. In case there is any opposition to my having leave to bring in such a Bill and it is argued that these rent increases are necessary, I point out that such increases have been introduced by the Secretary of State for two main purposes.

The first is to reduce substantially and then to phase out Government subsidies for local authority housing. Since the Government have been in office there has been a reduction of 41 per cent. in such subsidies. The second reason for these exorbitant rent increases applied by the Government is to exert pressure on council tenants to buy the houses in which they are living. The Government are saying, in effect, to council tenants "These increases will take place year after year and you will be better off buying your dwelling."

It cannot be argued, either, that such rent increases are needed for council house building. In 1981 the number of public sector housing starts was the lowest since 1924, except for wartime. It is now so rare to see council dwellings being built that one would want to take a photograph if one saw some. It is a unique event in Britain under this Government.

There is growing anger and resentment among tenants at the way in which they have been treated. They have been penalised and punished because they are council tenants. There is no justification for applying, year after year, the kind of rent increases that we have seen since 1979. The time has come to call a halt. There should be a freeze for 12 months. I am not arguing that once that freeze is over the rent increases that have been applied should start all over again.

It is the policy of the Labour Party that when the next Labour Government comes in there should be a rent freeze for 12 months. I am anticipating such a policy.

Mr. Teddy Taylor (Southend, East) *rose*——

Mr. Speaker: Does the hon. Gentleman wish to oppose the Bill?

Mr. Taylor: Yes, Mr. Speaker.

Although the hon. Member for Walsall, North (Mr. Winnick) put his case very eloquently, it would be irresponsible for such a Bill to be approved without a voice being raised against it, because, as the hon. Member knows, a freeze in rents would mean more on rates. The hon. Gentleman gave not a shred of justification for the proposed alteration in payments by two groups of people. He produced no evidence to show that those who live in council houses are suffering greater hardships than many of those who are finding it extremely difficult to pay their rates. We all accept that any payment causes hardship, but there is ample evidence that many people are finding it extremely difficult to pay ever-increasing rates, which in many cases have soared far higher than council rents.

If we approved the Bill, it would undoubtedly discourage the sale of council houses. It would do a great disservice to council tenants who are in a position to purchase. There is no doubt that a person living in a council house, deprived of the opportunity of mobility and of obtaining an asset, is in a much worse position than a person who can purchase. All the evidence shows that those who have taken advantage of the opportunity to buy their homes have the prospect of putting something aside in savings, of having an asset, of having more mobility, and of being freed from what I consider is wrong that is, paying rents all their lives and having nothing to show at the end.

The traditional reason for increased rents, apart from spasmodic movements, is that costs increase. It was irresponsible of the hon. Gentleman to say what he did without making a plea for moderation in wage claims. A few minutes ago, we heard the hon. Member for Bolsover (Mr. Skinner) say that he wanted lower water charges, but he has never led any marches calling for wage restraint among those who work in the industry. We in this House must be responsible and say that someone must pay. We should concentrate, not on silly political slogans, but on finding real solutions to the problems of council tenants and others, and that involves finding ways of being more efficient and improving services and management.

The main reason why I oppose the Bill is that, instead of looking for silly political slogans as an answer, we should look for ways of reducing the costs of every tenant and ratepayer. Let me give an example. This morning it was announced in Southend that, after the first year's full audit of our newly privatised cleansing service, we had saved ratepayers £502,000 out of a cost of £2 million. If we did that for all the services, we could freeze rents, freeze rates, and give everyone a better service.

Question put and agreed to.

Bill ordered to be brought in by Mr. David Winnick, Mr. Frank Allaun, Mr. Bob Cryer, Mr. Allan Roberts, Mr. Derek Foster, Mr. D. N. Campbell-Savours, Mr. David Stoddart, Mr. Julius Silverman, Mr. David Watkins, Mr. Dennis Skinner, Mr. Alfred Dubs and Mr. Thomas Clarke.

COUNCIL HOUSE RENTS (FREEZE)

Mr. David Winnick accordingly presented a Bill to freeze council house rents for 12 months: And the same was read the First time; and ordered to be read a Second time upon Friday 9 July and to be printed. [Bill 161.]

Mr. Bob Cryer (Keighley): On a point of order, Mr. Speaker. I was astounded to hear the hon. Member for Southend, East (Mr. Taylor) oppose the Bill. I understood

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fc. Jr.
Local Govt.

DEPARTMENT OF THE ENVIRONMENT
2 MARSHAM STREET
LONDON SW1P 3EB
01-212 3434

MINISTER FOR LOCAL GOVERNMENT AND ENVIRONMENTAL SERVICES

(1)

Prime Minister

This looks fine.

Agree?

6 July 1982

BI
WR

PA.

Told Mr Brasher
Press

MCS 6/7

MCS 7/7

Dear Michael,

WATER INDUSTRY STRUCTURE

Thank you for your letter of 21 June, letting us know that the Prime Minister would be content for Mr King to make a statement along the lines of the draft attached to his letter of 18 June.

I now enclose the latest draft of the statement, which preserves the substance of the earlier draft, but incorporates some comments made by other Departments and also some re-ordering by Mr King. As you know, the statement is to be made tomorrow, and I will, of course, let you know immediately if there are any last-minute changes of substance to this draft.

I am sending a copy of this letter to other members of E(EA), John Robbs (MAFF), Peter McCarthy(Department of Trade), David Heyhoe (Lord President's Office) Murdo Maclean (Chief Whip's Office), Michael Pownall (Chief Whip's Office, House of Lords), David Wright (Cabinet Office), Gerry Spence (CPRS), and Bernard Ingham.

Yours Sincerely,

Martin Brasher

MARTIN BRASHER
Private Secretary

Michael Scholar Esq

With permission, Mr Speaker, I would like to make a statement on the future organisation for water in England and Wales.

I turn first to the Regional Water Authorities. These were set up in 1974 with large memberships, the majority of such members being appointed by local authorities in their areas. At the time of reorganisation these members were intended to represent the interests of consumers. There has for some time been concern that the system is not working as intended. It does not achieve effective representation for consumers - few people know that they have representatives on a Water Authority, let alone a majority. At the same time, a large membership leads to a proliferation of committees and bureaucracy and inhibits efficient decision taking. The Monopolies and Mergers Commission, in its report on the Severn-Trent Water Authority, recommended that the present membership should be substantially reduced and not based predominantly on local government representation. The Welsh Water Authority has already been reconstituted on these lines. Earlier this year we issued a consultation paper for England on this issue.

Of some 300 responses to the Consultation Paper, the vast majority of Local Authorities and Water Authorities favoured no reduction in the number of Local Authority members. While there was support for this view from some other bodies, the majority of other respondents favoured small boards with local consultative committees for consumer interests.

The Regional Water Authorities are substantial undertakings requiring a high level of management ability. Having considered the responses to the consultation paper the Government has decided to reconstitute them into boards

of between 9 and 15 members, all appointed by Ministers and with executive members on every board. We also propose that County and District Councils should have the opportunity to nominate people for Ministerial appointments to Water Authority membership. In addition, land drainage and fishery interests will continue to be represented. [Chairmen, as now, will be appointed by the Secretary of State] Chairmen and Members of the new boards will be paid, and will serve for fixed terms.

Together with these new boards improved arrangements can then be made for consultation with consumers, local authorities, and other interested parties. Water Authorities have already established various kinds of liaison arrangements at divisional level, and we intend to build on these. Our proposal is that Water Authorities should appoint an advisory committee for each division, and that they should include representatives of Local Authorities, and also of industrial, commercial and domestic consumers, and agricultural and amenity interests.

We shall issue guidelines for these committees, and will require the Water Authorities to satisfy us that proper arrangements have been made.

In considering the structure of the water authorities as they have developed in the decade since the previous reorganisation proposals we have also examined their relationship with the National Water Council. The National Water Council played a particularly valuable role both during and after reorganisation in assisting the new authorities and helping represent them to Government. Now that the authorities are fully established and that the Government has developed a closer and more direct relationship with the individual authorities, the Government believes that the Authorities given the right structure are able to carry out their responsibilities without an additional central statutory body. We have therefore decided to dissolve the National Water Council. We shall be consulting those

affected by this decision, including the Trade Unions. The Water Space Amenity Commission will also be dissolved.

Legislation which will cover both England and Wales will be introduced at the earliest opportunity to implement the proposals in this statement.

Mr Speaker, we believe these proposals represent a further improvement in the arrangements for the organisation of the water industry, and that they will command wide support both among consumers and in the water industry itself. I commend them to the House.

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bc JV JR

Local Govt

10 DOWNING STREET

From the Private Secretary

5 July 1982

Dear Ian,

OBJECTIVES FOR THE WELSH WATER AUTHORITY

The Prime Minister was grateful to your Minister for sending her a copy of his letter of 29 June to the Chancellor of the Exchequer, to which the draft general objectives for the Welsh Water Authorities were appended at Annex B.

The Prime Minister would be grateful if the objectives could include a reference to the need to contain manpower costs. This could presumably be included in paragraph 6 of the draft.

I am sending copies of this letter to the Private Secretaries to other members of E(NI), to Lestor Hicks (Local Government and Environmental Services), Sarah Nason (MAFF), David Wright (Cabinet Office) and Gerry Spence (CPRS).

Yours sincerely,

Michael Scholar

I. Price-Jones, Esq.,
Welsh Office.

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MR SCHOLAR

cc:- Mr Walters

Mr Mount

OBJECTIVES FOR THE WELSH WATER AUTHORITY

I am sure the Prime Minister will not wish to look in any detail at the proposed objectives for the Welsh Water Authority circulated under cover of Mr Roberts' letter of 29 June. But you will recall writing, with the Prime Minister's agreement, about the need to make a reference to manpower costs in the objectives letter for the English Water Industry, and an identical point needs to be made about paragraph 6 of the draft objectives for the Welsh Water Authority at Annex B to Mr Roberts letter.

2 July, 1982

CONFIDENTIAL

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Prime Minister (4)

Mrs 30/6

cc JV

WELSH OFFICE
GWYDYR HOUSE
WHITEHALL LONDON SW1A 2ER
Tel. 01-233 3000 (Switchboard)
01-233 6106 (Direct Line)
From The Parliamentary Under Secretary

24th June 1982

Dear Geoffrey,

In his letter of 28 April to Tom King, which was copied to members of E(NI), Nicholas Edwards said that he would be circulating a paper on the Welsh Water Authority.

I now enclose a copy of the paper, together with the draft objectives for the Welsh Water Authority, which form an Annex to it. A copy of these draft objectives has been sent to the Welsh Water Authority Chairman.

I am sending copies of this letter to the Prime Minister, members of E(NI), Tom King, Alick Buchanan-Smith, Sir Robert Armstrong and John Sparrow.

Yours ever

Wyn

WYN ROBERTS

Rt Hon Sir Geoffrey Howe QC MP
Chancellor of the Exchequer
Treasury
Parliament Street SW1P 3AG

OBJECTIVES OF AND FOR THE WATER INDUSTRY

MEMORANDUM BY THE SECRETARY OF STATE FOR WALES

1. The Minister for Local Government and Environmental Services has circulated a paper on objectives of and for the water industry. That paper dealt with the nine English Regional Water Authorities (RWAs) and although much of it is relevant to the Welsh Water Authority (WWA) there are some differences of emphasis which I should draw to the Committee's attention.

Background

2. The WWA have themselves contained their level of capital expenditure, which has generally been kept well within the PES limits, first because of the need to review previously authorised projects, later because of the need to avoid further increases in interest charges. Like the RWAs the WWA have been set target current cost operating profits, but have been allowed longer to reach the general target of 1.25% return on net revalued assets, viz, 0.3% in 1981/82, 0.95% in 1982/83, 1.05% in 1983/84 1.15% in 1984/85 and 1.25% in 1985/86. Performance aims have already been set for the WWA, (in August 1981) as a single figure (£60.9m at 1979/80 out-turn prices) for total operating costs in 1983/84 on water supply, sewerage and sewage disposal, with 'staging posts' for the two intermediate years. Experience in monitoring the first year of the period leads me to believe that the discipline imposed by performance aims is helping to improve management control, both at HQ and Divisional level.

3. The WWA's finances were reviewed in November 1981 by consultants (Price Waterhouse) and although the Authority have not so far agreed to implement all the consultant's recommendations within the tight timescale proposed, they are now making a real effort to reduce their costs. They propose to save £3m on manpower by 1984/85 through shedding nearly 10% of the total workforce. The proposed savings on other operating costs should amount to about £2.2m by 1984/85, giving total savings of

£5.2m or about 5% of present revenue expenditure.

4. I formed the view early in 1981 that the cumbersome structure of the WWA was hindering the taking of steps to improve the management of the undertaking. As in the case of the RWAs, there was a majority of local authority members on the WWA. The total membership was 35 and many of the members were not experienced in running businesses or in the principles of management. There was an elaborate structure of committees which made decision-making a ponderous process.

5. Because the WWA constitution could be changed by statutory instrument I was able to reconstitute the Authority with effect from 1 April 1982 as a 13-member board, all appointed by myself. Four of the 13 are chosen to represent local authorities (Welsh and English) within the WWA area. I am now in the process of finalising guidelines for the establishment of local consumer advisory committees, based on the WWA divisional areas and designed to safeguard the interests of consumers and allow individual local authorities a place in the arrangements.

Current Major Problems

6. The level of water charges in Wales is an important issue in the Principality. Contrasts are drawn particularly between the charges in the area of the Severn-Trent WA (average domestic bill in 1982/83 £62.44) and the WWA average domestic bill in 1982/83 £79.08). There is a widespread misconception that water charges have risen more steeply than inflation. In general this is not true and the misconception is partly due to equalisation of charges throughout the WWA area and partly because of the separate identification of water supply and sewerage charges in individual bills and the complete loss of rate support grant on such services. At Annex A is a table of WWA charges since 1974. The difficult question of bulk supply charges payable to the WWA by the Severn-Trent and North West Authorities is now under consideration by the Secretary of State for the Environment and myself.

7. Linked with the question of charges is the problem of the financial viability of the WWA. The Authority reached the position at 31 March 1981 that they had expended all their accumulated balances and had to carry forward a deficit of £0.8m. I have made it plain to them that this position must not be allowed to continue and it was for this reason that I raised their CCOP target from 0.3% to 0.95% in one year.

8. In 1981/82, 12% of the Authority's resident consumers received supplies which were judged to be unacceptable on quality grounds. There are also areas where pressure is unreliable. Much needs to be done to raise these poor levels of service and also to replace old water mains and, to a lesser extent, sewers. A large proportion of the current cost depreciation should be earmarked for this purpose.

OBJECTIVES

9. I have now prepared draft objectives for the WWA, which have been drafted with their particular problems in mind. These are at Annex B. A copy has been sent to the Chairman of the WWA, and the objectives will shortly be discussed with him.

WELSH OFFICE

25 June 1982

Annex A

WELSH WATER AUTHORITY CHARGES SINCE 1974 TO DATE

YEAR	UNMEASURED WATER SUPPLY			SEWERAGE		ENVIRONMENTAL SERVICES		Total(a) Average Domestic Bill (£)	Percentage Increase of Total Average Domestic Bill over Previous Year (%)
	Rate Poundage (pence)	Standing Charge (£)	Average(a) Domestic Bill (£)	Rate Poundage (pence)	Average(a) Domestic Bill (£)	Rate Poundage (pence)	Average(a) Domestic Bill (£)		
1974-75(b)	11.1	-	13.32	7.3	8.76	-	-	22.08	-
1975-76	12.5	5.00	20.00	13.5	16.20	-	-	36.20	63.9
1976-77	14.8	5.00	22.76	16.2(c)	19.44	0.4(c)	0.48	42.68	17.9
1977-78	17.0	5.00	25.40	16.4	19.68	0.6	0.72	45.80	7.3
1978-79(d)	14.8	5.00	22.76	16.0	19.20	0.74	0.89	42.85	(- 6.4)(d)
1979/80	16.4	6.00	25.68	18.0	21.60	0.83	1.00	48.28	12.7
1980/81	19.9	7.00	30.88	21.6	25.92	1.1	1.32	58.12	20.4
1981/82	23.48	9.00	37.18	23.5	28.20	1.15	1.38	66.76	14.9(e)
1982/83	28.0	11.00	44.6	27.46	32.95	1.27	1.52	79.07	18.4

The overall percentage increase in total average bill between 1974-75 and 1982-83 is 258%
and between 1975-76 and 1982-83 is 118%(f).

NOTES

(a) Assumes a rateable value of £120.

(b) As an interim measure in their first year of operation the WWA maintained the greatly varying charges of their predecessors - the charges quoted in the table are estimated averages.

(c) In 1976, the sewerage charge was divided into 2 charges, one for sewerage and the other for environmental services, to enable the former to be charged only to those consumers connected to public sewers.

(d) The first year of the partial equalisation scheme.

(e) Partial equalisation scheme suspended.

(f) Charges for water services prior to reorganisation were frequently subsidised from the general rates, and because those charges were temporarily maintained by the WWA, realistic comparisons are better made against 1975-76 charges.

LGH

ANNEX B

GENERAL OBJECTIVES FOR THE WELSH WATER AUTHORITY

1. To provide each present and prospective customer with a reliable, economically-run service for wholesome water supply, sewerage and sewage disposal at a charge to users that covers the cost of provision and achieves a satisfactory level of financial performance in accordance with objective 6 below.

2. To exercise a general supervision over all land drainage matters in their area and to carry out land drainage maintenance and improvement works on main rivers and works necessary for defence against flooding, including flooding from the sea, in such a way as to secure the optimum benefit from any expenditure.

3. To survey and record as far as practicable and maintain in a sound and safe condit those assets which are essential for the provision of the services referred to above.

4. To eliminate over a reasonable period deficiencies (ie failures to meet generally acceptable standards) in the quality of service and of rivers and estuarial waters and in due course coastal waters.

5. To provide as resources allow for the availability and use of water and its associated land for recreation and to meet their statutory responsibilities for fisheries effectively and economically.

6. To conduct the Authority's affairs with the efficiency characteristic of a well-run major business in the private sector, especially in respect of manpower and with regard to consumers and to the environment, and in particular

a. to ensure the achievement of financial targets and compliance with external financing limits as directed by the Secretary of State;

b. to set and achieve performance aims, in agreement with the Secretary of State, including detailed budgets and manpower targets for each part of the Authority's activities, in the framework of a timed programme for the reduction of operating costs without reducing levels of service below minumum acceptable standards;

c. to develop adequate and, where practicable, quantitative means for assessing and monitoring the cost-effectiveness of the Authority's activities, both in the long and short term, and systematic evaluation of investment projects both before and after execution;

d. to keep charges as low as possible, consistent with the objectives here set out;

e. to take all suitable opportunities for private sector participation in the Authority's activities and the disposal of surplus land and property;

f. to ensure the efficient operation of adequate systems for consulting users about their needs and for dealing with representations promptly, sympathetically, and effectively;

g. to carry out their functions with a proper care for the protection of the environment.

Prime Minister (4)

cc CJV

Mrs 28/6

S Mr's Local Govt

CABINET OFFICE
Central Policy Review Staff
70 Whitehall, London SW1A 2AS Telephone 01-233 7765
From: John Sparrow

Qa 05969

CONFIDENTIAL

28 June 1982

The Rt Hon Tom King MP
Minister for Local Government and
Environmental Services
2 Marsham Street
S W 1

Dear Minister,

Water Industry Structure

I am in complete agreement with the proposals contained in your letter of 18 June to reduce the size of membership of water authorities and to abolish the National Water Council. In its work on nationalised industries last summer the CPRS formed the view that smaller boards with a majority of non-executive directors were required to ensure that industries were properly managed and run efficiently. In this respect the water authorities are no different.

However, there are some difficulties. Water and sewerage appear to most people to be natural monopolies. In addition there are 10 separate bodies to be monitored and regulated rather than one British Telecom or British Gas Corporation. There is therefore a special need for machinery to ensure that consumers are properly protected and to confirm that management is performing as well as might be hoped for. I would not suggest the formation of separate statutory consumer councils as exist for the other nationalised industries; they are generally too bureaucratic and ineffective, and it would be wrong to detract from the basic principle that it is management's responsibility to serve the customer in the most efficient way. Nevertheless, there are certain measures which could be introduced, which would further these objectives:

(a) the chairmen and new authority members should be encouraged, on appointment and when objectives are discussed, to take a

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JB

cc Mr Vereker

cc WO POT
CPRS DTRANS
HMT CS, HMT
DOE PN
SO PM
DOI CO

10 DOWNING STREET

From the Private Secretary

28 June, 1982.

Dear Lester,

Water Industry Objectives

Your Minister sent the Prime Minister a copy of his letter of 23 June, addressed to the Chancellor of the Exchequer, to which was attached a note setting out the Government's aims for the water industry.

The Prime Minister thinks that it would be useful if the draft objectives were to include an appropriate reference designed to reflect the industry's obligation to keep wage increases to the minimum. This could, perhaps, be done without explicit reference to pay, by the inclusion of a reference to manpower costs as well as the targets in objective (v)(b).

I am copying this letter to the Private Secretaries to members of ENI, and to the Private Secretary to the Secretary of State for Wales, Sir Robert Armstrong, and John Sparrow.

Yours sincerely,

Michael Scholar

Lester Hicks, Esq.,
Department of the Environment.

CONFIDENTIAL

Local Govt

Prime Minister (4)

MCS 28/6

cc JV

DEPARTMENT OF TRADE
1 VICTORIA STREET
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From the
Minister of State
for Consumer Affairs

Tom King Esq MP
Minister for Local Government
and Environmental Services
Dept of the Environment
2 Marsham Street
LONDON SW1P

25th June 1982

Dear Tom

Thank you for letting me have a copy of your letter of 18 June about water to ~~Arthur Cockfield~~. Patrick Jenkins

My interest as you know concerns the consumer aspects of your proposals. On this I enclose a copy of my recent letter to Giles Shaw.

It follows from what I said in that letter that we must make clear that the new consultative arrangements for water are intended to cover a range of interests going beyond domestic and industrial "consumer" interests as conventionally understood. I would be grateful if you could bring this out in your statement, and enclose a slightly amended version of paragraph 7 of the latter which indicates what I have in mind.

I hope your statement will say nothing about NICC reform generally, on which I will be putting proposals to colleagues shortly. But if you are asked about the latter make it clear that the proposals for water do not prejudge our wider NICC policies. My officials will be in touch with yours about the detailed presentation of this point.

I have seen a copy of Giles Shaw's letter to Wyn Roberts of 10 June. I agree with Giles that the Water Bill should not seek new Ministerial powers to appoint the consultative committees for water. (It would help, incidentally, to call them "consultative" rather than "consumer" committees.)

I am copying this letter to the recipients of yours.

Gerard Vaughan

7. Arrangements are needed for Regional Water Authorities to consult with the consumer, local authority and other interests affected by their operations. They have already developed ..... advisory committees. These will include representatives from local authorities in the area in addition to representatives of consumer, agricultural and amenity interests. They will provide a channel for views to reach Water Authorities ..... constitution and functions.

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Prime Minister

Good point. Agree I write as proposed at X?

MCS 25/6

cc Mr. Mount
Mr. Walters

MR. SCHOLAR

Water industry objectives

I do not suggest that the Prime Minister should look at all thoroughly at the papers enclosed with Mr. King's letter of 23 June to the Chancellor, since we ought to be able to leave it to the Departments concerned and the CPRS to prepare the draft objectives for the less controversial industries. But the Prime Minister in the past has been concerned at the performance of the water industry over pay, and she may feel that that aspect is not adequately dealt with. She will also have seen, perhaps, Mr. King's report to the Chancellor in his letter of 21 June of the water manuals' claim for a special 15% comparability increase.

Paragraph 11 of Mr. King's memorandum casts doubt on whether, after the proposed abolition of the National Water Council, decentralised pay bargaining will improve matters. There is plenty of room for controversy here: we think it would, but we shall have to wait and see. It is however quite clear that something more than the almost meaningless reference in paragraph 16b(ii) to an "annual wage bill consistent with ever tightening performance aims" is needed. And the draft of the objectives themselves (annex 10) makes no reference to pay at all.

The Prime Minister may feel, therefore, that you could write to Mr. King's office suggesting that the draft objectives include an appropriate reference designed to reflect the industry's obligation to keep wage increases to the minimum. As with other nationalised industry objectives, this could be done without explicit reference to pay, but, for instance, by including a reference to manpower costs as well as targets in objective (v)(b).

X

John Vereker

25 June 1982

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MINISTRY OF AGRICULTURE, FISHERIES AND FOOD
WHITEHALL PLACE, LONDON SW1A 2HH

From the Minister

CONFIDENTIAL

The Rt Hon Leon Brittan QC MP
Chief Secretary to the Treasury
Treasury Chambers
Parliament Street
London SW1P 3AG

25 June 1982

REVIEW OF LAND DRAINAGE AND FLOOD PROTECTION

Thank you for your letter of 1 June enclosing revised terms of reference for the proposed interdepartmental committee to review the administration of land drainage and coast protection. I have also seen Nick Edwards' and Tom King's letters to you on the same subject.

I am glad to know that you accept the need for the review to include the powers and functions of the various land drainage bodies. As regards the inclusion of policy objectives I am content to accept your suggestion that the committee should define these only to the extent necessary for the other purposes of the review. But the reinstatement of your original suggestion that the review should examine "the role of the Government as a provider of part-finance" is, in my view, not consistent with that suggestion.

I made it clear in my letter of 13 May that I regard the continuation of Government financial support as a fundamental policy point. I am willing to look at the way in which that support should be given, but I cannot accept that the policy itself should be examined. An examination of the cost effectiveness of the grant system may, of course, identify particular aspects which are not cost-effective and this may, in turn, lead to changes in the scope of grants, but this is all in the context of the main thrust of the review (which I note that Nick Edwards supports)-

/namely ...

CONFIDENTIAL

namely the effectiveness of the administrative and financial arrangements.

In order to emphasise this point I suggest that item (b) of the terms of reference should read:

> "(b) whether the scope and level of the present systems of grants are cost effective;....."

I realise that your suggestion that the review should not be announced is intended to be helpful in the context of the Wildlife and Countryside Act policies, but my department's relations with the drainage authorities are such that it would be very difficult and potentially embarrassing to refrain from saying anything about the review. There are a number of precedents for simply announcing that a review is under way and that a consultative paper will be issued in due course, and I hope that you will agree that this is what we should do.

On the question of the chairmanship of the Committee, your suggestion that it should be chaired by a Central Department carries with it the implication that the Treasury has no departmental interest in the review. The fact that you and I are having such difficulty in agreeing the terms of reference demonstrates that this is far from being the case. At the end of the day, the issue depends on which Minister is responsible to Parliament for the administration and management of land drainage. If, as I suspect, the committee recommends that significant changes will need to be made to the Land Drainage Act, I shall have to defend and promote these in the country and in Parliament. Any suggestion that my department was no more than a participant in the committee which recommended the changes, and that I am the junior partner in the exercise, would considerably weaken my position. I must reiterate my view, therefore, that the chairman should come from my department.

Finally, on the question of the date for the completion of the exercise, I notice that you have suggested that the committee should report by 30 October next. I am advised that it would be impossible to complete all the necessary work by that time. I also note from Nick Edwards' letter that his Rayner study - which the Committee will wish to take into account - will not be completed until the autumn. I suggest therefore that we should revert to my previous suggestion of a report by 31 December 1982.

I am copying, as before, to the Prime Minister, Michael Heseltine, Nick Edwards, Arthur Cockfield and Janet Young and also to Sir Robert Armstrong, Sir Derek Rayner, John Cassels and John Sparrow.

PETER WALKER

cc JV

DEPARTMENT OF TRADE
1 VICTORIA STREET
LONDON SW1H OET

TELEPHONE DIRECT LINE 01 215 5662
SWITCHBOARD 01 215 7877

From the
Minister of State
for Consumer Affairs

PM seen

Prime Minister (4)

MCS 28/6

Giles Shaw Esq MP
Parliamentary Under Secretary
of State
Department of the Environment
2 Marsham St

23 June 1982

Dear Giles

Thank you for your letter of 7 June about the representation of consumer interests in the water industry.

I am bound to say that from the consumer policy standpoint, machinery on the lines you propose is less than ideal. It may well be attacked as being too fragmented, too cumbersome, too local-authority-dominated and insufficiently independent to represent consumer interests effectively. If we go down this road you and I will both have to be ready with effective answers to that kind of criticism.

I equally accept that the options for consumer representation in water have narrowed since we publshed our consultative document on NICC reform at the end last year. The consultations revealed widespread opposition to the creation of a new "sectoral" NICC covering all the main public utilities, including water; and I am not sure that this can any longer be regarded as a runner. So if there is to be any new consultative machinery for water the choice would seem to lie broadly between something on the lines you propose; and the creation of new set of NICC-type bodies specifically for the water industry. This latter alternative would of course present a number of difficulties - not least that the necessary legislation would raise wider issues touching NICC reform, on which I will be putting proposals to colleagues shortly and which, as you say, should not be prejudged in your Bill.

In these circumstances I would be prepared on two conditions to go along with the approach you propose. First it should be made clear, when the new policy is announced and explained, that the shape of the new consultative machinery reflectst the special circumstances of the water industry; and that this is the rationale for arrangements which are appropriate in other nationalised industries. By the same token, it should be emphasised that the proposals on water of course in no way prefigure our thinking on NICC reform generally, on which we hope to make an announcement before the summer recess.

Secondly, the guidelines which you have it in mind to lay down for the consultative machinery will in my view be of central importance, and I would be grateful for your confirmation that I will have a full opportunity to comment on them before anything is published. One point in particular which concerns me - and which I am

asking my officials to pursue with yours - touches the arrangements for ensuring that the individuals appointed to the new committees are genuinely independent and effective.

I am copying this letter to Peter Walker and Wyn Roberts.

Yours

Gerard Vaughan

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cc J.V.

DEPARTMENT OF THE ENVIRONMENT
2 MARSHAM STREET
LONDON SW1P 3EB
01-212 3434

MINISTER FOR LOCAL GOVERNMENT AND ENVIRONMENTAL SERVICES

Prime Minister (4)

To be aware of.

MCS 25/6

23 June 1982

Dear Geoffrey,

OBJECTIVES OF AND FOR THE WATER INDUSTRY

When I circulated draft objectives for water authorities, you asked me (your letter of 20 April) to prepare a note setting out more specifically what should be our aims for the water industry. John Sparrow of the CPRS also asked for clarification of our long term objectives on such matters as the structure of the industry, pay, manpower and finance. The attached note seeks to respond to these points although the references to structure are not pursued in detail as they are currently under consideration by colleagues in E(EA), and I hope to be able to announce our decisions next week.

will respond if necessary

I am sending copies of this letter to all members of E(NI), Nicholas Edwards, Sir Robert Armstrong and John Sparrow.

Yours

TOM KING

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OBJECTIVES OF AND FOR THE WATER INDUSTRY

Memorandum by the Minister for Local Government and Environmental Services

Background

1. The principle underlying our re-organisation of the industry in 1973 remains right:- that in each river basin one regional water authority (RWA) should be responsible for the whole water cycle: water supply, sewerage, sewage treatment and disposal, land drainage and the control of river quality. Each service is a natural monopoly, but the functions are in part regulatory. The 28 water companies, whose position we preserved in 1973, are also local monopolies, operating under arrangements agreed with RWAs.

2. Partly because we had to concede large memberships - 62 on the Thames Water Authority at the extreme - with a majority of local authority nominees the nine RWAs began with unbusinesslike ways. They allowed manpower to increase without adequate check. They were slow to reassess the unsustainable investment programmes which they inherited. The National Water Council (NWC) was a useful body at the time of reorganisation, but it is not needed now. (Our predecessors put forward plans for a National Water Authority).

3. Industrial consumption has shown itself to be responsive to the state of the economy (Annex 1). Unmetered, mostly domestic, demand has been affected by weather conditions (eg the 1976 drought) but has nevertheless shown slow but steady growth.

Our Record So Far

4. Our efforts since 1979 to make the water authorities more businesslike have begun to bear fruit:

- we have introduced current cost accounting (with effect from 1981/82; and laid down targets for current cost operating profit;

- we have further reduced capital allocations, forcing authorities to concentrate on the most necessary projects;

- we are introducing performance aims, providing for total operating costs for the 3 main DOE services in 1983/84 to be lower in real terms than in 1979/80 despite increased output and some raised standards (see Annex 2);

- we have this year made progress in the development of full business planning in place of purely capital planning;

- we have introduced published headcounts; numbers have fallen by 4½% from their peak in 1979, mostly in the last year (see also para 11);

- we have made references to the MMC. They found that the lack of control over its operating divisions by the Severn-Trent Water Authority was against the public interest and made many recommendations which that authority and the others have acted on. A second investigation - into sewerage - is now under way;

- we have used consultants to examine draft budgets for this year and last; this achieved savings in operating costs of over £17m in 1981/82 and another £15m in 1982/83; and has enabled us to extend these savings forward into 1983/84 performance aims.

5. The effects we have thus had on charges, on management methods, and on capital spending have caused strains amongst water authority members. They have become uncertain of their role and resentful of what they see as our usurpation. The larger authorities, with large memberships, have found it particularly difficult to respond to the new but very necessary pressures. At the same time, the NWC's leadership on pay and conditions has given individual authorities an alibi for rises in their manpower costs.

Structure

6. These developments make structural changes necessary especially if we are to keep up the pace of progress. Another Committee is dealing with my proposals for streamlining RWAs, and Cabinet has decided to legislate in 1982/83 for this and the abolition of the NWC.

Developing our Systems

7. These changes to the industry's structure will help and accelerate the development of our present systems within the framework conceived in the CPRS report (The Relationship between Government and the Nationalised Industries - July 1981). Current developments are as follows:-

- on the issue of financial targets we have at present agreed the policy of a "rising tide" up to 1983/84, to bring returns up to at least 1¼% for every authority compared with the former requirement to break even with a small contribution to reserves. What we now have to consider is the right basis on which to plan the future years and to determine how far it would be appropriate to maintain the principles of a gradual increase in financial targets for the water authorities. In this context, there is one respect in which the WAs are distinguished from the Nationalised Industries: water is a basic necessity of life for which there is no alternative. Any significant increase in charges which is attributed to achieving specific rates of return will therefore be seen as an unwarranted tax, particularly while we have rateable value based charges which do not vary with the use made of the service.

- improved and tightened performance aims, continuing the downward trend in operating costs we have brought about, and showing up more clearly the association between costs and a given quantity and quality of output;

- a change in the focus of control from capital allocations to external finance, and improvement in investment planning and appraisal;

- continued pressure on manpower numbers within the context of performance aims;

- further use of the MMC and consultants as circumstances justify them;

- setting objectives, and further development of plans towards full corporate planning for their achievement.

I turn now to the main specific topics.

Investment and Standards of Service

8. Investment has now been reduced in real terms by over 50% from the peak, at the time of re-organisation, to some £600m last year. Lower forecast growth in demand and action to reduce leakage have reduced the need for new capacity. The proportion RWAs are devoting to renewals in 1982/83 has risen to 46% (cf Annex 3). About one eighth is devoted to improvement of unacceptably low standards, resulting for instance in a halving of the length of grossly polluted rivers over the last decade (cf Annex 4). Although the inherited investment programme reflected exaggerated expectations, a limited increase in investment levels sustained over a period of years is needed:

- to ensure the continued wholesomeness of water supply, particularly in those areas where standards are low, eg Yorkshire and North West (discoloured water from Pennines) or threatened, eg Anglian and Wessex (rising nitrogen levels);

- to maintain the industry's enormous asset base, particularly underground assets - there is serious underground dereliction in parts of the North West which has led to major sewer collapses and most areas include towns and cities in which the main services were first laid in the last century;

- to maintain river quality improvements - the 1980 NWC River Quality Survey showed that although there has been an improvement in the worst stretches there has also been deterioration in some areas (eg Wessex and Anglian) of the length of rivers in the first two grades of quality. Large amounts are still required to carry out major clean-up operations in the Mersey, Tyne and Tees.

9. Water authority capital investment programmes consist mainly of small projects serving a diversity of purposes, and benefiting many local areas. Most individual projects have little or no direct effect on income, which is why capital investment appraisal is difficult, requiring evaluation of environmental and other benefits. As the pay-off is often in terms of quality (water quality, reliability of water supply, clean rivers) this has given RWAs, through their investment decisions, effective (as well as statutory) responsibility for improving standards of service. This is right: priorities should be determined at the local level, as should the trade-off between the rate of improvements and the impact on charges, although the Government must exercise some influence in extreme cases as well as ensuring that any legal minimum requirements are met (eg those embodied in EC directives). Annex 5 shows the kind of indicators currently being monitored by authorities, but it must be accepted that it is difficult to measure accurately what is happening to standards, whether in terms of environmental improvements or the standard of service perceived by the customer.

Manpower and Pay

10. Manpower accounts for about 25% of total costs. Numbers (in full-time equivalents) are given in Annex 6. Forecasts just received from authorities are for a modest decline of about 2% annually, this after an almost continuous increase in numbers from 1974 reaching a peak in 1979. The reductions come about mainly from the implementation of a national productivity scheme for manuals which is now well under way, often replacing earlier over-generous schemes; and from re-organisations to reduce the number of divisions and to prune top-heavy HQ structures, thereby

bringing down non-manual staff numbers and sharpening managerial responsibilities. Circumstances differ between authorities and some difficult negotiations are in progress. I do not believe specific and public targets set by us would help, but I have pressed for as great a reduction as possible in negotiating performance aims for 1983/84 and I expect further reductions to be attainable beyond that date. I believe that instrumentation, control and automation systems also offer considerable scope for sustained improvements in efficiency in the longer terms.

11. Water supplies are essential, and this makes water pay a real problem for the country as well as the industry. Annex 7 shows the record - water pay has risen more than local government pay but less than other public utilities. At the moment I can at best exercise only a slight moderating influence on negotiations. Centralised bargaining, as handled by the NWC, attracts the spotlight of the media. I do not think decentralisation would help; it would require union agreement, which would probably carry an immediate price, and could encourage leap-frog bargaining. But it should help if the responsibility for negotiation is directly that of water authority chairmen acting together, rather than of the NWC. By so relating it to their financial responsibilities and to their performance aims they will lose their alibi for a soft approach.

Charges

12. Until recently the annual increase in water charges has been very high, but main charges went up this year by about 9%. Financing costs are about 45% of the total, reflecting the capital intensity of the industry. Raising financial targets will push charges up (£100 million, 6%, for each ½% increase in target). But with only gradual increases in the target, and sustained pressure on current costs, the effect could be contained, allowing future charges - taking one year with another - to be kept broadly in line with the RPI (the trends since 1975/76 are shown in Annexes 8 and 9).

13. The incidence of charges is controlled by the statutory requirement that they should be cost-related and should not discriminate unduly between classes of consumers. This was far from being the case at the time of reorganisation and as things stand:

- we are about half way through the shift in incidence from business to domestic consumers, which is adding about 10% to domestic bills over 4 or 5 years with a corresponding reduction in industrial and commercial bills;

- optional metering is now available for all authority customers to deal with the worst anomalies of charges based on rateable value (but take-up has been low, only some 60,000 out of 18m households);

- universal metering is uneconomic for the foreseeable future, since it would cost at least £800m to install meters in all households.

The statutory framework is right. Within it detailed policies can be developed by authorities in consultation with consumers. The Government should not be directly involved.

Privatisation

14. The inherent monopoly position of the industry limits the scope for privatisation. The CPRS study of state monopolies - for which water is a case study - might throw up new ideas. Meanwhile other opportunities for private capital are limited by the scope for creating a climate of genuine risk that would stimulate efficiency gains sufficient to offset the higher financing costs. There is, I believe, more scope for contracting work out to the private sector, eg design and construction work of recreation facilities - I shall continue to press authorities on this.

Conclusions

15. The basis of our reorganisation of the industry in 1973 to provide unified water cycle management remains sound. Since we took office again we have done much to foster the efficiency of the water authorities despite some defects in the structure, for example, through the introduction of financial targets and performance aims. I shall continue to develop these policies.

16. In applying to the water industry the E(NI) decisions following up the CPRS report on the relationship between Government and nationalised industries, I consider that our main tasks now are:

(a) to streamline the structure of the industry, by reducing the membership of authorities (while introducing systems to enable consumer and local interest to be taken into account) and abolishing the NWC;

(b) to agree objectives with individual authorities (the provisional industry-wide version has been circulated to RWA Chairmen and is at Annex 10) which will make explicit our desire to see water authorities improving efficiency and setting themselves higher standards, consistently with local priorities and having regard to the impact on charges. I shall discuss with the authorities ways of measuring progress towards these objectives, building on the systems we are already operating for performance aims. In particular, I would hope to be able to achieve, although the position will vary from authority to authority:

(i) Manpower - continuing reductions of the order of 2% per annum;

(ii) Pay and Productivity - the total annual wage bill to be consistent with ever tightening performance aims;

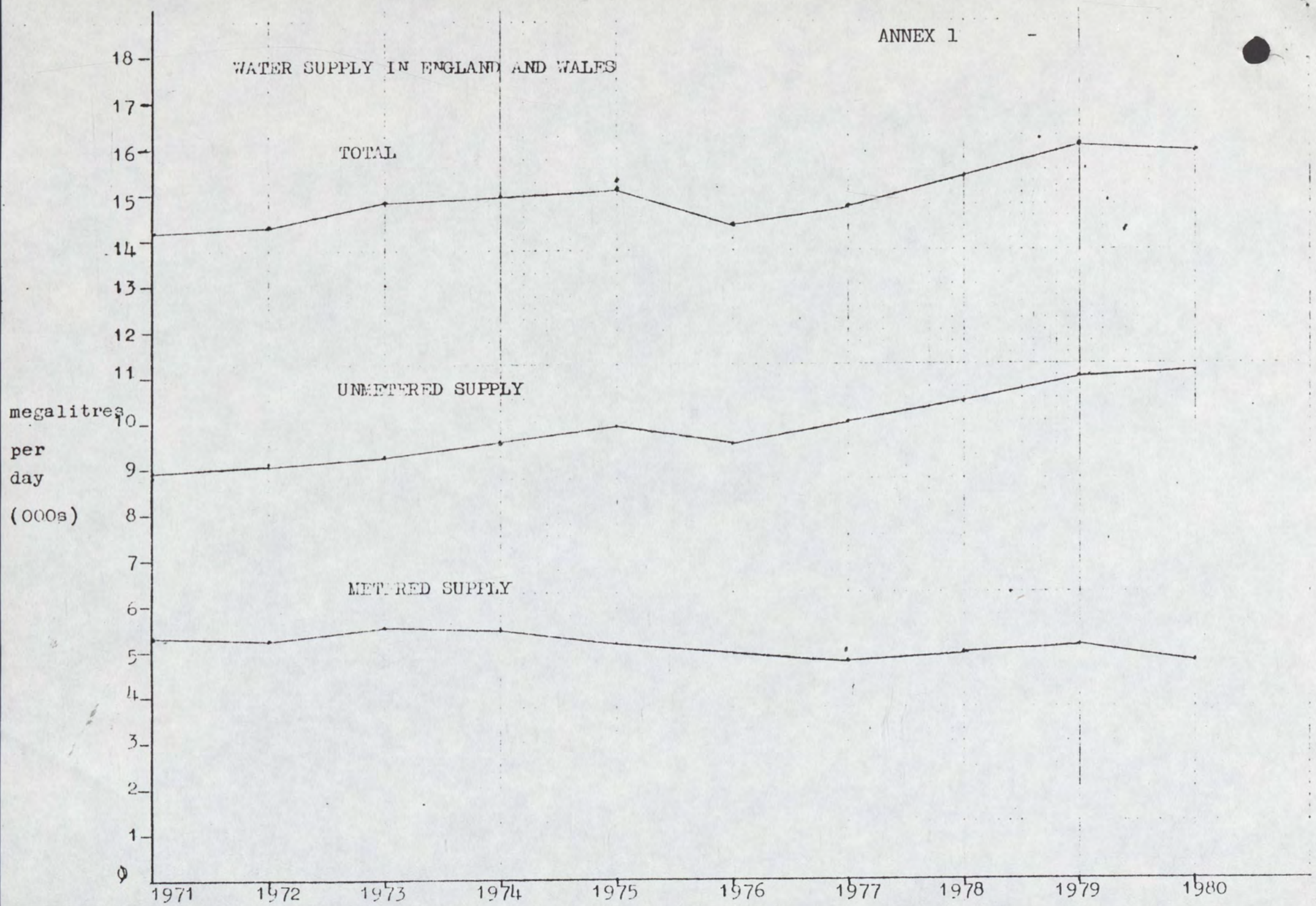
(iii) Level of Charges - main charges to rise no faster than the increase in the RPI, with increases in financial targets being offset by increases in efficiency;

(iv) Financing Policy - a gradual increase in financial targets leading to further improvement in the self-financing ratio (subject to the objective on charges above);

(v) Investment - to allow some increase in investment levels to prevent deterioration in the state of assets and standards of service with its political consequences, while ensuring that investment is well-directed. That will be for consideration in the public expenditure survey.

Department of the Environment
June 1982

ANNEX 1


WATER SUPPLY IN ENGLAND AND WALES
TOTAL
UNMETERED SUPPLY
METERED SUPPLY
megalitres per day (000s)
18
17
16
15
14
13
12
11
10
9
8
7
6
5
4
3
2
1
0
1971
1972
1973
1974
1975
1976
1977
1978
1979
1980

PERFORMANCE AIMS

ANNEX 2

WATER AUTHORITY OPERATING COSTS ON DOE MAIN SERVICES

£m (1979-80 outturn Prices)

AUTHORITY	1979-80	1980-81	1981-82	1982-83	1983-84
NORTH WEST	103.4	105.5	105.7	107.3	105.0
NORTHUMBRIAN	27.7	27.7	27.7	27.2	27.3
SEVERN-TRENT	120.6	119.4	118.1	116.5	114.9
YORKSHIRE	73.0	71.2	72.7	70.1	69.0
ANGLIAN	66.9	67.9	68.9	69.7	70.1
THAMES	161.6	162.8	166.3	165.8	163.0
SOUTHERN	43.2	43.2	44.4	44.4	43.5
WESSEX	27.9	28.1	28.1	27.5	26.9
SOUTH WEST	22.0	22.4	22.6	22.3	21.9
TOTAL	647.2	648.2	654.5	650.8	641.6

DoE Main Services are water supply, sewerage and sewage treatment and disposal.

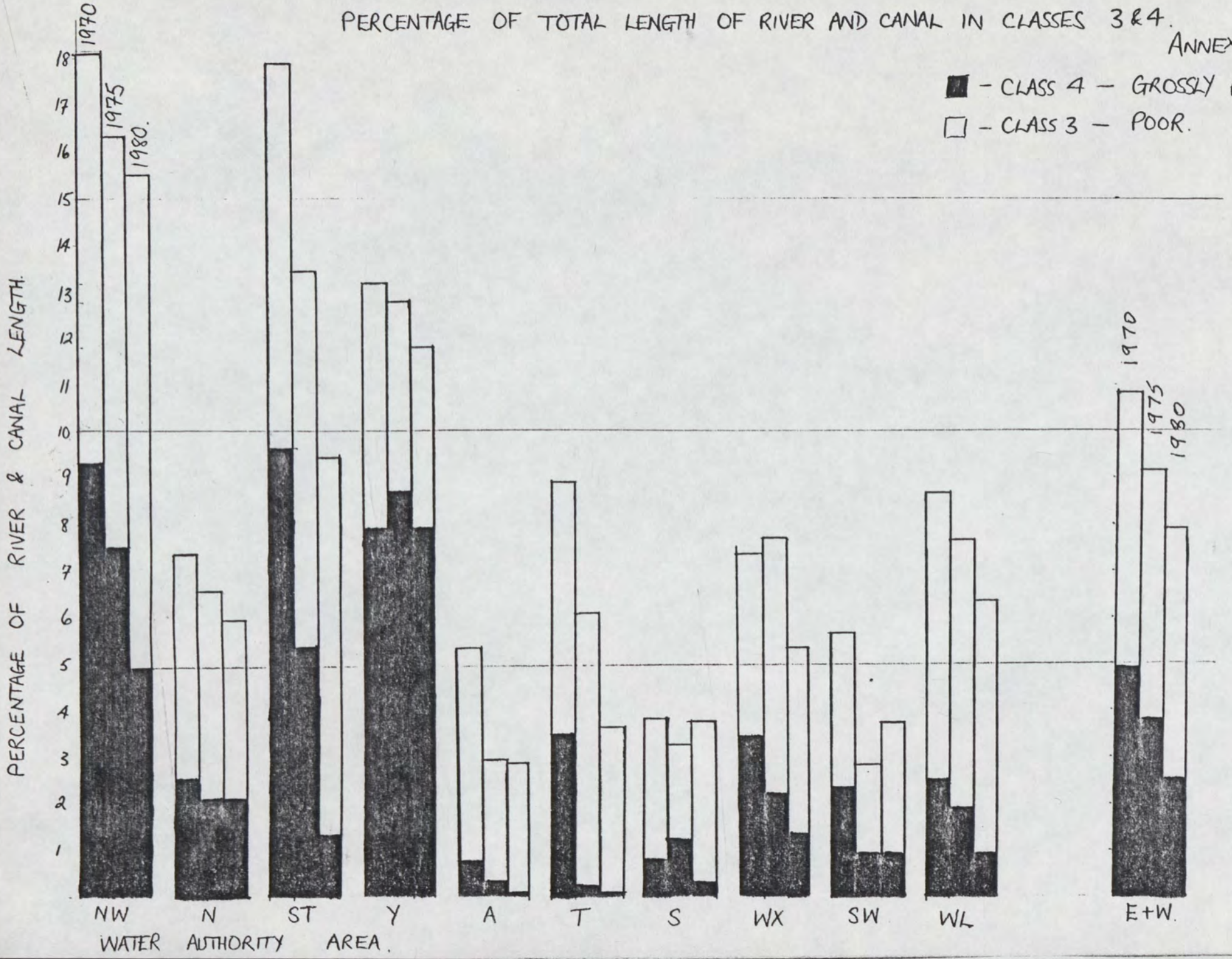
INVESTMENT LEVELS AND TRENDS IN SPLIT BETWEEN MAIN PURPOSES
(ENGLAND AND WALES)

£million at 1981 survey prices (with per cent underneath)

	1977-78	1978-79	1979-80	1980-81	1982-83 (estimated)
Renewal of Existing Assets	231 (28)	245 (31)	246 (35)	239 (38)	255 (41)
New development (Housing and Industrial)	322 (39)	268 (34)	196 (28)	170 (27)	142 (23)
Growth in Demand from Existing Consumers	165 (20)	166 (21)	154 (22)	139 (22)	142 (23)
Improvement	107 (13)	110 (14)	105 (15)	82 (13)	80 (13)
Total	825	789	701	630	619

PERCENTAGE OF TOTAL LENGTH OF RIVER AND CANAL IN CLASSES 3 & 4.

ANNEX 4



LEVELS OF SERVICE INDICATORS USED IN 1982 RWA PLANS

(Reported in numerical form with supporting narrative.)

A. WATER SUPPLY

1. Availability -
   a. Provision of new connections (rate of growth of supply network).
   b. Response time (new connections).

2. Quantity -
   a. Resources - (general availability of sufficient water to meet reasonable demands).
   b. Pressure (deficiencies in the distribution system.
   c. Supply failure.

3. Quality -
   a. Chemical quality.
   b. Bacteriological quality.
   c. Acceptability (taste, smell etc as perceived by consumer).

B. SEWERAGE

1. Availability -
   a. Provision of new connections (rate of growth of sewerage network).

2. Quality -
   a. Flooding.
   b. Sewer collapsing.
   c. Storm overflows.

C. SEWAGE TREATMENT AND DISPOSAL

1. Environmental Protection -
   a. River quality.
   b. Estuarial quality.
   c. Coastline (satisfactory sea-outfalls).
   d. Land and Sea (sludge disposal).

2. Works Operations - a. Compliance with consents.

D. CUSTOMER CONTACT Percentage of population receiving (i) Good, (ii) Acceptable, (iii) Poor level of customer contact in:
   a. Response to emergencies.
   b. Response to correcpondence on operations.
   c. Administration of activities involving specialised consumers.
   d. Billing matters.

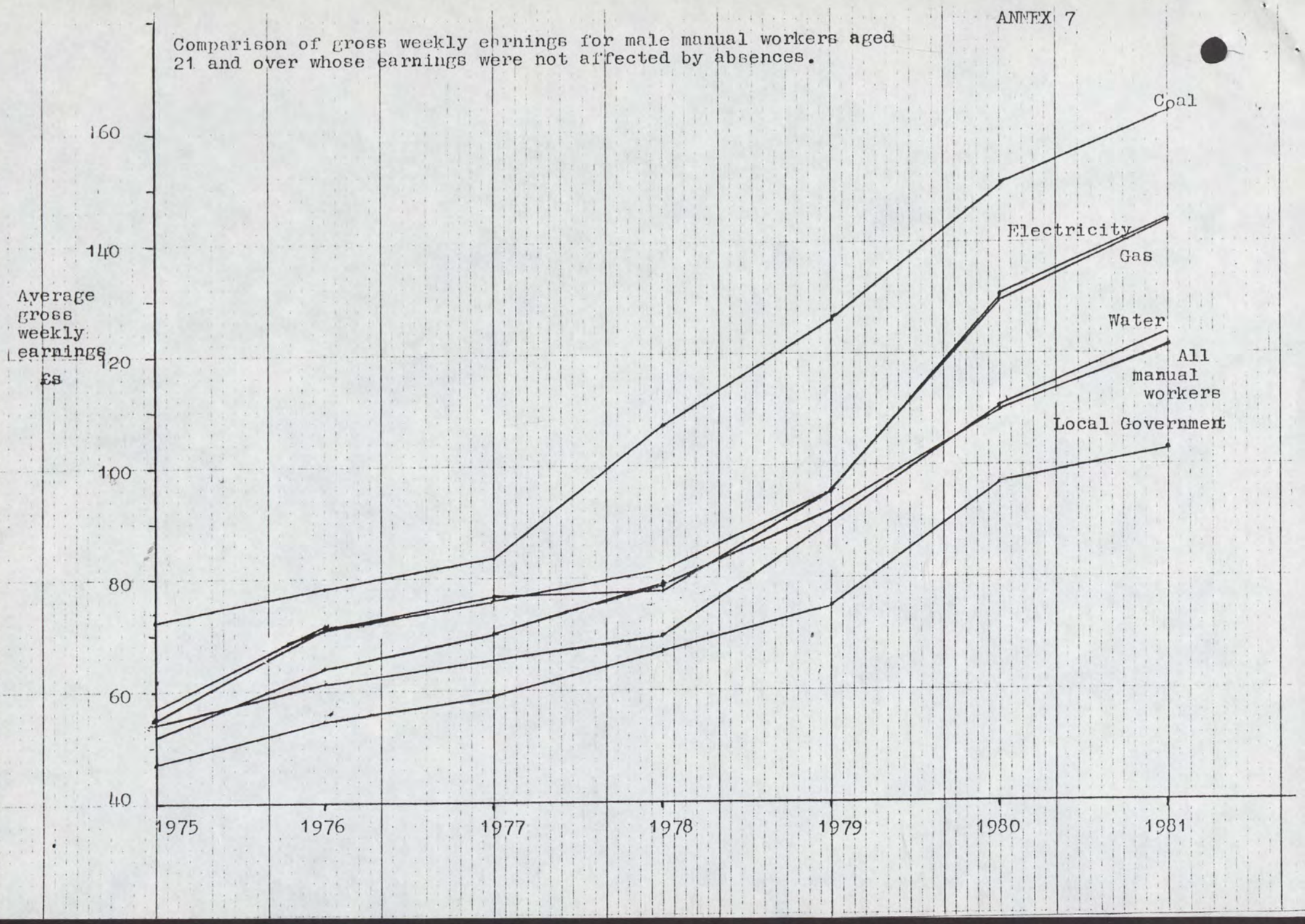
GBD

ANNEX 6

WATER AUTHORITY MANPOWER NUMBERS (FULL TIME EQUIVALENTS)

Authority b. Total numbers	1 March 76	% change 2 over 1	2 March 79	% change 3 over 2	3 March 82	% change 4 over 3	4 March 83	% change 5 over 4	5 March 84
N West	9005	+ 4.2	9379	- 6.3	8780	- 2.6	8556	- 3.1	8292
Northumbrian	2279	+ 7.6	2453	-12.3	2151	- 1.6	2117	0	2117
Yorkshire	6340	- 0.03	6338	+ 2.6	6500	- 3.9	6244	- 4.0	6229
S Trent	10464	+ 7.4	11240	- 5.1	10659	- 1.5	10500	- 1.5	10346
Anglian	6726	+ 3.7	6978	- 2.5	6804	+ 0.7	6853	- 0.4	6830
Thames	11789	+ 2.3	12061	- 2.6	11749	- 2.7	11429	- 1.7	11232
Southern	4120	+ 2.1	4207	- 5.1	3992	- 4.0	3834	- 2.1	3754
Wessex	2260	+ 7.3	2425	- 4.1	2325	- 1.5	2290	- 1.5	2255
SW	2315	+ 9.5	2534	- 8.3	2324	- 2.5	2267	- 2.0	2222
Total	55298	+ 4.2	57615	- 4.3	55284	- 2.2	54090	- 1.5	53277

ANNEX 7


Comparison of gross weekly earnings for male manual workers aged 21 and over whose earnings were not affected by absences.
Average gross weekly earnings £s
160
140
120
100
80
60
40
1975
1976
1977
1978
1979
1980
1981
Coal
Electricity
Gas
Water
All manual workers
Local Government

ANNEX 8

REVENUE EXPENDITURE BY ALL WATER AUTHORITIES

	75/76	78/79	79/80	80/81	81/82	82/83
Manpower costs						
% of total	24.6	24.0	24.0	24.5	25.2	
index	100	155	185	221	246	
year on year increase	-	-	20	19	11	
Financing Costs						
% of total	45.4	45.8	43.7	42.8	43.6	
index	100	160	182	209	232	
year on year increase	-	-	14	15	10	
Other Costs						
% of total	30.0	30.2	32.3	32.7	31.0	
index	100	159	203	242	247	
year on year increase	-	-	28	19	2	
Total costs £m	805	1273	1522	1785	1924	
index	100	158	189	222	240	
year on year increase	-	-	20	17	8	
RPI (April)	100	151	166	202	226	
year on year increase	-	-	10	22	12	

Note: Other costs include use of balances.

Level of charges

14.34 A broad indication of the level of charges is provided by the following estimates of the average household bill for the water services (water supply, sewerage and environmental services charge) and the average charge for measured water supply:

Table 14.2 Charges for the water services

	Average household bill		*Average charge measured water*		*Retail Prices Index (October)*	
	p/week	*Index*	*p/'000g*	*Index*	*Jan 1974=100*	*Index*
1974-75	37		29		113.2	
1975-76	52	100	41	100	142.5	100
1976-77	65	125	49	119	163.5	115
1977-78	69	133	58	141	186.5	131
1978-79	73	140	64	156	201.1	141
1979-80	81	156	68	166	235.6	165
1980-81	100	192	82	200	271.9	191
1981-82	116	223	91	222	303.7	214

14.35 For completeness, this table includes 1974-75, the first year in which water authorities were established. But 1974-75 budgets were based on incomplete information, services were not fully manned in some places, and the level of self-financing in 1974-75 was much less than in subsequent years. The indices shown above therefore use 1975-76 as a basis for assessing trends in the level of charges. In comparing the level of water authority charges with prices generally, it needs to be kept in mind that unmeasured water use increased over this period (by 13 per cent between 1975 and 1980) and that this table does not show the reductions obtained by commercial and other users who were able to transfer from the unmeasured to the measured basis of charge.

14.36 So far as the [illegible]

/Source: Water Industry Review, 1982 - National Water Council./

OBJECTIVES FOR WATER AUTHORITIES.

1. The draft objectives below have been circulated to water authority chairmen for discussion. Their substance and order reflect what is important in the water industry; as a result they do not match neatly the headings proposed by the CPRS in E(NI)(82)11. The water authorities are not solely trading bodies; they also regulate industrial discharges to rivers etc and provide some other public services - though this does not justify exchequer support for them. Their operating environment is very stable. Thus, for instance, the first two CPRS headings - breakeven and cash management cause few problems. Investment, level of service and efficiency on the other hand, are major questions dealt with in the draft objectives.

2. The value of the industry's output is not easily measured; it is as much a matter of quality and reliability as of volume. Therefore quantification will be for plans rather than the objectives. There will also be objectives for matters of great significance which are particular to individual authorities, eg Yorkshire WA's problems with discoloured water supplies.

~~Draft~~

GENERAL OBJECTIVES: WATER AUTHORITIES

(i) To provide each present and prospective customer with a reliable, economically-run service for water supply and sewerage and sewage disposal at a charge to users that covers the cost of provision and which in comparison with price changes elsewhere in the economy represents good value for money for the user.

(ii) To carry out both its supervisory and its executive functions in land drainage cost-effectively to generally acceptable standards.

(iii) To eliminate over a reasonable period deficiencies (ie failures to meet generally acceptable standards) in the quality of service and of rivers and estuarial waters.

(iv) To increase as resources allow the availability and use of water and its associated land for recreation and amenity, and to meet its statutory responsibilities for fisheries effectively and economically.

(v) In implementing these objectives to see that the authorities' activities are in general conducted with the efficiency characteristic of well-run major businesses, especially in respect of manpower, and in particular to ensure:-

(a) achievement of financial targets and respect for external financing limits as directed by the Secretary of State;

(b) in agreement with the Secretary of State setting and achieving performance aims, including detailed budgets and manpower targets for each part of the authority's activities that incorporate steady improvements in the efficiency of current operations;

(c) development of adequate and, where practicable, quantitative means for assessing and monitoring the cost-effectiveness of the authority's activities, both in the long and short term, with particular

emphasis on (a) the need for systematic evaluation of investment projects both before and after execution and (b) the adoption where appropriate of timed and costed programmes for the achievement of defined objectives;

(d) adequate systems for consulting with users about their needs and for dealing with them promptly, sympathetically and effectively;

(e) the extension of suitable opportunities for private sector participation in the authorities' activities, and the disposal of surplus land and property.

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cc JV

DEPARTMENT OF INDUSTRY
ASHDOWN HOUSE
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TELEPHONE DIRECT LINE 01-212 5902
SWITCHBOARD 01-212 7676

NBPM
MLS 23/6

From the
Minister of State
Norman Lamont MP

The Rt Hon Tom King MP
Minister for Local Government and
Environmental Services
Department of the Environment
2 Marsham St
London
SW1P 3EB

23 June 1982

Dear Tom

WATER INDUSTRY STRUCTURE

I have seen a copy of your letter of 18 June 1982 to Patrick Jenkin.

My only comment concerns industrial representation. From the discussion last July I know that you had it in mind for the reconstituted water authorities to include a strong industrial representation. I hope that this is still the case; if so the statement should make this point. Similarly, we should be careful to reassure industry that the arrangements for safeguarding the consumer interest will fully take into account their interests as consumers; you could for example state in paragraph 5 and paragraph 7, line 6 that "consumers" includes "industrial consumers".

I am copying this letter to the recipients of yours.

Yours ever

Norman

NORMAN LAMONT

CONFIDENTIAL

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local Govt. RM

be. WR
B1
JV

E(EA)
(DKW.)
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SO
DI

10 DOWNING STREET

From the Private Secretary

21 June, 1982

Dear Martin,

WATER INDUSTRY STRUCTURE

Your Minister sent the Prime Minister a copy of his letter of 18 June on re-structuring the water industry. Attached to that letter was a copy of a draft statement on the subject.

I am writing to let you know that the Prime Minister would be content for your Minister to make a statement on these lines. I would be grateful if, in the usual way, you would be in touch with us and the Lord President's Office, about the timing of the statement.

I am sending a copy of this letter to the other members of E(EA), John Robbs (MAFF), Peter McCarthy (Department of Trade), David Heyhoe (Lord President's Office), Murdo Maclean (Chief Whip's Office), David Wright (Cabinet Office) and Gerry Spence (CPRS).

Yours sincerely,

Michael Scholar

M L Brasher, Esq
Department of the Environment

CONFIDENTIAL

Surf

CONFIDENTIAL

Local Govt.

DEPARTMENT OF THE ENVIRONMENT
2 MARSHAM STREET
LONDON SW1P 3EB
01-212 3434

MINISTER FOR LOCAL GOVERNMENT AND ENVIRONMENTAL SERVICES

18 June 1982

Prime Minister

(1)

Content* with a statement, as proposed?

*subject to the views of colleagues

Yes

MCS 18/6

Dear Secretary of State,

WATER INDUSTRY STRUCTURE

Last year colleagues agreed with my proposals that there should be a restructuring of water authorities along nationalised industry lines, subject to the satisfactory development with the Secretary of State for Trade of alternative consumer arrangements (E(EA) meeting on 21 July 1981).

Since then, there have been a number of developments:-

a) Cabinet has decided to include in the Legislative Programme for the 1982/83 Session a Water Bill with water authority restructuring as one of the contents.

b) The Secretary of State for Wales - who can proceed by Order whereas in England we need primary legislation - has reconstituted the Welsh Water Authority to provide for a board of 13. The new constitution came into force on the 1st April.

c) I have consulted widely on options for changing the constitution of the English authorities.

In the light of these developments, I would like to clear with my colleagues the policy points that need to be dealt with.

Our consultation has convinced me that last year's decisions on the membership of water authorities were right. There were about 300 responses. Most of these were from local authorities, favouring maintenance of at least the present number of local authority members of water authorities (as many as 40 out of 62 in the extreme case of Thames Water Authority). Most of the other respondents favoured small boards like those of a business. I am sure the latter is the right answer, and we intend to provide in the Bill that the membership of water authorities should not be less than 9 and not more than 15.

However, following Nicholas Edwards' example, I think it is sensible to recognise the links between water authorities and local authorities. So I propose that there should be some

people from local government, although certainly not a majority, on each water authority, and they should be Ministerially appointed from a list of names submitted by local authorities.

Each water authority should have some full time executive members. There should also continue to be members appointed by the Minister of Agriculture, Fisheries and Food to represent land drainage and fishery interests. As we agreed last year, part time members would be paid. I would remove the requirement for meetings of the authorities to be held in public. But I do not think it necessary to remove the water authorities from the jurisdiction of the Commission for Local Administration; there would be substantial opposition, and I do not think that preserving this jurisdiction need embarrass colleagues who sponsor nationalised industries where it does not exist.

As for the consumer interest, I remain of the view that it would be wrong to legislate for the establishment of 9 consumer councils. We wish to build on the existing arrangements within the industry to provide a full and effective channel for the consumer voice to be heard. A number of the water authorities have established regular liaison arrangements with local authorities and other bodies in their area, generally at the divisional level (ie covering a county or two) and we intend to ensure that all of them follow this course. We will require them to submit to me their proposals for representing the consumer interest, and will issue guidelines on the establishment of committees, their functions and constitution. The involvement of local authorities will again be in recognition of their special interest in water, but we will make sure that the committees are more broadly representative. We are separately in touch with Gerry Vaughan on the consumer aspects of our proposals.

There is one other item I would like to include in this Bill. It is partly consequential upon abolishing the National Water Council. Colleagues, including the Prime Minister, have publicly said that water undertakers should have powers to act overseas, in order to facilitate the export of British services and equipment. The National Water Council is the only body in the industry which has any such powers at present, though they are limited to training and education. I propose to include a clause in the Bill to confer the necessary powers on water authorities on the lines of those already available to other public bodies (eg British Airports Authority, the National Coal Board, London Transport etc).

These proposals are very much in line with what was agreed last summer and I hope my colleagues can agree them. May I take it, if I do not hear to the contrary by 24 June, that they are acceptable?

Our decisions on reconstituting the regional water authorities and on the abolition of the National Water Council, which is also to be included in the Water Bill, ought to be announced as soon as possible. I ought to prepare water authority Chairmen a day or two beforehand, and would like to make a statement in Parliament on the 30 June. A draft is enclosed.

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I would like John Biffen's agreement to this, and I would like to clear this too by 24 June.

I am copying this letter to other members of E(EA) and to Peter Walker and Gerry Vaughan; also, in view of paragraph 9, to John Biffen, Michael Jopling, Bertie Denham and to the Private Secretary to the Prime Minister, as well as to Sir Robert Armstrong and John Sparrow.

Yours Sincerely,

M.L. Brasher (Private Secretary)

TOM KING
(approved by the Minister and signed in his absence)

The Rt Hon Patrick Jenkin QC MP

3F

CONFIDENTIAL

DRAFT

STATEMENT ON THE FUTURE ORGANISATION OF WATER IN ENGLAND AND WALES

1. With permission, Mr Speaker, I should like to make a statement on the future organisation of water in Engalnd and Wales.

2. Since 1973, when the ten Water Authorities were made responsible for water services, the financial and operational position of the industry has changed. The need for central planning and resource co-ordination is now much less than appeared likely in 1973. The Water Authorities have proved able to plan effectively to meet demands for water supply and sewerage within their boundaries. At the same time, the Government has been developing closer and more direct links with the Water Authorities themselves.

3. During and after reorganisation, when the Water Authorities were finding their feet, the National Water Council played a valuable role in assisting them and in representing them to the Government. The Government now believes that the Water Authorities, given the right structure, should now be able to carry out their responsibilities without an additional central statutory body.

4. We have therefore decided to dissolve the National Water Council. Legislation will be introduced at the earliest opportunity. We will be consulting the water industry, the Trade Unions and others affected by this decision. The Water Space Amenity Commission will also be dissolved.

5. I turn now to the membership of Regional Water Authorities. Earlier this year, we issued a consultation paper on this subject. Water Authorities have large memberships, the majority being appointed by local authorities in their area. At the time of reorganisation, these members were intended to represent the interests of consumers. There has for some time been concern that the system is not working as intended. It does not achieve effective representation for consumers - few people know that they have representatives on a Water Authority, let alone a majority. At the same time, a large membership leads to a proliferation of committees and bureaucracy and inhibits efficient decision taking. The Monopolies and Mergers Commission, in its report on the Severn-Trent Water Authority, recommended that the present membership should be substantially reduced and not based predominantly on local government representation. The Welsh Water Authority has already been reconstituted on these lines.

6. Our consultation paper put forward a number of options. Out of about 300 responses, most local authorities and the water authorities favour no reduction in the number of local authority members. This view has some support from other bodies but most of the other respondents favour small boards with local consultative committees for consumer interests.

7. Arrangements are needed for Regional Water Authorities to consult with representatives of consumers. They have already developed various arrangements for consultations and liaison at divisional level, and I believe we should build on these. My proposal is that Water Authorities should appoint advisory committees. These will include representatives from local authorities in the area in addition to representatives of consumer interests. They will provide a channel for consumer views to reach Water Authorities at divisional and head-office level. We will issue guidelines on their constitution and functions.

8. The Government considers that Regional Water Authorities are substantial undertakings requiring a high level of management ability. We have therefore decided to reconstitute them into boards of between 9 and 15 members, all appointed by Ministers. There will be executive members on every board. We also propose that County and District Councils should have the opportunity to nominate people for Ministerial appointments to Water Authority membership. In addition, land drainage and fishery interests will continue to be represented. Chairmen, as now, will be appointed by the Secretary of State. Members of the new boards will be paid, and will serve for fixed terms.

9. Legislation will be introduced to implement these proposals and it will extend to England and Wales.

10. Mr Speaker, our proposals represent a significant further step in improving the efficiency of the water industry, in increasing its accountability in Parliament, and in putting responsibilities where they belong - on the shoulders of those who are taking the key decisions. I commend them to the House.

LW

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DEPARTMENT OF THE ENVIRONMENT
2 MARSHAM STREET
LONDON SW1P 3EB
01-212 3434

MINISTER FOR LOCAL GOVERNMENT AND ENVIRONMENTAL SERVICES

My Ref: K/PSO/32337/82

8 JUN 82

Dear Leon,

Peter Walker sent me a copy of his letter to you of 13 May about your proposal of a review of land drainage and flood protection arrangements.

I think it would be better if the officials' review were to extend to policy objectives. It would not be easy to make judgements about the effectiveness of administrative arrangements unless we were clear about, and happy with, what policy objectives the arrangements were designed to serve. I appreciate Peter's point about not reopening Wildlife and Countryside battles but the review would after all be in private. We can decide later whether we want to issue a consultation paper and, if so, what it should say. I would also prefer that an interdepartmental review should be chaired by an official from a central department.

Accordingly, I would prefer the reference to objectives to be reinserted in the opening lines of the terms of reference. I would also prefer my own version of (b) in the terms of reference, which derives from your original draft, and makes it explicit that loan finance and drainage charges are within scope. In addition, since we are agreed on the point, we should keep the reference to division of responsibility within central Government.

I am copying this letter to the Prime Minister, Peter Walker, Nicholas Edwards, Arthur Cockfield, Janet Young and to Sir Robert Armstrong, Sir Derek Rayner, John Cassells and John Sparrow.

Yours

TOM KING

The Rt Hon Leon Brittan QC MP

CONFIDENTIAL

c/c JV

Wa 1/6

Treasury Chambers, Parliament Street, SW1P 3AG

Rt Hon Peter Walker MBE MP
Minister of Agriculture Fisheries
and Food
Ministry of Agriculture Fisheries
and Food
Whitehall Place
London SW1A 2HH

1 June 1982

Dear Minister,

REVIEW OF LAND DRAINAGE AND FLOOD PROTECTION

Your letter of 13 May commented on the details of my proposal that there should be a review of this subject. Tom King wrote on the subject on 21 April.

I am grateful to you and to Tom for your agreement to the proposed review. We now need to finalise the terms of reference so that the review can proceed. I am attaching to this letter revised terms of reference, which take account of the points made in your and Tom's letters.

As you will see from points (c) and (d) of my revision, I am entirely content to accept your proposal that we should look into the powers and functions of the various administrative bodies active in this area and at the effectiveness of their administration. I agree with Tom King that we should include the division of responsibility within Central Government in the terms of reference. Although, as you say, the extent to which the Committee will need to look at this will depend on the conclusions they reach on the wider financial and administrative arrangements. I have sought to reflect this in point (e) in the terms of reference.

Likewise, I have no difficulty in accepting Tom King's suggestions for extending the review to cover coast protection and on the financial side, the questions of drainage charges and rates.

As you will see, I am proposing that we stick to my original terms of reference insofar as they concern the financing arrangements for land drainage and flood protection. Your amendments on this

point seem to me to narrow the scope of the review unduly. It is precisely my proposal that we do need to re-examine the role of Government as a provider of financial assistance for this expenditure and the form that that assistance should take, bearing in mind that other Water Authority investments are not financed in the same way. The Cooper-Lybrand report specifically suggests the need to address the question whether:

"(a) Payment of grants;

(b) at the given rates

is the most effective/efficient way of achieving necessary land drainage and flood protection for the country". They further point out that the present system of specific grants is "difficult to reconcile" with a view that Central Government should not interfere with the individual decisions of water authorities. I do not see how we can ignore these observations.

I also have some difficulty with your suggestion that "policy objectives" should not appear in the terms of reference at all. I do not see how the committee can consider the cost-effectiveness of the present arrangements without reference to the policy objectives. The absence of a clearly-defined policy on land drainage and flood protection is emphasised throughout the Cooper-Lybrand report, in particular in paragraphs 2.3, 5.5 and 6.2. And, of course, great emphasis is now being placed on the need to identify objectives as part of our new, and we hope more vigorous approach, to financial management.

At the same time I sympathise with your desire to avoid re-opening in public the controversies surrounding the Wildlife and Countryside Act. Accordingly, my re-draft provides that the review of the present financial and administrative arrangements should be:

"in the light of the Government's policy objectives".

This is on the understanding between us that the committee's report will in fact define policy objectives to the extent that is necessary. Incidentally, I see no reason why any announcement of the review need be made at this stage.

Finally, in keeping with the wider terms of reference which I prefer, I would have thought that given more than one Department is concerned with drainage matters it would be appropriate for the Committee to be chaired by a Central Department. One incidental advantage of Treasury chairmanship is that if an announcement of the review has to be made at some stage the fact of Treasury Chairmanship would make it somewhat easier to resist any re-opening of the Wildlife and Countryside Act issues to which you refer. I am content that the chair should be at Deputy Secretary level, if you judge this to be necessary.

I am sending copies of this letter to the recipients of yours.

Yours sincerely

LEON BRITTAN

/ Approved by the Chief Secretary
and signed in his absence /

TERMS OF REFERENCE FOR REVIEW OF LAND DRAINAGE, FLOOD PROTECTION AND COAST PROTECTION

To review the arrangements for the financing and administration of land drainage and flood and coast protection schemes, in the light of the Government's policy objectives, including:-

(a) whether the present administrative and financial arrangements under which land drainage and flood and coast protection expenditure are managed are effective and efficient; and if not, how they should be changed;

(b) the role of the Central Government as a provider of part-finance for land drainage, flood protection and coast protection; whether the present systems of grants at existing grant rates are cost effective; whether there is scope for substituting loan finance for grants; and whether the present system of drainage charges and rates is efficient and equitable;

(c) the powers and functions of water authorities, local authorities and internal drainage boards under the Land Drainage Act and the Coast Protection Act, including the relationship both between these bodies and between them and the Government;

(d) the scope for securing the more effective execution of Government policy in the field of land drainage and coast protection and for achieving manpower and financial savings.

(e) to the extent necessary in the light of (a)-(d), the division of responsibility for land drainage, flood protection and coast protection within Central Government;

and to report to Ministers by 30 October 1982.

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WHITEHALL LONDON SW1A 2ER
Tel. 01-233 3000 (Switsfwrdd)
01-233 6106 (Llinell Union)
Oddi wrth Ysgrifennydd Gwladol Cymru

WELSH OFFICE
GWYDYR HOUSE
WHITEHALL LONDON SW1A 2ER
Tel. 01-233 3000 (Switchboard)
01-233 6106 (Direct Line)
From The Secretary of State for Wales

Rt Hon Nicholas Edwards MP

28 May 1982

Dear Leon

REVIEW OF LAND DRAINAGE AND COAST PROTECTION

I have read Peter Walker's reply of 13 May to your letter of 29 March and also Tom King's letter of 21 April. I support the intention to carry out a review of land drainage (including sea defence) and its extension to cover coast protection. I would want my Department to participate. You are already aware that I have recently instituted a Rayner Scrutiny within the Welsh Office covering land drainage. This should be complete by the autumn and will be of considerable assistance to the Review team.

I share Peter Walker's concern, however, that the main thrust of the Review should be to determine the most effective way of administering and financing land drainage and coast protection schemes. Like him, I would not want the review to be side-tracked onto conservation issues affecting these schemes. I agree that it should consider the powers and functions of the various non-Government authorities, particularly the Internal Drainage Boards as Peter proposes. The Committee should look at the division of responsibility between Departments so as to pave the way for a decision on this matter. I would also see merit in the Committee looking at the justification for the present grants system and at alternative forms of support.

I am copying this to the Prime Minister, Peter Walker, Tom King, Arthur Cockfield, Janet Young, Sir Robert Armstrong, Sir Derek Rayner, John Cassels and John Sparrow.

Yours ever
Nick

The Rt Hon Leon Brittan QC MP
Chief Secretary to the Treasury
Treasury Chambers
Parliament Street
LONDON
SW1P 3AG

Local Govt

CONFIDENTIAL

MINISTRY OF AGRICULTURE, FISHERIES AND FOOD
WHITEHALL PLACE, LONDON SW1A 2HH

NBPM

cc JV

From the Minister

The Rt Hon Leon Brittan QC MP
Chief Secretary to the Treasury
Treasury Chambers
Parliament Street
LONDON
SW1P 3AG

MIS 14/5

13 May 1982

Thank you for your letter of 29 March suggesting a review of various aspects of land drainage. I have also seen, and taken into account, Tom King's letter to you of 21 April.

As it happens, this is a matter to which I have been giving some thought. I accept that there are a number of issues in need of review. I have not been fully convinced that, with the present constraints on manpower, I could justify using resources to carry out a wide-ranging review into a system which - as the Monopolies and Mergers Commission report notes - is generally workable. Indeed Peggy Fenner said as much in answer to a Question from Michael Spicer on 2 February last. Nevertheless if you and other colleagues are satisfied that we ought to set up a Committee to examine them, I would in principle be ready to do so.

In your suggested terms of reference you have naturally concentrated on the financial aspects of land drainage. But as the Minister responsible in England for the Land Drainage Act 1976 I am just as much concerned to see that the administration of land drainage across the board is carried out effectively and efficiently. In my view, therefore, we ought to look not only at the organisation of water authorities and the divisions of responsibility, but also at the powers and functions of the various authorities, some of which have not been reviewed for over 30 years.

/I have in mind ...

I have in mind particularly the Internal Drainage Boards whose functions are in need of overhaul, especially in the extent to which they come under the direct control of my department. There are also various aspects of drainage rating and the electoral arrangements in IDBs which were criticised in a debate in the Lords on 17 November 1981, and which Robin Ferrers promised would be reviewed as soon as resources permitted.

As regards water authorities, I too have heard criticisms about the costs of operating the Regional and Local Land Drainage Committees, but I have seen no evidence that these are excessive and I do not start out with any preconceived idea on whether or not the present arrangements need to be significantly changed. By all means let us examine the evidence and consider possible alternative arrangements. At the same time we can, as Tom King suggests, look at the arrangements under which land drainage is financed.

Your third point concerns the present division of responsibility between Water Authorities, Local Authorities and Internal Drainage Boards. The problem of the division between the first two of these has however already been considered at some length. My department, in conjunction with the Department of the Environment and Welsh Office, issued a consultative document in October 1978 setting out the various options including, of course, the possibility that water authorities should take over responsibility from the local authorities. The comments which we received from the National Water Council and the local authority associations made it clear that such a change would be resisted from both sides - the water authorities do not want to take on the responsibility (at least at present) and the local authorities do not want to give it up. In the light of these views I had previously decided that the rewards were not sufficient to justify the time and effort which we would need to expend in order to push through the necessary legislation. We can look at this again if you wish - together with the relationship between sea defence and coast protection - but I would not want to waste too much time on such a minor and potentially unrewarding aspect of public administration.

Tom King has also suggested that the review ought to look at the arrangements within central Government. I agree that this needs to be considered in view of the lack of logic in the present division of responsibilities. But I would not want the inter-departmental committee to spend too long on this. I would prefer the committee to concentrate on getting the administrative arrangements right. We can then consider afterwards, in the light of their recommendations, whether any changes need to be made in departmental responsibilities.

However, there is one further and absolutely fundamental point. We are all agreed that we want to review the <u>administration</u> of land drainage to see whether it can be made more effective and efficient. I see no need to review the present <u>policy objectives</u>, which are quite simply stated.

/There is no question ...

There is no question in my mind but that the Government should continue to provide financial support for economically worthwhile works to bring standards of land drainage and flood protection up to generally acceptable levels; and that within the constraints of the public expenditure programme the decisions about priorities in each region or land drainage district must be taken locally. The purpose of the review will be to ensure that the way in which that support is given is cost effective, and that the arrangements by means of which decisions are taken and implemented locally are satisfactory. If we were to extend the review to cover the policy objectives, it would be an open invitation to all concerned to re-open the old and bitter battles that accompanied the passing of the Wildlife and Countryside Act. Not only would that divert the parties involved from the most important task of getting that Act to work, but continuing dispute over conservation versus agriculture would distract everyone from seeking a more efficient system of land drainage administration. I am in no doubt that we must not run that risk.

Taking all these points into account, I suggest that the terms of ... reference should be on the lines of the enclosed draft. The main purpose of the changes I have suggested, apart from omitting the reference to review of the objectives of Government policy, is to widen the terms of reference so as to bring in all aspects of land drainage administration, instead of concentrating on those with obvious financial and manpower implications. Because of this change of emphasis, and because in any event the Water Act 1973 charges me with the responsibility for securing the effective execution of land drainage policy in England, I think it would be appropriate for the proposed committee to be chaired by an official from my department. I have in mind the Deputy Secretary in charge of my Land and Resources Group. With the widened terms of reference, I do not think it would be realistic to expect a report before the end of the year - and this will depend on my being able to find the additional manpower - probably 2 or 3 posts - required.

Finally, I think we ought to give some thought to the way in which the review is to be presented. I would propose a low key announcement to the effect that we are reviewing the administration of land drainage with a view to issuing a consultation paper early next year.

I agree with Tom King that, because the review is almost bound to lead to legislation, consultation with interested organisations is essential, but I suggest that we ought to get our own minds clearer before inviting others to comment.

/If you and other ...

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If you and other colleagues accept that this is the right way to deal with the problem, the sooner we can make a start the better.

I am sending copies of this letter to the Prime Minister, Michael Heseltine, Nick Edwards, Arthur Cockfield, Janet Young and to Sir Robert Armstrong, Sir Derek Rayner, John Cassels and John Sparrow.

PETER WALKER

DRAFT TERMS OF REFERENCE FOR REVIEW OF LAND DRAINAGE AND COAST PROTECTION

To review the arrangements for the effective administration and financing of land drainage and flood and coast protection schemes, including:

a. whether the present administrative and financial arrangements under which water authorities administer the Land Drainage Act 1976 are effective and efficient; and if not, how they should be changed;

b. whether the present arrangements for the provision of Exchequer assistance for land drainage and coast protection are cost effective; and, if not, what changes should be made;

c. the powers and functions of water authorities, local authorities and internal drainage boards under the Land Drainage Act and the Coast Protection Act, including the relationship both between these bodies and between them and the Government;

d. the scope for securing the more effective execution of Government policy in the field of land drainage and coast protection and for achieving manpower and financial savings, and to report to Ministers by 31 December 1982.

MC

CONFIDENTIAL

Local Govt

2 MARSHAM STREET
LONDON SW1P 3EB

NBPM

MIS 5/5

My ref: H/PSO/12697/82

Your ref:

30 April 1982

cc JV

Dear Leon

BRITISH WATERWAYS BOARD

Thank you for your letter of 1 April about the BWB and our objectives for it.

I agree that the, by my reckoning, four important issues you have raised need to be fully examined. As you know, your officials and mine have kept, and will continue to keep, in close touch with each other. The consultants' report will be with us by the end of this month, rather later than we had hoped, and we shall circulate proposals for colleagues' consideration before any approach is made to the Board.

I am copying this letter to members of E(NI), Sir Robert Armstrong and John Sparrow.

Yours ever

MICHAEL HESELTINE

The Rt Hon Leon Brittan QC MP

CONFIDENTIAL

Local Gov

Ministry of Agriculture, Fisheries and Food
Whitehall Place London SW1A 2HH

From the
Minister of State

Prime Minister

NRS PM

MCS 27/4

The Rt Hon Tom King MP
Minister for Local Government and
Environmental Services
Department of the Environment
2 Marsham Street
LONDON
SW1P 3EB

26 April 1982

Dear Tom,

RELATIONS WITH NATIONALISED INDUSTRIES: FOLLOW UP TO CPRS REPORT: OBJECTIVES FOR THE WATER AUTHORITIES

I refer to your recent letter to the Prime Minister enclosing draft objectives for the water industry.

I have noted some of the comments which our colleagues have made about the need for more specific objectives, but I agree with you that these can be developed only by discussion with individual water authorities. Certainly in the fields of land drainage and fisheries for which my Department is responsible, the problems, needs and resources differ in each of the 9 water authorities, and I am sure that you are right in suggesting that we must tailor the objectives to suit each authority individually.

If the discussions, which you envisage with RWA Chairmen, go ahead I shall want my officials to follow up with discussions about the land drainage and fisheries objectives.

I am copying this letter to the Prime Minister, members of E(N1), Nicholas Edwards, Sir Robert Armstrong and John Sparrow.

Yours ever,

Robin.

FERRERS

27 APR 1982

CONFIDENTIAL

WM 23/4

Were you dealing with this earlier?

MCS 22/4

DEPARTMENT OF THE ENVIRONMENT
2 MARSHAM STREET
LONDON SW1P 3EB
01-212 3434

MINISTER FOR LOCAL GOVERNMENT AND ENVIRONMENTAL SERVICES

My Ref: H/PSO/12547/82

21 April 1982

Dear Lea,

Thank you for sending Michael Heseltine a copy of your letter of 29 March to Peter Walker, proposing a view of the arrangements for the management and financing of land drainage and flood prevention projects and the policy underlying them.

I agree with you that, for the reasons you give, the time is ripe for such a review, and I also agree that the first step should be to set up an interdepartmental committee of officials to examine the questions. But I would prefer that the terms of reference should be more widely drawn than those you have suggested, in three respects.

First, even though the system by which water authorities and internal drainage boards raise money by drainage charges and rates is in so recent a statute as the Land Drainage Act 1976, it would be better to look at the financing arrangements as a whole, not merely central Government's part in them. I am not sure that the drainage charges and rates systems is as defensible as it may once have been, and in any case I would want to be able to assess how changes - if there are to be any - in the provision of Government money would affect owners and occupiers, especially householders.

Secondly, I would like the review to include grants paid under the Coast Protection Act 1949. My officials and Peter Walker's are already trying to reach a common grant formula for schemes to prevent flooding by the sea and schemes to protect land from erosion by the sea. What was thought to be a clear and workable distinction between the two types of works, which attract different rates of grant, was thrown into confusion by a legal decision in 1980 ("the Whitstable judgement") and it would be useful to get it sorted out in an economical fashion. The review would be able to take on board a report prepared in DOE on arrangements to prevent coastal flooding and the division of responsibility for them.

Thirdly, I believe it would be timely, as the review will be looking at the administrative structure within water authorities and at the division of responsibility between water authorities, local authorities and internal drainage boards, to do a complete job by looking at the arrangements for allocating responsibility within central Government for land drainage and flood and coast protection. I am not pressing to take anything over, but I do wonder whether land drainage and flood protection are subjects which must unquestionably be part of MAFF; alternatively, perhaps MAFF should take over responsibility for arrangements against coastal flooding.

These additions would, if colleagues agree, add to the work of the officials' committee, and the reporting deadline would need to be extended.

/ I enclose a draft of the terms of reference, revised to take account of these suggestions. It refers to "water authorities", not "regional water authorities", as I assume you intended to include the Welsh Water Authority.

One final point should not be overlooked: if any changes are contemplated, at some stage before final decisions are taken there would have to be consultations with a wide range of interests.

/ I am copying this letter to those who received copies of yours.

Yours

Tom

TOM KING

The Rt Hon Leon Brittan QC MP

TERMS OF REFERENCE FOR REVIEW OF LAND DRAINAGE, FLOOD PROTECTION AND COAST PROTECTION

To review the objectives of Government policy on land drainage, flood protection and coast protection and the arrangements for the financing and administration of land drainage and flood and coast protection schemes, including:

(a) The case for ending the present separate administrative structure within water authorities for the management of land drainage, flood and coast protection expenditure;

(b) the role of the central Government as a provider of part-finance for land drainage, flood protection and coast protection; whether the present systems of grants at existing grant rates is cost effective and whether there is scope for substituting loan finance for grants; and whether the present system of drainage charges and rates is efficient and equitable;

(c) the division of responsibility for land drainage, flood protection and coast protection expenditure between water authorities, local authorities and internal drainage boards;

(d) the division of responsibility for land drainage, flood protection and coast protection within central Government;

(e) the scope for achieving financial and manpower savings by changes in the present arrangements.

and to report to Ministers by 30 October 1982.

Local Govt
Water End
March '81

Prime Minister (1)

I should have thought that the objectives should be agreed by Ministers before being sent to the RWAs

Suggest you await CPRS comment.

MCS 2/4

Prime Minister

RELATIONS WITH NATIONALISED INDUSTRIES
FOLLOW UP TO THE CPRS REPORT: BWB AND THE WATER INDUSTRY

Sponsor Ministers were asked by E(NI) to circulate draft objectives for nationalised industries. This letter concerns the water industry in England.

2. We intend to legislate the National Water Council (NWC) out of existence, and in any case there is no point in treating it like a nationalised industry. It is more in the nature of a quango.

3. So far as possible, we have aimed to deal with the Regional Water Authorities (RWAs) as if they were nationalised industries. Our financial relationship is that of Cmnd 7131. We have sent in consultants twice to look at their operating costs and efficiency, and referred Severn-Trent to the MMC; the MMC are also currently investigating two Water Authorities' sewerage agency arrangements. And we have been moving away from annual capital expenditure plans towards an annual business plan, very much in the direction in which the CPRS is pointing. If we start now, I think next year we will have objective-related business plans conforming quite closely to the CPRS model.

4. Nevertheless, Water Authorities are not nationalised industries. The majority of their members are appointed by local authorities (which means we cannot develop the role of members as proposed by the CPRS). Moreover, they meet in public. That means that any objectives which we set them, as a basis for their business plans, must be somewhat simple, and there is no question of including in them anything sensitive. I enclose a draft of what I think will fill the bill. The objectives do not, of necessity, refer to major policy decisions on structure (such as the future of the NWC) which have not been made public. Furthermore, since this level of objectives must be the same for all authorities, the question of timing in relation to Chairman appointments does not really arise.

5. My recommendation is that I should send these out to the RWA Chairmen and invite them together to discuss them with me in May. We would then go on to develop a more specific level of objectives tailored to each RWA's situation, and link them to the next round of plans; I would thus hope to be in a position to report good progress by the end of July. To keep up the momentum, whilst dealing with all nine Water Authorities at once, I would like to send the RWA Chairmen these objectives next week (if none of my colleagues object). I would not expect them to cause serious difficulty, though no doubt a lot of close discussion will be needed before we are all satisfied we have got them right.

6. Given the differences between water authorities and the nationalised industries proper, I hope no-one will see difficulties to my proceeding in this way.

7. As regards BWB, I think it would be premature to finalise objectives before we see the report from Inbucon which is due with us later this month.

/ 8. I am copying this minute to members of E(NI), Nicholas Edwards, Alick Buchanan-Smith, Sir Robert Armstrong and Robin Ibbs.

TOM KING

GENERAL OBJECTIVES: WATER AUTHORITIES

(i) To provide each present and prospective customer with a reliable, economically-run service for water supply and sewerage and sewage disposal at a charge to users that covers the cost of provision and which in comparison with price changes elsewhere in the economy represents good value for money for the user.

(ii) To carry out both its supervisory and its executive functions in land drainage cost-effectively to generally acceptable standards.

(iii) To eliminate over a reasonable period deficiencies (ie failures to meet generally acceptable standards) in the quality of service and of rivers and estuarial waters.

(iv) To increase as resources allow the availability and use of water and its associated land for recreation, conservation and amenity, and to meet its statutory responsibilities for fisheries effectively and economically.

(v) In implementing these objectives to see that the authorities' activities are in general conducted with the efficiency characteristic of well-run major businesses, especially in respect of manpower, and in particular to ensure:-

(a) achievement of financial targets and respect for external financing limits as directed by the Secretary of State;

(b) in agreement with the Secretary of State setting and achieving performance aims, including detailed budgets and manpower targets for each part of the authority's activities that incorporate steady improvements in the efficiency of current operations;

(c) development of adequate and, where practicable, quantitative means for assessing and monitoring the

cost-effectiveness of the authority's activities, both in the long and short term, with particular emphasis on (a) the need for systematic evaluation of investment projects both before and after execution and (b) the adoption where appropriate of timed and costed programmes for the achievement of defined objectives;

(d) adequate systems for consulting with users about their needs and for dealing with them promptly, sympathetically and effectively;

(e) the extension of suitable opportunities for private sector participation in the authorities' activities, and the disposal of surplus land and property.

CONFIDENTIAL

NBPM
MCS 5/4

Treasury Chambers, Parliament Street, SW1P 3AG

Rt Hon Michael Heseltine MP
Secretary of State
Department of the Environment
2 Marsham Street
London SW1P 3EB

1 April 1982

Dear Michael,

BRITISH WATERWAYS BOARD

PMs Box

I have seen a copy of your minute of 22 March to the Prime Minister. I agree with you that it is worth waiting for the consultant's report before work on applying the CPRS recommendations is taken further. But once that report is available I think we must take a radical look at the BWB and our objectives for it, before moving on to business plans, performance indicators etc.

I have in mind three areas in particular. First, in view of the Board's past performance and current financial straits, we must have some assessment of the prospects for the commercial waterways as a whole. We can then decide whether any part of the network could be managed on commercial principles. We can also examine our policy for the non-commercial network, its future size and shape and the costs of maintaining different sizes of network.

Second, we will need to consider what the Board's role should be in relation to it. The Board is under no statutory obligation to carry out commercial functions and it is by no means clear to me that they are well equipped to do so. Some of the Board's commercial activities are persistently loss making; others might better be undertaken by the private sector.

Finally we cannot ignore the possibility of a fundamental restructuring of the Board, including a change in its current status as a nationalised industry. That status is already something of an anomaly and would become more of one were the Board's already limited commercial activities to be further reduced. Whatever the outcome of the review, we shall need to consider what is the appropriate institutional and financial structure for the Board before we can set about preparing business plans.

I am copying this letter to the recipients of yours.

Yours ever
Leon

LEON BRITTAN

cc JV

(2)

Prime Minister

MLS 30/3

Treasury Chambers, Parliament Street, SW1P 3AG

Rt Hon Peter Walker MBE MP
Minister of Agriculture
Fisheries and Food
Ministry of Agriculture
Fisheries and Food
Whitehall Place
London SW1A 2HH

29 March 1982

Dear Peter,

I have been giving some thought to the arrangements both within central Government and in the water industry for the management and financing of land drainage and flood protection projects. I have reached the conclusion for the reasons explained below that the time is now ripe for a thorough going review of these arrangements and of the policy underlying them. I should emphasise that in what follows I am excluding from consideration the Thames Flood Protection Scheme, which is clearly sui generis.

There have been a number of recent developments which point to the need for a review. First, there is the Monopolies and Mergers Commission report on the Severn-Trent Water Authority which states (paragraph 11.177) that:-

> "We note the considerable doubts which have been expressed to us about the efficiency of the present arrangements [for land drainage] and suggest that consideration should be given to undertaking a specific examination of this subject, embracing all RWAs".

It is not entirely clear what prompted this observation, which is not followed up elsewhere in the report. But I am advised that there is a good deal of criticism among the Water Authorities themselves about the extra manpower and financial costs of running a separate administrative system through the Regional Land Drainage Committees and Local Land Drainage Committees for this expenditure. Since the RWAs are responsible for some 75% of total expenditure on land drainage and flood protection, there could be some scope for worthwhile financial and manpower savings by bringing land drainage expenditure within the RWAs' general arrangements for the administration of the bulk of their capital expenditure.

Second, there is the recent study by Cooper-Lybrand of the financial administration of land drainage grants by your Department. Much of this report is, of course, concerned with questions of improving financial control and forecasting systems within the MAFF and I know that work is already in hand on these aspects. But there are a number of points at which the report touches on wider issues of policy and organisation. Specifically, it is suggested (para 5.6 of the report) that there is a need to consider whether payment of grant at the present rates is the most effective/efficient way of achieving necessary land drainage and flood protection. The report also (paragraph 2.13) refers to the question whether the RWAs' jurisdiction over land drainage, at present limited to "main rivers", might not be extended to take in the rivers for which local authorities are at present responsible.

Thirdly, I understand that Nick Edwards has recently endorsed a proposal that this year's Welsh Office contribution to the Rayner Scrutiny Programme should be a study of the present arrangements for paying land drainage grants in Wales. I understand that one of the objectives of this study is to:-

> "Review the role of the Welsh Office in grant aiding land drainage schemes in the light of the Government's policy of disengagement from activities for which responsibility lies with other Authorities".

Drawing these developments together, I suggest that we now need a review to examine 3 broad issues:-

(a) The case for ending the present separate administrative structure within the RWAs for the management of land drainage and flood protection expenditure and the scope for achieving administrative and manpower savings by so doing.

(b) The role of the central Government as a provider of part-finance for land drainage and flood protection; whether the present system of grants at existing grant rates is cost effective and whether there is scope for substituting loan finance for grants.

(c) The division or responsibility for land drainage and flood protection expenditure between Regional Water Authorities, Local Authorities and Internal Drainage Boards.

... I suggest that as a first step we should invite an inter-Departmental Committee of officials to examine these questions. I attach below possible terms of reference. I imagine that Michael Heseltine and Nick Edwards as well as yourself would want to be represented. Given this membership I suggest that the Committee should be chaired by the Treasury.

I am sending copies of this letter to the Prime Minister, Secretary of State for the Environment, Secretary of State for Wales, Secretary of State for Trade, the Chancellor of the Duchy of Lancaster and to Sir Robert Armstrong, Sir Derek Rayner, Robin Ibbs and John Cassels.

Yours

Leon

LEON BRITTAN

TERMS OF REFERENCE FOR REVIEW OF LAND DRAINAGE AND FLOOD PROTECTION

To review the objectives of Government policy on land drainage and flood protection and the arrangements for the financing and administration of land drainage and flood protection schemes, including:

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(b) the role of the central Government as a provider of part-finance for land drainage and flood protection; whether the present system of grants at existing grant rates is cost effective and whether there is scope for substituting loan finance for grants;

(c) the division of responsibility for land drainage and flood protection expenditure between Regional Water Authorities, Local Authorities and Internal Drainage Boards;

(d) the scope for achieving financial and manpower savin gs by changes in the present arrangements.

and to report to Ministers by 30 September 1982.

CONFIDENTIAL

MAP.

MR. SCHOLAR

c. Mr. Duguid
Mr. Hoskyns

National Water Council

Mr. Heseltine's minute of 20 January suggests that no decision ought to be taken about arbitration arrangements for the water industry, pending a decision on winding up the National Water Council. My understanding is that Ministers have decided in principle to take the necessary legislative action, but that time has not been found in the programme. Ought we not to ask his Office what their plans now are for getting this legislation through?

We in the Policy Unit have always supported the abolition of the National Water Council, and I would like to see it done before the next pay round. It should be a significant step away from monolithic pay bargaining in a powerful industry, as well as help to reduce unnecessary bureaucracy. It would of course have the incidental benefit of removing from power a rather unhelpful nationalised industry chairman.

J.M.M. VEREKER

28 January 1982

CONFIDENTIAL

Lord Cout.

NG

2 MARSHAM STREET
LONDON SW1P 3EB

My ref: H/PSO/19683/81

Your ref:

9 December 1981

Dear Leon

will report if required

Thank you for your letter of 24 November.

My officials will be getting in touch with yours and arranging to meet the North West Water Authority, in confidence at this stage. The Scheme will be kept under wraps until Ministers have approved it.

I am copying this letter to the Prime Minister and Patrick Jenkin.

Yours ever

MICHAEL HESELTINE

The Rt Hon Leon Brittan MP

local Govt

Y SWYDDFA GYMREIG
GWYDYR HOUSE
WHITEHALL LONDON SW1A 2ER
Tel. 01-233 3000 (Switsfwrdd)
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ODDI WRTH YSGRIFENNYDD
PREIFAT YSGRIFENNYDD
GWLADOL CYMRU

WELSH OFFICE
GWYDYR HOUSE
WHITEHALL LONDON SW1A 2ER
Tel. 01-233 3000 (Switchboard)
01-233 8545 (Direct Line)

FROM THE PRIVATE SECRETARY
TO THE SECRETARY OF STATE
FOR WALES

30th November 1981

Dear Mike

REORGANISATION OF THE WELSH WATER AUTHORITY

... I enclose three copies of the final text of the statement which my Secretary of State will make in the House this afternoon immediately following the Prime Minister's statement.

/ A copy of this letter and the statement (six copies) go to Murdo Maclean at No 12, and copies also go to the Private Secretaries to the Chancellor of the Exchequer, the Leader of the House, the Chief Whip in the Lords, all members of E(EA), the Minister of State for Consumer Affairs, Sir Robert Armstrong and the Chief Press Secretary at No 10.

Yours ever

John Craig

J F CRAIG
Private Secretary

Mike Pattison Esq
Private Secretary
No 10 Downing Street
LONDON

STATEMENT ON THE REORGANISATION OF THE WWA

Hon Members will recall that in July this year I issued a consultation document proposing changes in the structure of the Welsh Water Authority. My main proposal was for a reduction in the membership of the Authority from its present 35 to about 10 members. I also put forward three possible options for safeguarding the interests of consumers: first, the appointment of local committees based on the WWA's seven divisions; secondly, a single committee for the whole WWA area; thirdly, consumer representation on the WWA itself.

I have now considered the responses - over 100 in number - to the consultation document. Apart from the local government bodies a majority favoured the proposal to reduce the size of the Authority, and most responses also preferred my first option for consumer representation.

However, in recognition of the arguments put forward by the local authority organisations I have decided that the Authority should be somewhat larger than the number I originally proposed. Instead of 10 members I now intend, subject to Parliamentary approval, to appoint 13 members. Of these, one will be the chairman, two will be appointed for their knowledge of fisheries and land drainage respectively, four will be appointed to represent the interests of county and district councils, and the remaining six to provide the widest possible expertise including experience in management, finance, business (including agriculture), industrial relations or personnel matters. A board of 13 members, plus the Chief Executive who would normally attend their meetings, will I believe be small enough to secure the speedier decision making and other improvements in management which I regard as necessary.

As regards the consumer interest I have decided in favour of a modified form of the first option set out in my consultation paper. I propose to ask the Authority to set up five local consumer advisory committees covering district council areas approximating to the various WWA divisions or combinations of them. I envisage that consumer, agricultural, industrial, commercial, local government, and amenity interests will be represented on these committees, the membership and functions of which will be laid down in guidelines drawn up by my Department in consultation with the various interests concerned. These arrangements will be subject to review in due course in the light of wider decisions by the Government on the structure of consumer representation in publicly owned industries generally.

My proposals relating to the membership of the Authority itself will need to be implemented by means of an Order (subject to the affirmative resolution procedure) made under sections 2 and 3 of the Water Act 1973. I will lay the draft of such an Order before Parliament tomorrow.

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My proposals relating to the membership of the Authority itself will need to be implemented by means of an Order (subject to the affirmative resolution procedure) made under sections 2 and 3 of the Water Act 1973. I will lay the draft of such an Order before Parliament tomorrow.

Local Govt

Welsh Water Authority

4.7 pm

The Secretary of State for Wales (Mr. Nicholas Edwards): I should like to make a statement on the reorganisation of the Welsh water authority.

Hon. Members will recall that in July this year I issued a consultation document proposing changes in the structure of the Welsh water authority. My main proposal was for a reduction in the membership of the authority from its present 35 to about 10 members. I also put forward three possible options for safeguarding the interests of consumers: first, the appointment of local committees based on the WWA's seven divisions; secondly, a single committee for the whole WWA area; thirdly, consumer representation on the WWA itself.

I have now considered the responses—over 100 in number—to the consultation document. Apart from the local government bodies, a majority favoured the proposal to reduce the size of the authority, and most responses also preferred my first option for consumer representation.

However, in recognition of the arguments put forward by the local authority organisations, I have decided that the authority should be somewhat larger than the number I originally proposed. Instead of 10 members, I now intend, subject to parliamentary approval, to appoint 13 members. Of these, one will be the chairman, two will be appointed for their knowledge of fisheries and land drainage respectively, four will be appointed to represent the interests of county and district councils, and the remaining six to provide the widest possible expertise, including experience in management, finance, business, including agriculture, industrial relations or personnel matters. A board of 13 members, plus the chief executive who whould normally attend their meetings, will, I believe, be small enough to secure the speedier decision making and other improvements in management which I regard as necessary.

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My proposals relating to the membership of the authority itself will need to be implemented by means of an order, subject to the affirmative resolution procedure, made under sections 2 and 3 of the Water Act 1973. I will lay the draft of such an order before Parliament tomorrow.

Mr. Alec Jones (Rhondda): As I am sure the Secretary of State will realise, most of us on the Labour Benches cannot understand the undue haste in connection with the reorganisation of the Welsh water authority. The consultation document was issued on 27 July. The deadline for observations was 11 September, 46 days afterwards and that included the holiday period, which certainly affected local Government. In addition, an order will be placed tomorrow regarding the membership of the authority. Is the Secretary of State aware that the order is being placed exactly one day before the Secretary of State for Wales meets the Select Committee on Welsh Affairs to discuss this matter?

Does the right hon. Gentleman accept that it seems to the Opposition that if there is an urgent problem affecting the water authority in Wales, it is not one of organisation and structure but of the level of charges that the authority has to impose now that the equalisation Bill has been withdrawn?

A membership of 13 for the council is better than 10, but the reduction in members of the authority from 35 to 13 is going too far. Does the right hon. Gentleman accept that that number does not enable the authority adequately to represent the various interests in Wales and that four places for county and district councils is not adequate?

My reading of the proposals for the membership of the authority is that the Secretary of State will make all the appointments. May I remind him of the comments made by the Conservative Party when it was in Opposition about the number of quangos set up by the Labour Government? Is not the Secretary of State now making the strongest quango in Wales and one that is under his direct control?

Does the Secretary of State agree that local consumer advisory committees are desperately important to us and that it is a pity that the statement did not include guidelines that would have given us details of both the membership and function of the committees? I regret that there is no suggestion of an all-Wales consumer body because the Labour Party holds the view that there are all-Wales issues that affect consumers generally inside Wales. They should have some representation on consumer matters.

The consultative document suggested that the local consumer advisory committees could be something akin to the community health councils. Is the Secretary of State aware that most people to whom I have spoken believe that the community health councils are toothless tigers and do not wish to see the same happen in the water industry?

Will the Secretary of State delay the introduction of the order until those who are interested have had the opportunity to comment on it and certainly until the guidelines that he mentioned have been seen by those directly affected?

Mr. Edwards: I cannot accept the accusation of undue haste, as we put forward the proposals on 27 July. Responses to the document were asked for by 11 September. We extended that period for a large number of individuals and took account of representations after that date. I met local authority organisations on 1 October. There will be a further opportunity for consideration before we debate the proposals.

My hon. Friend the Under-Secretary will be giving evidence to the Select Committee this week. The practice of Government has always been that they must be allowed to proceed with their legislative programme, even if a Select Committee subsequently decides to look into the matter. Subsequent to our putting forward the original proposals the Select Committee took the decision to examine the subject of water generally.

The level of charges is a matter of concern to everybody. Precisely because of that, I wanted to strengthen the management arrangements of the authority.

budgetary matters, and in view of the fact that the Arab summit at Fez terminated somewhat abruptly, is it not more important for the EEC to continue its foreign policy initiatives, particularly the Venice declaration, regardless of obstruction by Israel and the United States Government as a possible way of achieving peace in this dangerous area?

The Prime Mininster: We are very well aware of what happened at Fez, but as we had issued a few days previously a statement, agreed with the Ten, about our attitude to Middle East problems and to the Sinai force, we did not feel that we had anything else to say. The hon. Gentleman will be aware that we agreed to respond to the invitation of the United States and Egypt to offer a small contingent for the Sinai force under the terms of the Israel-Egypt treaty, but we said at the same time that we, the Ten, were signatories to the Venice declaration. That declaration persists, and we hope to take it forward. We had nothing fresh to say on top of that.

Mr. Robin Maxwell-Hyslop (Tiverton): Did my right hon. Friend raise the matter of Greece, and were any decisions taken about Greece, in the light of the statement by Mr. Papandreou that his Civil Service would not enforce any Common Market regulations that might be to the disadvantage of Greece? Has it been made quite clear that if Greece withdraws from the EEC she cannot expect to keep any of the advantages that she had whilst she was a member?

The Prime Minister: We did not refer to that matter. Greece is still a member of the EEC, and is obviously trying to get as reasonable a deal as she can. Clearly she was particularly concerned with the debates and arguments about Mediterranean products. Mr. Papandreou took a considerable part in our discussions, and I imagine that Greece is considering her future very carefully, as it is clear that membership of the EEC offers clear advantages, not only for each country but for the EEC as a whole.

Mr. David Stoddart (Swindon): Does not the Prime Minister agree that the Genscher-Colombo proposals for greater political union are tantamount to suggesting a federal European State in which this country and this Parliament would lose much of their sovereignty? Is the right hon. Lady aware that there is no mandate in this country for such a federal union, that there is no support for it in the House, and that she herself has expressed opposition to it? So there is little support for it. As she has expressed her opposition to a federal European State on previous occasions, why did she not kill the proposal stone dead?

The Prime Minister: First, I do not believe that the proposals amount to a federal European State. Secondly, in my opinion, the idea of a federal European State would not have a ghost of a chance of getting anywhere.

Mr. Teddy Taylor (Southend, East): If the lack of agreement on two major issues—contributions and the CAP—continues, would my right hon. Friend be prepared to consider proposing to resolve the matter by winding up the CAP, even if that meant an alteration of the treaty? Secondly, as fishing negotiations will take place before the next meeting of the Council, can she give a clear assurance that this Government will never agree to an agreement which does not include a 12-mile exclusive limit?

The Prime Minister: The fishing negotiations were to be held this week, but they have been postponed until mid-December because of the election in Denmark. I cannot say what will finally emerge, but I am convinced that my right hon. Friend the Minister of Agriculture, Fisheries and Food and the Minister of State will get a fair deal for our fishermen.

My hon. Friend well knows that the CAP is of great advantage to a number of member States. It emerged from discussion that States were prepared to follow prudent pricing policies to ensure that European and world prices came closer together. If we can get agreement in that respect, we shall ensue that less money is spent on disposing of surpluses in the CAP. If it is further agreed that agriculture is run in such a way that structural surpluses are not created, many of the problems of the CAP will be considerably diminished.

The right hon. Gentleman referred to appointments being made by the Secretary of State. They will be made after widespread consultation. The original system, under which 20 members of the 35-strong authority came from the local authorities, does not provide an effective control system or proper consumer consultation. I shall certainly bear in mind the suggestion that the guidelines should be published before the order is debated. If it is possible, I shall seek to do that for the help and guidance of the House.

I note what the right hon. Gentleman says about an all-Wales body. A clear majority of representations were in favour of the solution that I have adopted, or something similar. I remind the right hon. Gentleman that the Welsh water authority's responsibilities cover parts of England as well as Wales.

Many community health councils will resent the way in which the right hon. Gentleman derided them as toothless tigers. During consultation on the reorganisation of the Health Service we received wide representations in favour of maintaining community health councils, including some from the right hon. Gentleman, who then said that the councils were extremely important for the Health Service.

Several Hon. Members *rose*——

Mr. Speaker: Order. If hon. Members are as brief as Welsh Members usually are, I hope to call all those who have been standing up.

Mr. Tom Ellis (Wrexham): Does the Secretary of State accept that members of an authority who are established almost exclusively on personal criteria are almost bound to take a corporate rather than a representational view of their duties? Does he also accept that the appointment of four additional members from local authorities will perpetuate the confusion about the authority's precise role, and that for a genuine marriage of local democracy and operational efficiency a more radical solution is required?

Mr. Edwards: I cannot accept that the presence of four members from local government will have the adverse consequences suggested by the hon. Gentleman. I am sure that they will seek to carry out their corporate responsibilities as well as any other members of the authority. The view of the Monopolies and Mergers Commission in its report on the Severn-Trent authority was that the previous cumbersome structure inherited from local government, with its variety of committees, was totally unsatisfactory for managing a business such as the water industry.

Sir Anthony Meyer (Flint, West): Is my right hon. Friend aware that most of my constituents think that the Welsh water authority is a cumbersome and over-large organisation and that they will be pleased that he is doing something about it quickly? However, is he also aware that they will not be impressed by members of the Labour Party who seem to want the Government to do nothing and whose remedy seems to be to advocate the formation of larger committees?

Mr. Edwards: I thank my hon. Friend. As the MMC report said, the size of the Severn-Trent authority resulted in a complex committee structure requiring expensive administrative and other support services. One of the benefits that I hope to obtain from the reorganisation is a saving of about £100,000 a year on administration alone.

Mr. Geraint Howells (Cardigan): Does the Secretary of State agree that if the reorganisation of the Welsh water authority is to run smoothly and successfully he must give an assurance to the people of Wales that they will pay less for their water than their counterparts in England? They have paid more in past years. Will he also give an assurance that the land under the jurisdiction of the Severn-Trent authority will be handed to the Welsh authority? Why does not the Secretary of State introduce a system of election for members of the authority instead of appointing them?

Mr. Edwards: The hon. Gentleman refers to the cost of water. I do not believe that the best way to lower charges in such an industry is to have an elected membership for the authority. It is important to select members on the basis of the wide management and business experience which they can bring to the task. I can, of course, give no assurance about charges, but one of the objects of the operation is to improve organisational efficiency. We were finding it increasingly difficult, with the previous cumbersome structure, to attract the type of people who were likely to run the organisation efficiently because people were not prepared to work in such an organisation. As to the hon. Gentleman's suggestion that we should change the geographical boundaries for which the authority is responsible, we have no proposals to do so.

Mr. Edward Rowlands (Merthyr Tydfil): Is the right hon. Gentleman aware that what matter most are the prices and charges made by the Welsh water authority, especially now that it is going over to direct billing? When will the right hon. Gentleman make a statement about the greater equalisation of water charges throughout the United Kingdom, because within the Welsh water authority, consumers are paying very nearly the highest charges?

Mr. Edwards: The Government have made their position plain on previous occasions. We replaced a system which, far from providing for the equalisation of water charges, transferred considerable resources to those authorities that did not need them from authorities that did.

Mr. Tom Hooson (Brecon and Radnor): My right hon. Friend's statement is consistent with the recommendations of the Monopolies and Mergers Commission regarding Severn-Trent, which is a comparable body. The plan has been endorsed by the chairman of the Welsh water authority, which will commend it to many people in Wales. Will my right hon. Friend answer one question to clarify the responsibility of members of the authority in respect of the new local advisory committees? Does he intend that one director should be particularly responsible for the areas of each of those five committees?

Mr. Edwards: There is no intention to break up board responsibility in that way, but it is intended that those consultative committees should have access to senior management and to the chairman and members of the authority's board. Therefore, they will have the right to make their views effectively known to the authority.

Mr. Dafydd Wigley (Caernarvon): I thank the Secretary of State for making this statement to the House rather than to the very select Select Committee on Welsh affairs, because an opportunity is thereby given to less select Members to join in. Answerability is a big problem for the people of Wales. Will there be any requirement for

[Mr. Dafydd Wigley]

the 13 members to visit the advisory committees, so that there is some liaison? Will the Secretary of State tell us whether there will be any geographical balance among the 13 members, and say why there are only five, rather than seven, advisory committees? Might there not have been a stronger argument for eight committees and for saying that they should be related to the county councils and therefore have some relation to directly elected members?

What is the likelihood of the 13 members of the authority, receiving payment, in view of the £20,000 per annum salary of the part-time chairman? Finally will there be an opportunity to debate the order on the Floor of the House?

Mr. Edwards: There will be an opportunity to debate the order on the Floor of the House. With regard to payments, changes in the arrangements are not possible under existing legislation, but they could be considered at a future date, if we should decide to legislate further.

On the questions of answerability and geographical balance, in making the selection I shall certainly have in mind the desirability of members coming from different parts of Wales, but there will be no need for individual members to be responsible to particular parts of Wales. They will act as a collective board, taking collective decisions. I shall explain the arrangements for the consultative councils in greater detail when the House debates this issue. We considered the proposal that they should be based on county council boundaries, but there is no correlation between county council boundaries and the operating divisions of the water authority. With regard to the proposal to reduce the number of bodies, there are at least a number of divisions that fall naturally together, and the decision to bring them together makes the relationship to the county councils in those particular cases, rather easier than it would otherwise have been.

Mr. Ioan Evans (Aberdare): When will the new Welsh water authority begin its duties? Does the right hon. Gentleman realise that Welsh local authorities will be deeply disappointed—because they have been strongly represented in the past—that 36 districts and eight counties will have only four representatives altogether? Is the right hon. Gentleman prepared to reconsider that point, as the Select Committee on Welsh affairs is looking at the whole issue and will be taking evidence from those local authorities?

Mr. Edwards: I hope that the authority will take over in its new shape from 1 April, which will coincide with the appointment of a new chairman. I have considered local authority representation carefully. My original proposal was that there should be no direct local authority representation. I now propose to have four such representatives. There were several possibilities. We considered having two representatives. However, I felt that if we had four representatives there would be a reasonable chance that the interests of the districts and counties would be taken into account. There was also the possibility and desirability that the interests of the English parts, covered by the Welsh water authority, would be taken into account. I remind the hon. Gentleman that every district and county will be represented on the consultative bodies, at a consultative level.

Mr. Delwyn Williams (Montgomery): Will my right hon. Friend note that I welcome his statement? Does he think it prudent or tactful to make the statement today? Does he not think that accusations will be levelled at him, saying that his statement has shown some discourtesy towards the Select Committee?

Mr. Edwards: The simple fact is that I announced my intentions in July, before the Select Committee on Welsh Affairs decided to consider the subject of water. It has always been the practice that the Government put forward their legislative programme and proceed with it—if they can get the consent of Parliament—whatever Select Committees may subsequently decide to do. It is probably not possible for the Select Committee to produce its report in time for us to proceed before the chairman retires. However, I shall take note of any deliberations that take place in the Select Committee during the intervening period. I have made a statement on the Floor of the House and have had widespread consultations. The matter will be debated in the House so that Parliament, including members of the Select Committee, will have every opportunity to make their views known.

Mr. Donald Anderson (Swansea, East): Is the Secretary of State aware that when the Select Committee embarked on the current inquiry no sign was given that a decision was imminent? Therefore, the Secretary of State has acted with an unnecessary urgency, which has been caused only by the chairman's impending retirement. It has been suggested that one of the vice-chairmen should have specific responsibility for consumer interests. Does the right hon. Gentleman accept that?

Mr. Edwards: I cannot accept what the hon. Gentleman said about timing. I have made my intentions clear from the beginning. Indeed, I made them clear when we began consultations and when I made my original statement to the House. The right hon. Member for Rhondda (Mr. Jones) has pointed out that I had laid down the date by which responses should be received. Since then, I have extended the date.

The hon. Gentleman asked about a vice-chairman or other member of the board having specific responsibilities. I decided against that course. Emphasis on consumer consultation should be made at the divisional level. Those bodies should have a right of access to the chairman and a right to make their views known to the board. It would not be right to place that responsibility on one member of the board.

be MR GOW

Local Govt.

10 DOWNING STREET

From the Private Secretary

27 November 1981

Welsh Water Authority: Reorganisation

Thank you for your letter of 26 November about your Secretary of State's wish to make an oral statement on the above proposals.

The Prime Minister is content that he should do so on Monday. As I told you he would be following her planned statement on the European Council.

The Prime Minister has no comment on the draft.

I am sending copies of this letter to Nicholas Huxtable (Lord President's Office), Michael Pownall (Chief Whip's Office, House of Lords), Murdo Maclean (Chief Whip's Office) and David Wright (Cabinet Office).

M. A. PATTISON

John Craig, Esq.,
Welsh Office.

cc Mr Ingham
Mr Vereker

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FROM THE PRIVATE SECRETARY
TO THE SECRETARY OF STATE
FOR WALES

Prime Minister

Are you happy for this announcement to be made as an oral statement? Mr Edwardes would follow you on Monday.

MAP 26/11

Yes mt

26th November 1981

Dear Mike

WELSH WATER AUTHORITY: REORGANISATION

My Secretary of State wishes to make an oral statement in the House on his proposals for the reorganisation of the Welsh Water Authority. I attach a draft.

In a letter of 16 November, Mrs Oppenheim asked that when he makes his announcement my Secretary of State should make it clear that the arrangements for consumer advisory committees will be subject to review in the light of decisions on the structure of consumer representation in the nationalised industries generally. He will certainly do this. Mr Edwards will also bear in mind the points which Mrs Oppenheim made on the composition, aims and method of appointment of the committees, and the comments made by Mr Brittan in his letter of 13 November.

My Secretary of State would like to make the statement at the end of Oral questions next Monday, 30 November. He would be grateful for the Prime Minister's agreement to the statement being made and I would be grateful if any comments could be telephoned to my office as soon as possible. Mr Edwards aims to lay the draft Order (which is subject to the affirmative resolution procedure) shortly.

I am copying this letter to the Private Secretaries to the Chancellor of the Exchequer, the Leader of the House, the Chief Whips of the Lords and Commons, all members of E(EA), the Minister of State for Consumer Affairs and Sir Robert Armstrong.

Yours ever

John Craig

J F CRAIG
Private Secretary

Mike Pattison Esq
Private Secretary
10 Downing Street
LONDON

DRAFT STATEMENT ON THE REORGANISATION OF THE WWA

Hon Members will recall that in July this year I issued a consultation document proposing changes in the structure of the Welsh Water Authority. My main proposal was for a reduction in the membership of the Authority from its present 35 to about 10 members. I also put forward three possible options for safeguarding the interests of consumers; first, the appointment of local committees based on the WWA's seven divisions; secondly, a single committee for the whole WWA area; thirdly, consumer representation on the WWA itself.

I have now considered the responses - over 100 in number - to the consultation document. Apart from the local government bodies a majority favoured the proposal to reduce the size of the Authority, and most responses also preferred my first option for consumer representation.

However, in recognition of the arguments put forward by the local authority organisations I have decided that the Authority should be somewhat larger than the number I originally proposed. Instead of 10 members I now intend, subject to Parliamentary approval, to appoint 13 members. Of these, one will be the chairman, two will be appointed for their knowledge of fisheries and land drainage respectively, four will be appointed to represent the interests of county and district councils, and the remaining six will be people with experience in management, finance, business (including agriculture), industrial relations or personnel matters. A board of 13 members, plus the Chief Executive, who would normally attend their meetings, will I believe be small enough to secure the speedier decision making and other improvements in management which I regard as necessary.

As regards the consumer interest I have decided in favour of a modified form of the first option set out in my consultation paper. I propose to ask the Authority to set up five local consumer advisory committees covering district council areas approximating to the various WWA divisions or combinations of them. I envisage that consumer, agricultural, industrial, commercial, local government, recreations and amenity interests will be represented on these committees, the membership and functions of which will be laid down in guidelines drawn up by my Department in consultation with the various interests concerned. These arrangements will be subject to review in due course in the light of wider decisions by the Government on the structure of consumer representation in publicly owned industries generally.

My proposals relating to the membership of the Authority itself will need to be implemented by means of an Order (subject to the affirmative resolution procedure) made under sections 2 and 3 of the Water Act 1973. I will lay the draft of such an Order before Parliament very shortly.

Mr Pattison cc T. Cowan

cc Mr Ingham
Mr Vereker

This does not justify the change; it implies to do so badly in the sentence

Prime Minister

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MAP 26/11

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Yours ever

John Craig

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I have now considered the responses - over 100 in number - to the consultation document. Apart from the local government bodies a majority favoured the proposal to reduce the size of the Authority, and most responses also preferred my first option for consumer representation.

However, in recognition of the arguments put forward by the local authority organisations I have decided that the Authority should be somewhat larger than the number I originally proposed. Instead of 10 members I now intend, subject to Parliamentary approval, to appoint 13 members. Of these, one will be the chairman, two will be appointed for their knowledge of fisheries and land drainage respectively, four will be appointed to represent the interests of county and district councils, and the remaining six will be people with experience in management, finance, business (including agriculture), industrial relations or personnel matters. A board of 13 members, plus the Chief Executive, who would normally attend their meetings, will I believe be small enough to secure the speedier decision making and other improvements in management which I regard as necessary.

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With the Compliments of

the Minister of State
for Consumer Affairs Office

CS 178

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From the
Minister of State
for Consumer Affairs
The Rt Hon Sally Oppenheim MP

The Rt Hon Nicholas Edwards MP
Secretary of State for Wales
Welsh Office
Gwydyr House
LONDON SW1A 2ER

16 November 1981

Dear Nick -

Thank you for sending me a copy of your letter of 6 November to Patrick Jenkins about the reorganisation of the Welsh Water Authority.

My own interest in this of course touches the arrangements for the representation of consumer interests. Of the three options floated in the consultative document published in July, my preference would ideally be for the appointment of a member to the new Authority with special responsibility for consumer interests, as an interim measure pending wider decisions on the current NICC review. I recognise however that such decisions will not be taken for some little time and that this option attracted little support in the consultations. In these circumstances I can go along with the alternative arrangements you propose - the appointment by the WWA itself of five district committees, under the powers available in the Water Act - provided it is made clear when the new scheme is announced that these arrangements will naturally be subject to review in due course in the light of wider decisions on the structure of consumer representation in the nationalised industries generally.

I have three other points, First, I note that local authorities will be represented on the new committees. It will I think be important to ensure that they remain very much a minority interest, bearing in mind that experience with the NICCs suggests that local authority nominees tend to be the least effective element in consumer bodies.

Cont'd.

Secondly, you do not indicate how large the new committees will be: but you intend I hope to keep the numbers small.

Finally, though I accept that the nature of the powers available under the Water Act makes it necessary for the new bodies to be appointed for the time being by the WWA itself, I do not regard this as a satisfactory long-term basis for the appointment of consumer watch-dogs in the nationalised industries; and I am sure that it is a point we will need to look at again when we settle the structure of new NICC arrangements.

I would be grateful if your officials could be in touch with mine in due course about the guidelines you will be issuing on the operation of the new consumer committees. This is a matter in which we of course have a considerable interest, not simply because of my wider NICC responsibilities but more because this will provide valuable experience in using the guidelines route rather than detailed statutue to indicate what we want such bodies to do.

Yours ever
Sally

SALLY OPPE

Treasury Chambers, Parliament Street, SW1P 3AG

The Rt Hon Nicholas Edwards MP
Secretary of State
Welsh Office
Gwydyr House
Whitehall
London SW1A 2ER

13 November 1981

Dear Secretary of State,

REORGANISATION OF THE WELSH WATER AUTHORITY

Thank you for copying to me your letter to Patrick Jenkin of 6 November.

I still have some reservations about your proposals, but do not wish to object to your going ahead with them.

The board you propose is still larger than I think would be ideal; but I can see it would be difficult to reduce the numbers further if it is your judgement that there must be some local authority representation. The main thing, however, is to choose the right people, and I would hope that even the local authority, land drainage and fisheries representatives whom you appoint would be selected for their personal qualities and expertise, and not just for the vested interests which they represent.

I also have misgivings about your proposed consumer committees. Certainly I cannot see them acting as informed or influential critics of the authority's financial policies or bringing effective pressure to bear for greater efficiency and cost consciousness, as I would expect a smaller more highly qualified body to do.

However, subject to John Biffen's views, I do not wish to press either point further if that will delay the reorganisation of the Authority, providing Michael Heseltine does not feel constrained to adopt similar arrangements for the English authorities. I do think we need to leave open the option of modifying both the board structure and the consumer arrangements if, when we come to discuss the reorganisation of the English authorities we conclude that there is a better solution.

I am copying this letter to recipients of yours.

Yours sincerely

LEON BRITTAN
[Approved by the Chief Secretary
and signed in his absence]

Local Gov
GSR
31/7

REORGANISATION OF THE WELSH WATER AUTHORITY
CONSULTATION DOCUMENT

Introduction

1. The way in which the Welsh Water Authority operate is a matter of public concern and the Secretary of State has been reviewing the structure of the Authority with a view to improving their operation and performance. The Authority are responsible for sewerage, sewage treatment, land drainage, recreation and amenity as well as water supply.

2. These important functions are vital for every household and every business in Wales. They involve major capital works, the maintenance of large and often old facilities and the provision of a wide range of services. In the past the public have often tended to take these services for granted and to assume that because water is an abundant resource it is also cheap. The introduction of direct billing in the last few years has made consumers aware for the first time since reorganisation of the full cost of the water services and has also led to increasing criticism of the Authority.

3. Though the criticisms are sometimes unfair, and the increase in domestic charges has been kept within the increase of the RPI in recent years, the public and industrial users are fully entitled to know that this vital industry is being managed and organised in the most efficient way possible and that adequate arrangements exist for consumer consultation and for involving the local authorities in decisions that affect them.

4. Public interest in the way the Welsh Water Authority operate has been strong and a number of proposals have been made in recent years for improving the performance of the Authority, who were established by the Water Act 1973 and who are responsible for most of Wales, Herefordshire and part of Cheshire, but not for part of the Montgomery District which falls within the area of the Severn-Trent Water Authority.

5. The Welsh Water Authority are directly responsible to the Secretary of State and the statutory provisions enable organisational changes to be made, subject to the consent of Parliament, independently of any alterations that may be considered for England and without the need for primary legislation.

6. At present, the Secretary of State appoints the Chairman and 14 part-time members, of whom 10 are required to be persons who appear to him to have had experience of, and shown capacity in, some matter relevant to the functions of water authorities, and 4 to have had experience, and shown capacity in, agriculture, land drainage or fisheries. The Authority also have 20 members from county and district councils in their area.

7. Water authorities are large and important bodies with very substantial incomes and capital investment programmes, and since 1974 the need to make water authorities subject to the same disciplines as the nationalised industries has been increasingly recognised. The thinking behind the White Paper on the Nationalised Industries (Cmnd 7131) is accordingly now being applied to the water industry; the authorities are being required to meet current cost accounting financial targets, performance aims are being set, and borrowing is controlled through external financing limits. The aim is that water authorities should be efficient enterprises providing an essential service in a cost effective way. The Welsh Water Authority should be fully accountable to the Secretary of State and Parliament.

8. The Secretary of State takes the view that there is a strong case for reorganising the Authority. The objective of any reorganisation should be to improve the effectiveness of the management structure in order to obtain tighter financial control and greater efficiency while giving the public a more effective way of making their views known to the Authority. The present structure does not, in the Secretary of State's view, meet these requirements. It has not in practice enabled local government to take an effective part in the management of the industry; since there are only two members from each county, there is no clear link between the nominated members and the local electorates, particularly in counties as

large as Dyfed and Gwynedd. Quick decision has been inhibited; responsibility between officials and board members has been unclear and lines of accountability are blurred. The board is presently far too large for speed of discussion and decision making and service on it is therefore not attractive to persons with first hand experience of managing large concerns. The Secretary of State believes that the board should be replaced by a smaller body with the necessary business skills and experience and that new arrangements should be made to take account of local authority and consumer interests.

9. While constitutions of the Regional Water Authorities in England are laid down by Section 3 of the Water Act 1973, and cannot therefore be changed without primary legislation, the constitution of the Welsh Water Authority is separately prescribed by an Order (admitting of variation) under Section 3(10) of the Act. It is therefore possible for the Secretary of State, with the approval of Parliament, to change the constitution of the Authority by Statutory Instrument.

Proposed Membership of the Welsh Water Authority

10. The Secretary of State accordingly proposes:

a. that county and district councils should no longer appoint members to the Welsh Water Authority;

b. that the Authority should be reduced to about 10 members (including the Chairman and the land drainage and fisheries members), all appointed by him,

with the object of creating a smaller and more efficient body. The ordinary members would continue, as at present, to be unpaid, but to be entitled to financial loss allowance and to travel and subsistence expenses. While under present legislation, the Chief Executive could not be formally appointed a member of the Authority while remaining a paid officer, the Secretary of State intends to ask the Chairman to invite the Chief Executive to attend every meeting of the Authority and when the

opportunity arises the Government will consider legislating to enable the Chief Executive and possibly one or two other chief officers to be full members of the board.

11. Before appointing members, the Secretary of State would carry out informal soundings of the kinds of interests which are at present consulted about Government-appointed members - for example, the CBI (Wales), the Wales TUC, the National Farmers Union, the Farmers Union of Wales, the Country Landowners Association, the Wales Tourist Board, Chambers of Commerce, and the Council for the Protection of Rural Wales. In view of the fact that local authorities would not themselves be appointing members, there would also be consultation with the local authority organisations. The present requirements for the statutory Regional Land Drainage Committee and Regional Fishery Advisory Committee would remain unchanged, as would the requirements that one of the appointees to the Authority must be Chairman of the RLDC and another a member of the Severn-Trent Water Authority. The Secretary of State takes the view that a streamlined Authority operating on the lines indicated above should be able to administer this important Welsh undertaking, with an income of over £115m a year and a capital investment programme of some £35m a year, in an efficient manner; and with clear accountability through him to Parliament.

The consumer interest

12. The interests of consumers and local authorities should be fully safeguarded and indeed strengthened. The Welsh Water Authority are a monopoly and it is vital that they should be responsive to local and consumer needs. Efficient arrangements for this purpose should also help to bring about greater cost-effectiveness.

13. Under the present arrangements the local authority members are intended to be, among other things, consumer representatives; but this function is not generally appreciated by the public. There is lack of direct contact between the local authority members and many of the local authorities in their counties, and it is difficult for local authority

members to represent consumer interests in parts of Wales far from their own localities.

14. One way forward that would not require legislation in the first instance would be to base new arrangements on the areas of the Welsh Water Authority's seven multi-purpose divisions or combinations of those areas. The Authority have powers under Section 6(8) the 1973 Act to appoint advisory committees on any matter relating to their functions and the Secretary of State could ask them to set up such a committee for consumer affairs in each of their Divisions. The membership of each committee would consist of representatives from each County and District Council wholly or partly within the Divisional area and from local industry, commerce, agriculture, Trade Unions, and consumer and amenity organisations within the area. The Secretary of State would not make any appointments himself but would issue guidelines to the Authority to ensure adequate representation of these interests. The result would in each case be a committee of about 15-20 members, who would not be paid, but entitled to recover their expenses. The Committees would establish close liaison with the Divisional Management and the Committee Chairmen would have the right to put their views to the Authority at all times or could collectively meet the top management of the Authority from time to time. The committees constituted in this way would be analogous to community health councils which have received a wide support during the recent consultations about reform of the health service in Wales.

15. An alternative way in which consumer representation could be achieved would be for a single water consumers' committee to be appointed by the Welsh Water Authority under Section 6(8) of the 1973 Act for the whole of their area. The recent Monopolies and Mergers Commission Report on the Severn-Trent Water Authority envisaged a consumer body of between 50 and 100 members to extend the link with local government and also provide more straightforward representation of other bodies and recognised consumer groups. It should not, however, be necessary to envisage such a large body in the case of the smaller Welsh Water Authority. Such a committee would need to meet the main Authority board from time to time, but would also be able to take up individual consumers' complaints with the management at the appropriate local level.

16. A third option is to provide for consumer representation on the board itself. The Secretary of State could appoint to the board (which would be slightly enlarged for the purpose) some members who appeared well-qualified to represent the consumer interest, eg because of their experience in the consumer movement, in running businesses to the satisfaction of their customers, or in serving as elected members of local authorities. From the top of the organisation they would have a distinctive contribution to make to improving the Authority's performance and to developing good customer relations at all levels of the organisation.

17. Whatever arrangements are made it will be essential to draw on the experience of people in local government, industry, commerce and consumers' organisations. It will also be essential to give publicity to the arrangements for example through water bills. Full account will also need to be taken of the current review of the consumer arrangements for the nationalised industries generally which may identify further options for water and other public utilities. In the meantime, the Secretary of State would be glad to receive comments, which he will consider in consultation with the Secretary of State for Trade.

18. If following the present consultations, the Secretary of State decides to make changes on the lines proposed, he intends aiming to bring them into effect in 1982.

19. Any comments that interested bodies or individuals wish to make on these proposals should be sent to the Welsh Office (LG Division), Cathays Park, Cardiff, by 11 September 1981.

DEPARTMENT OF TRADE 1 VICTORIA STREET LONDON SW1H 0ET Telephone 01-215 7877

2 PPS

Local Govt

From the Secretary of State

John Craig Esq
Private Secretary to the
Secretary of State for Wales
Welsh Office
Gwydyr House
Whitehall
London, SW1A 2ER

24 July 1981

Dear John,

RE-ORGANISATION OF WELSH WATER AUTHORITY

Thank you for copying to me your letter of 23 July to Ian Ellison.

My Secretary of State is content with the general line you propose in your draft announcement and consultation paper. On the latter however there are three small drafting changes which we hope can be made; officials here have already been in touch with you about these, which for the record are:-

a After "collectively" in the penultimate sentence of paragraph 14 insert "and individually"; and delete paragraph 15. (For reasons of balance we would prefer a slightly briefer presentation of the first option.)

b Delete paragraph 18. (As you know my Secretary of State favours the "Poly-NICC" option mentioned here as the basis for new arrangements for consumer representation in the nationalised industries generally. But it would be premature to mention this option publicly before Ministers have agreed the terms of the consultative document we hope to issue soon on the NICC review.)

c Amend the third sentence of paragraph 19 to read:-

> "Final decisions on the system of local authority and consumer representation will only be taken after completion of this consultative process. Full account will also be taken of the conclusions emerging from the Government's current review of consumer representation in the nationalised industries generally, which may identify further options for water and other public utilities. In the meantime, the Secretary of State ....."

I am copying this letter to the recipients of yours.

Yours ever,
Nick McInnes.
N McINNES
Private Secretary

Y SWYDDFA GYMREIG
GWYDYR HOUSE
WHITEHALL LONDON SW1A 2ER
Tel. 01-233 3000 (Switsfwrdd)
01-233 8545 (Llinell Union)

ODDI WRTH YSGRIFENNYDD
PREIFAT YSGRIFENNYDD
GWLADOL CYMRU

WELSH OFFICE
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FROM THE PRIVATE SECRETARY
TO THE SECRETARY OF STATE
FOR WALES

CONFIDENTIAL

23 July 1981

Dear Ian

REORGANISATION OF THE WELSH WATER AUTHORITY

I attach a copy of the final version of the Consultation Paper which my Secretary of State proposes to issue on Monday 27 July; and, of the Parliamentary Answer which he intends to give on the same day. The redraft takes account of points made in discussion at E(EA) on Tuesday 21 July and also further cosmetic redrafting approved by my Secretary of State.

I am sending copies of this letter and enclosure to the Private Secretaries of members of E(EA) and to Tim Lankester at No 10.

Yours ever
John Craig

J F CRAIG
Private Secretary

Ian Ellison Esq
Private Secretary to
The Secretary of State for Industry
Department of Industry
Ashdown House
123 Victoria Street
LONDON

REORGANISATION OF THE WELSH WATER AUTHORITY
CONSULTATION DOCUMENT
INTRODUCTION

1. The way in which the Welsh Water Authority operates is a matter of public concern and the Secretary of State has been reviewing the structure of the Authority with a view to improving its operation and performance. The Authority is responsible for sewerage, sewage treatment, land drainage, recreation and amenity as well as water supply.

2. These important functions are vital for every household and every business in Wales. They involve major capital works, the maintenance of large and often old facilities and the provision of a wide range of services. In the past the public have often tended to take these services for granted and to assume that because water is an abundant resource it is also cheap. The introduction of direct billing in the last few years has made consumers aware for the first time since reorganisation of the full cost of the water services and has also led to increasing criticism of the Authority.

3. Though the criticisms are sometimes unfair, and the increase in domestic charges has been kept within the increase of the RPI in recent years, the public and industrial users are fully entitled to know that this vital industry is being managed and organised in the most efficient way possible and that adequate arrangements exist for consumer consultation and for involving the local authorities in decisions that affect them.

4. Public interest in the way the Welsh Water Authority operates has been strong and a number of proposals have been made in recent years for improving the performance of the Authority, which was established by the Water Act 1973 and which is responsible for most of Wales, Herefordshire and part of Cheshire, but not for part of the Montgomery

District which falls within the area of the Severn-Trent Water Authority.

5. The Welsh Water Authority is directly responsible to the Secretary of State and the statutory provisions enable organisational changes to be made, subject to the consent of Parliament, independently of any alterations that may be considered for England and without the need for promary legislation.

6. At present, the Secretary of State appoints 14 part-time members, of whom 10 are required to be persons who appear to him to have had experience of, and shown capacity in, some matter relevant to the functions of water authorities, and 4 to have had experience, and shown capacity in, agriculture, land drainage or fisheries. The Authority also has 20 members from county and district councils in its area.

7. Water authorities are large and important bodies with very substantial incomes and capital investment programmes, and since 1974 the need to make water authorities subject to the same disciplines as the nationalised industries has been increasingly recognised. The thinking behind the White Paper on the Nationalised Industries (Cmnd 7131) is accordingly now being applied to the water industry; the Authorities are being required to meet current cost accounting financial targets, performance aims are being set, and borrowing is now controlled through external financing limits. The aim is that water authorities should be efficient enterprises providing an essential service in a cost effective way. The Welsh Water Authority should be fully accountable to the Secretary of State and Parliament.

8. The Secretary of State takes the view that there is a strong case for reorganising the WWA. The objective of any reorganisation should be to improve the effectiveness of the management structure in order to obtain tighter financial control and greater efficiency while giving the public a more effective way of making their views known to the Authority.

The present structure does not, in the Secretary of State's view, meet these requirements. It has not in practice enabled local government to take an effective part in the management of the industry; since there are only two members from each county, there is no clear link between the nominated members and the local electorates, particularly in counties as large as Dyfed and Gwynedd. Quick decision has been inhibited; responsibility between officials and Board members has been unclear and lines of accountability are blurred. As the Monopolies and Mergers Commission Report on the Severn Trent Water Authority has shown, consumer interests have not been well protected. The Board is presently far too large for speed of discussion and decision making and service on it is therefore not attractive to persons with first hand experience of managing large concerns. The Secretary of State believes that the Board should be replaced by a smaller body with the necessary business skills and experience and that new arrangements should be made to take account of local authority and consumer interests.

9. While constitutions of the Regional Water Authorities in England are laid down by Section 3 of the Water Act 1973, and cannot therefore be changed without primary legislation, the constitution of the WWA is separately prescribed by an Order (admitting of variation) under Section 3(10) of the Act. It is therefore possible for the Secretary of State, with the approval of Parliament, to change the constitution of the WWA by Statutory Instrument.

Proposed Membership of the Authority

10. The Secretary of State accordingly proposes:

(a) that county and district councils should no longer appoint members to the WWA.

(b) that the Authority should be reduced to about 10 members (including the Chairman and the land drainage and fisheries members), all appointed by him,

with the object of creating a smaller and more efficient body. The ordinary members would continue, as at present, to be unpaid, but to be entitled to financial allowance and to travel and subsistence

expenses. While under present legislation, the Chief Executive could not be formally appointed a member of the Authority while remaining a paid officer, the Secretary of State intends to ask the Chairman to invite the Chief Executives to attend every meeting of the Authority and when the opportunity arises the Government will consider legislating to enable the Chief Executive and possibly the Chief Finance Officer to be full members of the Board.

11. Before appointing members, the Secretary of State would carry out informal soundings of the interests who are at present consulted about Government-appointed members - for example, the CBI (Wales), the Wales TUC, the National Farmers Union, the Farmers Union of Wales, the Country Landowners Association, the Wales Tourist Board, Chambers of Commerce, and the Council for the Protection of Rural Wales, In view of the fact that local authorities would not themselves be appointing members, there would also be consultation with the local authority organisations. The present arrangements for the statutory Regional Land Drainage Committee and Regional Fishery Advisory Committee would remain unchanged, as would the requirements that one of the appointees to the Authority must be Chairman of the RLDC and another a member of the Severn-Trent Water Authority. The Secretary of State takes the view that a streamlined Authority operating on the lines indicated above should be able to administer this important Welsh undertaking, with an income of over £115m a year and a capital investment programme of some £35m a year, in an efficient manner; and with clear accountability through him to Parliament.

The consumer interest

12. The interests of consumer and local authorities should be fully safeguarded and indeed strengthened, The Water Authority is a monopoly and it is vital that it should be responsive to local and consumer needs. Efficient arrangements for this purpose should also help to bring about greater cost-effectiveness.

13. Under the present arrangements the local authority members are intended to be, among other things, consumer representatives; but this function is not generally appreciated by the public. There is lack of direct contact between the local authority members and many of the local authorities in their counties, and it is difficult for local authority members to represent consumer interests in parts of Wales far from their own localities.

14. One way forward that would not require legislation in the first instance would be to base new arrangements on the areas of the Welsh Water Authority's seven multi-purpose divisions or combination of those areas. The WWA has powers under Section 6(8) of the 1973 Act to appoint advisory committees on any matter relating to their functions and the Secretary of State could ask them to set up such a committee for consumer affairs in each of their Divisions. The membership of each committee would consist of representatives from each County and District Council wholly or partly within the Divisional area and from local industry, commerce, agriculture, Trade Unions, and consumer and amenity organisations within the area. The Secretary of State would not make any appointments himself but would issue guidelines to the Authority to ensure adequate representation of these interests. The result would in each case be a committee of about 15-20 members, who would not be paid, but entitled to recover their expenses. The Committees would establish close liaison with the Divisional Management and the Committee Chairmen could collectively meet the top management of the Authority from time to time. The committees constituted in this way would be analogous to community health councils which have received a wide support during the recent consultations about reform of the health service in Wales.

15. Once a year - probably shortly before the fixing of the water charges - the Chairmen of the seven committees would meet the Authority for a full exchange of views but each Chairman would, in between annual meetings, have access either to the Chief Executive or to a member of the Authority specifically nominated to look after consumer affairs.

16. An alternative way in which consumer representation could be achieved would be for a single water consumers' committee to be appointed by the Welsh Water Authority under Section 6(8) of the 1973 Act for the whole of their area. The recent Monopolies and Mergers Commission Report on the Severn-Trent Water Authority envisaged a consumer body of between 50 and 100 members to extend the link with local government and also provide more straightforward representation of other bodies and recognised consumer groups. It should not, however, be necessary to envisage such a large body in the case of the smaller Welsh Water Authority. Such a committee would need to meet the main Authority from time to time, but would also be able to take up individual consumers' complaints with the management at the appropriate local level.

17. A third option is to provide for consumer representation on the Authority itself. The Secretary of State could appoint to the Authority (which would be slightly enlarged for the purpose) some members who appeared well-qualified to represent the consumer interest, eg because of their experience in the consumer movement, in running businesses to the satisfaction of their customers, or in serving as elected members of local authorities. From the top of the organisation they would have a distinctive contribution to make to improving the Authority's performance and to developing good customer relations at all levels of the organisation.

18. Yet a further option - on a longer term basis - could be arrangements linked with a consumers' body for several nationalised industries, for example the coal, electricity, gas and water industries in Wales. The first two options outlined above could be adapted for this purpose at a later stage.

19. Whatever arrangements are made it will be essential to draw on the experience of people in local government, industry, commerce and consumers' organisations. It will also be essential to give publicity to the arrangements for example through water bills. Final decisions

on the system of local authority and consumer representation will only be taken after completion of this consultation process, and full account will also be taken of the conclusions that emerge from the Government's current review of consumer representation generally. In the meantime, the Secretary of State would be glad to receive comments which he will consider in consultation with the Secretary of State for Trade.

20. If following the present consultations, the Secretary of State decides to make changes on the lines proposed, he intends aiming to bring them into effect in 1982.

21. Any comments that interested bodies or individuals wish to make on these proposals should be sent to the Welsh Office (LG Division), Cathays Park, Cardiff, by 11 September 1981.

PROPOSED PARLIAMENTARY QUESTION ON THE RESTRUCTURING OF THE WWA

Q. To ask the Secretary of State for Wales whether he has any proposals for improving the efficiency of the Welsh Water Authority.

A. I am today issuing a consultation paper proposing a reduction in the membership of the Welsh Water Authority. This reduction would be achieved mainly by providing that the local authorities would no longer nominate members to the WWA. New arrangements would have to be made to ensure a proper relationship with consumers and local authorities.

I would like to pay tribute to the work done by the WWA, and in particular by the Authority's Chairman, Mr Haydn Rees, and his predecessor the late Lord Brecon. But I believe that a smaller Authority would be more suitable for the running of this major industrial enterprise.

A copy of my consultation paper is being placed in the library.

SCOTTISH OFFICE
WHITEHALL, LONDON SW1A 2AU

R

Rt Hon Michael Heseltine MP
Secretary of State for Environment
2 Marsham Street
LONDON
SW1P 3EB

20 July 1981

NATIONAL WATER COUNCIL

Thank you for sending me a copy of your letter of 10 July to Francis Pym about the proposed Water Bill.

There is one point I would like to make on your suggested announcement about the future of the National Water Council and other decisions on the structure of the water industry. As you know, the functions of the NWC are, with two exceptions (training and the testing and approval of water fittings) limited to England and Wales. The bulk of the changes covered by the announcement will therefore affect England and Wales only and I think it would be best to make this clear at the outset. I suggest by the insertion of the words "in England and Wales" after "water industry" in the first sentence.

I look forward nevertheless to inclusion in the consultation envisaged about the alternative arrangements to be made for the NWC's statutory duties in Scotland. The need for this was, of course, recognised in Tom King's letter of 3 October.

I am copying this letter to the recipients of yours.

Approved by the Secretary of
State and signed in his absence

PRIVY COUNCIL OFFICE
WHITEHALL, LONDON SW1A 2AT

Chancellor of the Duchy of Lancaster
and
Paymaster General

cc Prime Min

20 July 1981

MBPM

R.

Dear Michael,

Thank you for your letter of 10 July about your intended announcement of the abolition of the National Water Council.

I am afraid that my view remains that an announcement at this stage would be premature. QL were quite clear on 16 July that there will be no time next Session for your proposed Water Bill, and to announce a decision in principle on the future of the NWC now without giving any indication of the timetable would, if anything, increase the present uncertainty within the industry. I would, however, have no objection to the point being considered further collectively in the context of the memorandum on the structure of the industry which you have circulated to E(EA).

I am copying this letter to the Prime Minister and other members of E Committee, to the Chief Whip, and to Sir Robert Armstrong.

Yours ever
Francis

FRANCIS PYM

The Rt Hon Michael Heseltine MP
Secretary of State for the Environment
2 Marsham Street
London SW1

DEPARTMENT OF TRADE 1 VICTORIA STREET LONDON SW1H 0ET Telephone 01-215 7877

From the Secretary of State

J F Craig Esq
Private Secretary to the
Secretary of State for Wales
Welsh Office
Gwydyr House
Whitehall
London, SW1A 2ER

20 July 1981

Dear John,

CONSTITUTION OF THE WELSH WATER AUTHORITY

Thank you for the copy of your letter of 15 July to Tim Lankester.

Mr Roberts has already discussed the line you are proposing to take in your consultative document with Mrs Oppenheim, who is broadly content with it. But the presentation of the options for consumer representation leans very heavily in one direction and the paper would benefit from being more balanced. If for no other reason than our general stance on advisory bodies, less emphasis on the possibility of the new authorities establishing subordinate committees would be desirable.

We could let you have detailed comments in a day or two but I gather water is being discussed in E(EA) on Tuesday next. Perhaps there would be advantage in awaiting the outcome of that meeting and then having your officials get in touch with those of the other Departments concerned.

I am copying this letter to recipients of yours.

Yours ever,

Nicholas McInnes

N McINNES
Private Secretary

Treasury Chambers, Parliament Street, SW1P 3AG

J F Craig Esq
Private Secretary to
The Rt Hon Nicholas Edwards MP
Secretary of State
Welsh Office
Gwydyr House
Whitehall
London SW1A 2ER

20 July 1981

Dear John,

CONSTITUTION OF THE WELSH WATER AUTHORITY

The Chief Secretary has seen your letter of 15 July to Tim Lankester, and the enclosures.

He would not wish to oppose Mr Edwards' desire to announce the issue of a consultation paper before the Recess. But he is not satisfied that the paper as it stands adequately deals with the concerns expressed in his letter of 22 June.

In particular, the section on consumer representation seems to him to lay far too much stress on one of the possible options, to the detriment of the others. He would hope this section could be revised with a view to achieving a better balance and a greater appearance of genuine openness of mind. There might also usefully be some indication of the relative costs of different proposals.

The Chief Secretary has also noted that the contrast between paid officials and unpaid members in para. 10 of the draft paper could raise questions about the remuneration of members, on which the Government has not yet reached a view.

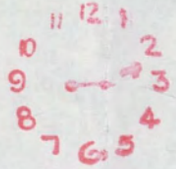
The Chief Secretary would like officials to discuss how best the draft might be amended to meet his concerns.

Mr Heseltine's proposals for the restructuring of the English water authorities are to be discussed at E(EA) Committee on Tuesday. Since that discussion could be germane to the Welsh proposals, the Chief Secretary suggests that detailed drafting amendments might be deferred until the outcome of Tuesday's meeting is known.

I am copying this letter to the recipients of yours.

Yours ever,
Terry Matthews

T F MATHEWS 20 July 1981



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Local Govt.

10 DOWNING STREET

From the Private Secretary

17 July 1981

Dear Tim.

Constitution of the Welsh Water Authority

I have shown the Prime Minister your letter of 15 July with which you enclosed a draft consultation paper and a draft Parliamentary reply to a PQ on the above subject. The Prime Minister has noted that your Secretary of State wishes to issue the consultation paper before Parliament rises for the recess; she has no comment on either draft.

I am sending copies of this letter to the Private Secretaries to members of E, Murdo Maclean (Chief Whip's Office) and David Wright (Cabinet Office).

Yours ever.

Tim Lankester.

J.F. Craig, Esq.,
Welsh Office.

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01-233 8545 (Direct Line)

FROM THE PRIVATE SECRETARY
TO THE SECRETARY OF STATE
FOR WALES

Prime Minister

You have approved the policy decision on this. The attached drafts seem alright. Can I say that we have no comments? Yes MT

G Prime Minister

15 July 1981

Dear Tim

CONSTITUTION OF THE WELSH WATER AUTHORITY

In your letter of 29 June you said that the Prime Minister was content with my Secretary of State's proposals for reorganising the WWA, subject to the options for consumer representation being kept open for the time being.

... I now enclose a copy of our draft consultation paper and of a draft parliamentary reply to a PQ. My Secretary of State wishes to issue the consultation paper before Parliament rises for the Summer Recess.

/ I am copying this letter to the Private Secretaries of the Members of E Committee, Murdo Maclean and David Wright and I would be grateful for comments by midday on Monday 20 July.

Yours ever
John Craig

J F CRAIG
Private Secretary

T Lankester Esq
Private Secretary
10 Downing Street
LONDON

REORGANISATION OF THE WELSH WATER AUTHORITY
CONSULTATION DOCUMENT
INTRODUCTION

1. The way in which Water Authorities operate is a matter of great public concern, and in recent years has been the subject of mounting criticism.

2. The 10 water authorities in England and Wales are responsible for the management of a major industry which was organised before the 1973 Act by over 1,400 separate authorities.

3. The authorities are responsible for sewerage, sewage treatment, land drainage, recreation and amenity as well as water supply. In addition there are 28 statutory water companies responsible only for water supply within their own areas.

4. These important functions are vital for every household and every business. They involve major capital works, the maintenance of large and often old facilities and the provision of a wide range of services. In the past the public have often tended to take these services for granted and to assume that because water is an abundant resource it is also cheap. The introduction of direct billing in the last few years has made consumers aware for the first time since reorganisation of the full cost of the water services and has also led to increasing criticism of the authorities.

5. Though the criticisms are sometimes unfair, and the increase in domestic charges has been kept within the increase of the RPI in recent years, the public are fully entitled to know that this vital industry is being managed and organised in the most efficient way possible and that adequate arrangements exist for consumer consultation and for involving the local authorities in decisions that affect them.

6. Public interest in the way the industry operates has been particularly strong in Wales; and a number of proposals have been made in recent years for improving the performance of the Welsh Water Authority which was established by the 1973 Act and which is responsible for most of Wales, Herefordshire and part of Cheshire, but not for part of the Montgomery District which falls in the Severn/Trent catchment area.

7. The Welsh Water Authority is directly responsible to the Secretary of State and the statutory provisions enable organisational changes to be made, subject to the consent of Parliament, independently of any alterations that may be considered for England and without the need for primary legislation.

8. The Secretary of State believes that there should be a reorganisation of the Authority to improve the effectiveness of the management structure in order to obtain tighter financial control and greater efficiency while giving the public a more effective way of making their views known to the authority. He believes that there is now overwhelming evidence on the basis of experience since 1974 that the present structure is cumbersome and that the general public regard the present arrangements for their involvement as inadequate; and equally that while the present arrangements were designed to involve local government in the management of the industry, the method adopted has not proved satisfactory. The proposals that follow are designed to rectify these faults and in particular to make sure that local authority members and consumers have an effective line of communications to the authority both at divisional and board level. They are designed also to produce a board with the necessary business skills and experience that is not so large that the task of decision making is hindered.

9. At present, the Secretary of State appoints 14 part-time members, of whom 10 are required to be persons who appear to him to have had experience of, and shown capacity in, some matter relevant to the functions of water authorities, and 4 to have had experience, and shown capacity in, agriculture, land drainage or fisheries. The Authority also has 20 members from county and district councils in its area.

10. When water reorganisation took place in 1973-74 it was hoped that this type of Authority would be able to take effective decisions on the running of the industry while providing for adequate safeguarding of consumer interests through the local authority representatives, with their majority on the board. But there is evidence that in practice the Authority, with its complex committee structure, has been too large and unwieldy for maximum efficiency. Those with necessary expertise and experience are increasingly reluctant to serve with an authority organised in this way. Quick decision-taking has been inhibited, and responsibility between the full-time paid officials and the part-time unpaid board members has been blurred. Moreover, since there are only 2 members from each county, there is no clear link between the nominated members and the local electorates, particularly in counties as extensive as Dyfed and and Gwynedd. Lines of accountability are blurred. As the Monopolies and Mergers Commission (MMC) has recently found in the analogous case of the Severn-Trent Water Authority, this type of structure does not appear to have fulfilled the hope that it would enable consumer interests to be fully protected.

11. Water authorities are large and important bodies with very substantial incomes and capital investment programmes, and since 1974 the need to

make water authorities subject to the same disciplines as the nationalised industries has been increasingly recognised. The thinking behind the White Paper on the Nationalised Industries (Cmnd 7131) is accordingly now being applied to the water industry; the Authorities are being required to meet current cost accounting financial targets, performance aims are being set, and borrowing is now controlled through external financing limits. The aim is that water authorities should be efficient enterprises providing an essential service in a cost effective way. The Welsh Water Authority should be fully accountable to the Secretary of State and Parliament.

12. The Secretary of State takes the view, therefore, that there is a strong case for reorganising the WWA, on the basis of a small board chosen for their expertise and business experience, with the consumer and local authority interest being represented by separate arrangements. The Secretary of State is reinforced in this view by the recent Report of the MMC on the Severn-Trent Water Authority, which recommended a much smaller membership, no longer based predominantly on local government representation.

13. While constitutions of the Regional Water Authorities in England are laid down by Section 3 of the Water Act 1973, and cannot therefore be changed without primary legislation, the constitution of the WWA is separately prescribed by an Order (admitting of variation) under Section 3(10) of the Act. It is therefore possible for the Secretary of State, with the approval of Parliament, to change the constitution of the WWA by Statutory Instrument.

Proposed Membership of the Authority

14. The Secretary of State accordingly proposes:

(a) that county and district councils should no longer appoint members to the WWA,

(b) that the Authority should be reduced to about 10 members (including the Chairman and the land drainage and fisheries members), all appointed by him,

with the object of creating a smaller and more efficient body. While

under present legislation, the Chief Executive could not be formally appointed a member of the Authority while remaining a paid officer, the Secretary of State intends to ask the Chairman to invite the Chief Executives to attend every meeting of the Authority and when the opportunity arises the Government will consider legislating to enable the Chief Executive and possibly the Chief Finance Officer to be full members of the Board.

15. Before appointing members, the Secretary of State would carry out informal soundings of the interests who are at present consulted about Government-appointed members - for example, the CBI (Wales), the Wales TUC, the National Farmers Union, the Farmers Union of Wales, the Country Landowners Association, the Wales Tourist Board, Chambers of Commerce, and the Council for the Protection of Rural Wales. In view of the fact that local authorities would not themselves be appointing members, there would also be consultation with the local authority organisations. The present arrangements for the statutory Regional Land Drainage Committee and Regional Fishery Advisory Committee would remain unchanged, as would the requirements that one of the appointees to the Authority must be Chairman of the RLDC and another a member of the Severn-Trent Water Authority. The Secretary of State takes the view that a streamlined Authority operating on the lines indicated above should be able to administer this important Welsh undertaking, with an income of over £115m a year and a capital investment programme of some £35m a year, in an efficient manner; and with clear accountability through him to Parliament.

The consumer interest

16. The interests of consumer and local authorities should be fully safeguarded and indeed strengthened. The Water Authority is a monopoly and it is vital that it should be responsive to local and consumer needs. Efficient arrangements for this purpose should also help to bring about greater cost-effectiveness.

17. Under the present arrangements the local authority members are intended to be, among other things, consumer representatives; but this function is not generally appreciated by the public. There is lack of direct contact between the local authority members and many of the local authorities in their counties, and it is difficult for local authority members to familiarise themselves with conditions in parts of Wales far from their own localities.

18. One way forward that would not require legislation in the first instance would be to base new arrangements on the areas of the Welsh Water Authority's seven multi-purpose divisions or combinations of those areas. The WWA has powers under Section 6(8) of the 1973 Act to appoint advisory committees on any matter relating to their functions and the Secretary of State would ask them to set up such a committee for consumer affairs in each of their Divisions.

19. The membership of each committee would consist of representatives from each County and District Council wholly or partly within the Divisional area and from local industry, commerce, agriculture, Trade Unions, and consumer and amenity organisations within the area. The Secretary of State would not make any appointments himself but would issue guidelines to the Authority to ensure adequate representation of these interests. The result would in each case be a committee of about 15-20 members.

20. The committee would meet (at intervals to be agreed at members' discretion), to discuss with the Divisional Manager and to offer advice on any matters raised by consumers, such as complaints about levels of service and perhaps, also, current and future capital investment in the Division. Although they would not necessarily discuss individual complaints at their regular meetings, each member of the committee would have access to the Divisional Manager or a nominated officer in the Division to take up such complaints as they occur. Publicity would be given to these arrangements, eg through water bills.

21. Once a year - probably shortly before the fixing of the water charges - the Chairmen of the seven committees would meet the Authority for a full exchange of views but each Chairman would, in between annual meetings, have access either to the Chief Executive or to a member of the Authority specifically appointed to look after consumer affairs.

22. At a later stage it would be possible to legislate to make the committee wholly independent of the Welsh Water Authority itself. The committees constituted in this way would be analogous to community health councils which have received wide support during the recent consultations about reform of the health service in Wales.

23. There are of course other ways in which adequate consumer and local authority representation could be achieved: for example, through Authority members appointed specifically for that purpose, through an all-Wales committee, or through arrangements linked with a consumers body for a number of nationalised industries. Whatever arrangements are made it will be essential to draw on the experience of people in local government, industry, commerce and consumers' organisations. Final decisions on the system of local authority and consumer representation will only be taken after completion of this consultation process, and full account will also be taken of the conclusions that emerge from the Government's current review of consumers representation generally. In the meantime the Secretary of State would be glad to receive comments which he will consider in consultation with the Secretary of State for Trade.

24. If following the present consultations, the Secretary of State decided to make changes on the lines proposed he would aim to bring them into effect in 1982.

25. Any comments that interested bodies or individuals wish to make on these proposals should be sent to the Welsh Office (LG Division), Cathays Park, Cardiff by 11 September 1981.

PROPOSED PARLIAMENTARY QUESTION ON THE RESTRUCTURING OF THE WWA

Q. To ask the Secretary of State for Wales whether he has any proposals for improving the efficiency of the Welsh Water Authority.

A. I am today issuing a consultation paper proposing a reduction in the membership of the Welsh Water Authority. This reduction would be achieved mainly by providing that the local authorities would no longer nominate members to the WWA. New arrangements would have to be made to ensure a proper relationship with consumers and local authorities.

I would like to pay tribute to the work done by the WWA, and in particular by the Authority's chairman, Mr Haydn Rees, and his predecessor the late Lord Brecon. But I believe that a smaller Authority, replacing the cumbersome machinery created at the time of reorganisation, would be more suitable for the running of this major industrial enterprise.

A copy of my consultation paper is being placed in the library.

CONFIDENTIAL

cc MOD FCO JA/AS
CSO HO
D/N CO
DOT SO Local
MAFF NIO Govt
D/M WO
LPO
D/Ind
HMT

10 DOWNING STREET

From the Private Secretary

13 July 1981

National Water Council

The Prime Minister has read your Secretary of State's letter of 10 July, and the draft statement which he enclosed with it. Subject to other Ministers' views, and in particular the Chancellor of the Duchy of Lancaster's, the Prime Minister is content that the statement should be made in the terms of the draft.

I am sending copies of this letter to the Private Secretaries to the Members of E Committee, the Secretaries of State for Scotland, Wales, and Northern Ireland, and to David Wright (Cabinet Office).

J. P. LANKESTER

D.A. Edmonds, Esq.,
Department of the Environment.

CONFIDENTIAL

2

2 MARSHAM STREET
LONDON SW1P 3EB

Prime Minister

Mr Heseltine wishes to announce abolition of the NWC, even tho' the Water Bill is still not definitely in the legislative programme.

Content, subject to Mr Pym's views?

Yes MT

10/7

My ref:

Your ref:

10 July 1981

Dear Francis

NATIONAL WATER COUNCIL

Thank you for giving us drafting authority for a possible Water Bill next Session.

When you wrote on 1 April in advance of the discussion in E Committee you asked that there should be no announcement about the National Water Council unless and until Cabinet decided that the proposed Water Bill should be included in next Session's legislative programme.

I am afraid that I see great difficulty in that course. The fact that the NWC is under review is getting abroad and I would not be surprised if shortly we were questioned about it. Secondly there is the problem of making fresh appointments to the Council in the present state of uncertainty. Finally, it would undoubtedly help those who are preparing the Bill if they were able to consult about future arrangements for discharging those functions of the Council which are to continue.

For these reasons I should like to make an announcement this month about the future of the National Water Council and our other decisions on the structure of the water industry. I enclose a draft of the proposed text. As you will see, I am proposing to leave open the timing of the Bill so that Cabinet's decision on the final content of next Session's programme is not prejudiced.

I would prefer not to make a statement about proposals of this kind when the timetable for implementing them is (inevitably) so uncertain. However, in this case I think it is essential to do so and I recall that the decision to abolish the National Ports Council was announced some twelve months before the relevant Bill was introduced.

I am copying this letter to ther members of E Committee, the Secretaries of State for Scotland, for Wales and for Northern Ireland, and to Sir Robert Armstrong.

Yours ever

MICHAEL HESELTINE

The Rt Hon Francis Pym MP

DRAFT STATEMENT

The Government have decided to slim down the organisational and management structure of the water industry with a view to greater efficiency of operation. First it is proposed to abolish the National Water Council and to secure a more direct unfettered relationship between Ministers and the water authorities. There will be early consultation about the alternative arrangements needed for some of the Council's functions. Secondly, in its report on the Severn Trent Water Authority, the Monopolies and Mergers Commission has recommended that the size of the authority should be substantially reduced and that its membership should not be based predominantly on local government representation. The Government are considering the wider implications of accepting this recommendation. Thirdly, it is proposed to wind up the Water Space Amenity Commission, but to retain the Inland Waterways Amenity Advisory Council. The necessary legislation to give effect to the Government's proposals will be brought forward when practicable.

local Govt.

cc Walters
Duguid
Vereker

Y SWYDDFA GYMREIG
GWYDYR HOUSE
WHITEHALL LONDON SW1A 2ER
Tel. 01-233 3000 (Switsfwrdd)
01-233 6106 (Llinell Union)

Oddi wrth Ysgrifennydd Gwladol Cymru

WELSH OFFICE
GWYDYR HOUSE
WHITEHALL LONDON SW1A 2ER
Tel. 01-233 3000 (Switchboard)
01-233 6106 (Direct Line)

From The Secretary of State for Wales

The Rt Hon Nicholas Edwards MP

IN CONFIDENCE

6 July 1981

R 7/7

Dear Leon

CONSTITUTION OF THE WELSH WATER AUTHORITY

Thank you for your letter of 22 June. I am very ready to accept your suggestion that my consultation paper should set out a few options for consumer representation, and my Department will clear the presentation of these options with the other Departments concerned. I agree with you that cost will be a factor that will have to be taken into account before we decide on the exact form of consumer representation to be adopted. The costs of any new consumer arrangements would, of course, be at least partly offset by the savings obtained from removing the 20 local authority members from the Authority.

As regards your point about salaries for members of the proposed new-style Authority, I certainly do not want to commit the Government, before the consultation process, to a scheme involving the payment of salaries to all Board members. My main concern here is that the future Chief Executive of the Authority - who is of course bound to be a full-time salaried officer - should be enabled to become a Board member.

On costs generally, I am confident that the new system I am proposing will be more efficient and economical than the existing one.

As you know the Prime Minister has now indicated that she is content with my proposals subject to the options on consumer representation being kept open. My officials will now clear the terms of my consultation paper with the other departments concerned and I will circulate a copy for colleagues to see as soon as possible.

I am sending copies of this letter to the Prime Minister, E Committee colleagues, Michael Jopling, Sally Oppenheim, and Sir Robert Armstrong.

Yours ever

Nick

The Rt Hon Leon Brittan MP
Chief Secretary to the Treasury
Treasury Chambers
Parliament Street
LONDON

File

BK

Local Gov't

CF

2 July 1981

Thank you for your letter of 30 June saying that your Secretary of State wished to announce the Government's decision to retain the Inland Waterways Amenity Advisory Council.

The Prime Minister is content for your Secretary of State to make such an announcement, provided that the Secretary of State for Wales is also content.

I am copying this letter to Martin Rolph (Welsh Office).

W F S RICKETT

Jeff Channing, Esq.,
Department of the Environment

DSG

EA

Prime Minister

Content subject to Mr Edwards' agreement?

WR 1/7

Yes

2 MARSHAM STREET
LONDON SW1P 3EB

My ref:

Your ref:

30 JUN 81

Dear Willie

You wrote to me on 15 May confirming the Prime Minister's agreement to the abolition of the Water Space Amenity Commission and the retention of the Inland Waterways Amenity Advisory Council.

It was the Secretary of State's intention to announce the retention of IWAAC at the same time as he announced the abolition of the National Water Council and WSAC. The case for keeping IWAAC arises from pressure from waterways user interest, the British Waterways Board and, indeed, colleagues, and is not tied to any proposals for restructuring the water industry. The Secretary of State therefore believes that there would be considerable goodwill to be gained from announcing the Government's intentions towards IWAAC as soon as possible and he therefore seeks the Prime Minister's agreement to making an announcement shortly.

I am copying this letter to Martin Rolfe (Welsh Office).

Yours ever

Jeff Channing.

J P CHANNING
Private Secretary

William Rickett Esq

CONFIDENTIAL

FILE

Rth

10 DOWNING STREET

From the Private Secretary

29 June, 1981

Constitution of the Welsh Water Authority

The Prime Minister has now had an opportunity to consider your Secretary of State's minute of 5 June. She has also seen Sir Keith Joseph's minute of 16 June, Mrs Oppenheim's letter of 17 June and the Chief Secretary's letter of 22 June.

The Prime Minister has noted that the Chief Secretary and the Minister of State for Consumer Affairs both have doubts about the proposed arrangements for consumer representation, and have suggested that the options with regard to this particular issue should be kept open for the time being. Subject to this, she is content with the proposals.

I am sending a copy of this letter to the Private Secretaries to the Members of E Committee, Murdo Maclean (Chief Whip's Office) and David Wright (Cabinet Office).

J. P. LANKESTER

John Craig, Esq
Welsh Office

CONFIDENTIAL

Sh

PRIME MINISTER

cc Press Office

Welsh Water Authority

Mr. Edwardes wants to make some changes in the organisation of the Welsh Water Authority, in particular reducing its size, which do not require legislation. He seeks your agreement to his now consulting the various interests concerned.

Other Ministers are content except on one point. Both Trade and Treasury Ministers are unhappy with the proposed arrangements for consumer representation; and they suggest that the options on this aspect should be kept open until the present review of consumer representation in the nationalised industries generally has been completed.

This seems sensible. Subject to it, shall I say you are content?

TPL

Yes mt

26 June 1981

Treasury Chambers, Parliament Street, SW1P 3AG

The Rt Hon Nicholas Edwards MP
Secretary of State
Welsh Office
Gwydyr House
Whitehall
London SW1A 2ER

22 June 1981

Dear Nick

CONSTITUTION OF THE WELSH WATER AUTHORITY

Thank you for copying to me your letter to the Prime Minister of 11 June.

I am content that you should press on with abolishing the local authority membership of the Welsh Water Authority, in advance of the similar change for the English authorities, which requires primary legislation.

I am less happy with your proposals on consumer representation. It is important to get these right. If they appear reasonable and effective they will certainly help to forestall criticism of the abolition of the local authority membership, but equally if not more important, consumer reaction to high water rates if brought to bear on the authorities in the right way, can be a very useful weapon in our drive for greater cost consciousness and efficiency in the industry.

I do not think we have reached the stage where we can say your proposals are the best ones judged by the second criterion. The arrangements for consumer representation in the English authorities are still under discussion and John Biffen will very shortly be issuing his consultation paper on consumer representation in the nationalised industries. The same solution certainly need not in the end be adopted across the board, but it would surely be sensible to keep open the options on the Welsh Authority a little longer.

I suggest, therefore, that your consultation paper sets out a few, well defined options, in line with those which are to be set out in relation to the nationalised industries in John Biffen's forthcoming Consultative Document. The two documents could then

cross-refer. The choice can then be left until the end of your consultation period, when the position on the English authorities and the nationalised industries may be clearer. Much the same point was made by John Biffen in his letter to Michael Heseltine of 29 May and by Sally Oppenheim in her letter to you of 17 June; and I think there is a particular need to keep the options open when there is a possibility of Wales ending up with different arrangements from England.

I would also like to see estimates of the cost of the various proposals before a decision is taken. Similarly, there is an implication in your paper that the members of the authority will be paid salaries as soon as the necessary legislation can be passed. This would be in line with nationalised industry Boards, but I can hardly endorse the reference as it stands without some idea of the cost.

I am copying this letter to the Prime Minister, to E Committee colleagues, and to Michael Jopling.

Leon

LEON BRITTAN

Local Gov 3 pgs

DEPARTMENT OF TRADE
1 VICTORIA STREET
LONDON SW1H OET

TELEPHONE DIRECT LINE 01 215 5662
SWITCHBOARD 01 215 7877

From the
Minister of State
for Consumer Affairs
The Rt Hon Sally Oppenheim MP

Rt Hon Nicholas Edwards MP
Secretary of State for Wales
Welsh Office
Gwydyr House
Whitehall
LONDON SW1

17 June 1981

Dear Nick

In John Biffen's absence abroad I have seen a copy of your minute of 5 June to the Prime Minister about the Welsh Water Authority.

I do agree that reform of the water industry is overdue; and I note that much of what you propose is consistent with the approach recommended in the recent MMC report on the Severn-Trent Water Authority. I am however unhappy about one point - the new arrangements you propose for the representation of consumer interests.

In the first place it seems to me quite wrong as a matter of principle to leave the responsibility for establishing special consumer machinery, as you suggest, to the WWA itself: all our experience with the Nationalised Industry Consumer Councils confirms that bodies representing the consumer interest must be - and be seen to be - genuinely independent of the industry with which they deal if they are to make an effective impact on management or indeed on the customers they serve.

Secondly, simply proposing arrangements of the kind you have in mind would prejudice the outcome of the wider review which we currently have in hand on consumer representation in the nationalised industries generally. My concerns on this point are essentially the same as those outlined by John Biffen in his letter of 29 May to Michael Heseltine about changes in the water industry in England: that is, your proposals would effectively rule out the possibility of creating a new "Poly-NICC" covering both the energy and the water industries - an option which many of us favour; and indeed would create the quite unwarranted impression that we may be contemplating arrangements for consumer representation in industries other than water of the kind you have in mind for the WWA.

John Biffen will be writing to colleagues shortly about the handling of the NICC review as a whole. In the meantime it is, I think important to keep our options entirely open in anything we say publicly, on consumer representation in the Welsh water industry.

I am copying this letter to the Prime Minister, members of E Committee, and to Michael Jopling.

Yours Ever
Sally

SALLY OPPENHEIM

JH 290

CONFIDENTIAL

cc Mr Duguid
Mr Walters

Message underneath

PRIME MINISTER

I have seen a copy of Nicholas Edwards' minute to you of 5 June about the reconstitution of the Welsh Water Authority.

2 I support his proposal to reduce the number of members. The new Board should include strong industrial representation and I am sure that Nick already has this in mind. It will help to ensure that the Authority operates in a commercially efficient way and gives a sympathetic ear to the voice of industry as a consumer. The same is also true for the proposed consumer advisory committees.

3 I am sending copies of this minute to the other members of E Committee, to Michael Jopling and to Sir Robert Armstrong.

K J

16 June 1981

CONFIDENTIAL

2 PP's

MINISTRY OF AGRICULTURE, FISHERIES AND FOOD
WHITEHALL PLACE, LONDON SW1A 2HH

From the Minister

The Rt Hon Nicholas Edwards MP
Secretary of State for Wales
Gwydyr House
Whitehall
SW1A 2ER

12 June 1981

Dear Nick,

CONSTITUTION OF THE WELSH WATER AUTHORITY

The only comment I should like to make on the proposal outlined in your minute of 5 June to the Prime Minister is that I am pleased to note that you propose to continue to appoint members to the Authority to represent land drainage and fisheries and to retain the Regional Land Drainage and Fishing Advisory Committees. Both these functions are outside the main stream of the water industry and I am sure that it is sensible to treat them separately in this way.

I am copying this letter to the Prime Minister, other members of E Committee, Michael Jopling and Sir Robert Armstrong.

Yours ever

PETER WALKER

CONFIDENTIAL

PRIME MINISTER

CONSTITUTION OF THE WELSH WATER AUTHORITY

For some time I have been anxious to change the organisation of the Welsh Water Authority (WWA) and in particular to reduce the size of the Board by removing the local authority membership. I am convinced that this is an essential measure if we are to improve the efficiency of the Authority, which like those in England, is the subject of considerable public criticism.

On 2 April E Committee considered a paper from Michael Heseltine and asked that he and I should consider reducing or abolishing local authority membership on water authorities, taking account of consumer arrangements. He and I minuted you on 11 and 12 May, and your Private Secretary said, in a letter of 15 May, that you had taken note of the position.

Now that the likelihood of securing a place for the primary legislation needed to reorganise the structure of all the water authorities in England and Wales has faded, I have agreed with Michael Heseltine and Tom King that I should proceed with my proposals for re-constituting the Welsh Water Authority. There is broad agreement between us about the pattern we would like to see in both countries, but as in Wales there are not the same obstacles to early action there is much to be said for pressing on with what needs to be done, while giving England the opportunity to benefit from our experience.

The annex to this minute sets out the proposals which it is possible to achieve without primary legislation, although the necessary order will be subject to affirmative resolution in both Houses.

I am now writing to seek the agreement of members of E Committee to my consulting the National Water Council, the WWA, the local authority associations and other interests concerned, about these proposals.

/ I am copying this to other members of E Committee, and to Michael Jopling, and I would be grateful to know whether you and they are content for me to proceed on these lines.

RNE

RNE
5 June 1981

THE CONSTITUTION OF THE WELSH WATER AUTHORITY

BACKGROUND

1. There is ample evidence that the Welsh Water Authority (WWA) is being hamstrung by its present cumbersome structure and I am convinced that if the Authority is to operate successfully it needs to be run on more business-like lines, by a board much smaller than the present one.

2. While the constitutions of the regional water authorities in England are closely circumscribed by the provisions of Section 3 of the Water Act 1973, the constitution of the Welsh Water Authority is separately prescribed by an Order (admitting of variation) under Section 3(10) of the Act. There is thus considerably more scope for changing the constitution of the WWA without primary legislation, although some aspects of its management and structure are subject to other provisions which cannot be changed by means of a new constitution order.

PROPOSALS

3. My main proposal is to remove from County and District Councils the power to appoint members to the WWA, and to reduce from 15 to 9 (including the Chairman) the number of members appointed by me (including land drainage and fisheries members), with the objective of creating a smaller and more efficient body. I would also ask the Chairman to invite the Chief Executive to attend every meeting of the Authority, although, under present legislation, he could not be formally appointed a member while he is a paid officer of the Authority (a defect I would want to remedy in primary legislation in due course).

4. The 1973 Act provides for the remuneration of the Chairman (and the Chairman of the Regional Land Drainage Committee), but there is no provision for salaries to be paid to other members, nor could such a provision properly be included in a new constitution order. Until primary legislation makes this possible, therefore, these other members will continue to be entitled only to financial loss allowance and travel and subsistence allowances.

5. Since the local authority members are intended to be, inter alia, consumer representatives, it will be necessary to make alternative arrangements to safeguard consumer interests. It will not be possible to make provision for this in a new constitution order, and what I propose to do is to base new arrangements on the areas of the WWA's seven multi-purpose Divisions. The WWA has powers under Section 6(8) of the 1973 Act to appoint advisory committees on any matter relating to their functions and I would ask them to set up such a committee for consumer affairs in each of their Divisions.

6. The membership of each committee would consist of representatives from each County and District Council wholly or partly within the Divisional area and from local industry, commerce, agriculture, Trade Unions, and consumer and amenity organisations within the area. I would not make any appointments myself but would issue guidelines to the Authority to ensure adequate representation of these interests. The result would in each case be a committee (which could be known as Local Water Consumer Advisory Committee) of about 15-20 members.

7. The committee would meet (at intervals to be agreed quarterly, four-monthly or even half-yearly at members' discretion), to discuss with the Divisional Manager and his staff and to offer advice on any matters raised by consumers, such as complaints about levels of service and perhaps, also, current and future capital investment in the Division. Although they would not necessarily discuss individual complaints at their regular meetings, each member of the committee would have access to the Divisional Manager or a nominated officer in the Division to take up such complaints as they occur. Publicity would be given to these arrangements, eg through water bills.

8. Once a year - probably shortly before the fixing of the water charges - the Chairmen of the seven committees would meet the Authority for a full exchange of views but each Chairman would, in between annual meetings, have access either to the Chief Executive or to a member of the Authority specifically appointed to look after consumer affairs.

9. It will not be possible to use the new constitution order to abolish the Authority's statutory Regional Land Drainage Committee (RLDC) or Regional Fishing Advisory Committee, nor to remove the requirements that one of my appointees to the WWA must be Chairman of the RLDC, and another a member of the Severn Trent Water Authority. But these are secondary matters which do not detract from my main objective.

10. I would like these proposals to come into effect in May 1982, when the present Chairman of the WWA is due to retire.

WELSH OFFICE

DEPARTMENT OF TRADE 1 VICTORIA STREET LONDON SW1H 0ET Telephone 01-215 7877

Coal Gov
Mr. A. Duguid
J. Vereker
A. Walters

CONFIDENTIAL

From the Secretary of State

The Rt Hon Michael Heseltine MP
Secretary of State for the
Environment
Department of the Environment
2 Marsham Street
London SW1

29 May 1981

Dear Michael,

Reply

WATER INDUSTRY STRUCTURE

In your minute of 11 May to the Prime Minister you raised the question of having to find alternative ways of safe-guarding the consumer interest when local authority membership of the Water Authorities ceases. Michael Jopling has since commented in his letter of 14 May that we could be in difficulty if we do not firmly announce those arrangements when the restructuring is announced.

I understand you hope to make an early announcement if you secure a legislation slot in the next Session. Ordinarily I would agree that such an announcement should deal definitively with both issues. But being quite firm then about new water consumer arrangements would prejudice the general review we still have in hand of the Nationalised Industries Consumer Councils. One of the options we recently agreed to consult publicly on was the creation of a "poly-NICC" covering energy and, possibly, water. Moreover if you opted for a particular solution on water before a wider consultation document was issued there might well be intense and unnecessary speculation that the Government proposed to take that same course in respect of the other main services, gas and electricity.

I have not yet brought forward further proposals on the general NICC review since it was decided that room for a Bill on the NICCs could

CONFIDENTIAL

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From the Secretary of State

not be found in the next Session. But I intend to do so very shortly, proposing much the same sort of consultative approach as outlined in my letter of 20 March to Geoffrey Howe.

It ought to be possible to deal with both the purely mechanical problem of any differences in timing and that of reconciling your wish to settle the consumer issue on water quickly and the much more tentative approach on consumer protection agreed with regard to the other industries. I feel sure, for example, that backbenchers and the public at large would be satisfied - indeed perhaps would be happier - with options on which interested bodies can express their views before the Government finally makes up their mind.

I am copying this letter to the Prime Minister and to the other recipients of your minute.

Yours

John Biffen

JOHN BIFFEN

29 MAY 1981

CONFIDENTIAL

Local Gov

CC KPM 18/5

file

ds

10 DOWNING STREET

From the Private Secretary

15 May 1981

The Prime Minister was grateful for the Secretary of State for the Environment's minute of 13 May. She is content with his proposals to announce the abolition of the Water Space Amenity Commission, and the retention of the Inland Waterways Amenity Advisory Council, when he announces the abolition of the National Water Council.

I am copying this letter to Martin Rolph (Welsh Office).

W. F. S. RICKETT

Jeff Channing, Esq.,
Department of the Environment.

DSG

MFJ

CONFIDENTIAL

cc CDLO DM
CWO LPO
WO DOI
MOD HMT
CO FCO
CS, HMT HO
DN Mr Ingham
DOT
MAFF

10 DOWNING STREET

From the Private Secretary

15 May 1981

CF Lobbe

Dear David.

Water Industry Structure

The Prime Minister has read your Secretary of State's minute of 11 May and the Secretary of State for Wales' minute of 12 May on the above subject. She has noted that they have agreed that local authority membership on water authorities should be abolished, but that implementation of this measure will depend upon whether and when the proposed Public Bodies Management Bill can be fitted into the legislative programme. She has also noted discussions on how the consumer interest can be accommodated are continuing.

I am sending a copy of this letter to the Private Secretaries to members of E committee and to John Craig (Welsh Office), David Heyhoe (Chancellor of the Duchy of Lancaster's office), Murdo Maclean (Chief Whip's Office) and David Wright (Cabinet Office).

Yours ever.

Tim Lankester.

D.A. Edmonds, Esq.,
Department of the Environment.

CONFIDENTIAL

12 Downing Street,
Whitehall,
London, S.W.1

With the Compliments

of the

Chief Whip

FROM: THE RT HON MICHAEL JOPLING MP

Local Gov

Government Chief Whip

12 Downing Street, London SW1

14 May 1981

Dear Michael

WATER INDUSTRY STRUCTURE

I have seen your note to the Prime Minister of 11 May concerning the reduction in Local Authority representation on Water Authorities. I want to send a note of caution that we could have serious trouble from Local Authorities and our own backbenchers if we make an announcement about the abolition of Local Authority representation without having a clearly defined description of the alternative consumer body at the same time. I am copying this letter to the recipients of yours.

Yours

Michael

The Rt Hon Michael Heseltine MP
Secretary of State for the Environment
Department of the Environment
2 Marsham Street
SW1

MR

1

Prime Minister

Content with Mr Heseltine's and Mr Edwards' proposal to abolish the Water Space Amenity Commission, but to retain the Inland Waterways Amenity Advisory Council?

WR
14/5

Prime Minister

Agreed
MT

With Nicholas Edwards' agreement, I seek your approval to an announcement that the Water Space Amenity Commission (WSAC) should be abolished. WSAC is the satellite of the National Water Council (NWC), set up under the Water Act 1973 to advise me, the NWC and water authorities on water recreation and amenity matters. All the water authority chairmen are ex officio members of it, and there are ten other members. It costs about £83,000 a year, financed by the NWC. It serves no purpose which could not equally well be handled by the Committee of water authority chairmen we agreed recently at E Committee should succeed the NWC.

At the same time, I propose to announce that we have decided not to proceed with the proposal to abolish, as soon as there was a legislative opportunity, the Inland Waterways Amenity Advisory Council (IWAAC). I have come under strong pressure to retain IWAAC from a number of colleagues (especially Tony Durant, Chairman of our Environment Committee, and Eldon Griffiths), the private sector boating interests, including tour operators and the trusts who are involved in the restoration of canals, and the British Waterways Board, who stress the importance of such a representative body with whom to discuss waterways problems.

SECRETARY OF STATE FOR THE ENVIRONMENT

On reflection, and in view of the low costs of IWAAC - about £30,000 a year, provided by the British Waterways Board - I believe a reprieve will be well received in the House and outside.

If you agree, I would like to announce the decisions to abolish WSAC and to retain IWAAC at the same time as I make an announcement about abolishing the NWC.

I am copying this minute to Nicholas Edwards.

M H

13 MAY 81

2F

2 RSL

CONFIDENTIAL

PRIME MINISTER

WATER INDUSTRY STRUCTURE

I should like to indicate my strong support for the proposals put forward by Michael Heseltine in his minute of ~~11~~ TPM May.

I have for some time had the view that the Welsh Water Authority should be streamlined and I have examined the possibility of doing this without primary legislation. In the case of the Welsh Water Authority alone, it is possible to secure some changes - though not all the desirable changes - without primary legislation; but I would prefer that England and Wales keep in step and I support Michael Heseltine's proposal to use the Public Bodies Management Bill as the vehicle for legislation. It would obviously not be possible for us to announce our proposals for changes both at National Water Council and Regional Water Authority levels unless there is the firm prospect of legislation in 1981/82 and I therefore support Michael's proposals.

/ I am copying this minute to members of E Committee, to Michael Heseltine, Francis Pym, Michael Jopling and to Sir Robert Armstrong.

RNE
Approved by the Secretary of State
and signed in his absence

12 May 1981

CONFIDENTIAL

Prime Minister

To note that Mr Heseltine and Mr Edwards have agreed that local authority membership on water authorities should be abolished. But this will need legislation.

11 May 1981

Prime Minister

WATER INDUSTRY STRUCTURE

On 2 April, E Committee asked Nicholas Edwards and I to consider reducing or abolishing local authority membership on water authorities, taking account of consumer arrangements.

We agree on the main issue, though we have not yet settled the best way of looking after the consumer interest.

The Main Issue: Local Authority Membership

We get many constituency complaints about water authorities - their management, their apparent lack of accountability and their charges. We took firm action to keep their charges down this year, but we will have to keep up the pressure for cost-savings and greater efficiency. The hybrid constitution of the RWAs would be a handicap.

I am fortified in this view by the Monopolies and Mergers Commission Report, to be published about the end of the month, on the Severn-Trent Water Authority. The Commission estimates that the large membership of the Authority imposes extra administrative costs of £1 million a year. It recommends a more streamlined management structure, which would produce further (though unquantifiable) benefits.

Severn-Trent WA have 48 members. Thames WA has 62. This position goes back to the Water Act, 1973 which requires the English Water Authorities to have a majority of members appointed by local authorities. As a result:

- at board level, Water Authorities are unwieldy and unbusinesslike;
- there is an expensive administrative overburden (if the costs at Severn-Trent are reflected across all Water Authorities they would amount to about £6m annually);
- lines of accountability are blurred; to make Water Authorities more efficient, they should be accountable to Ministers and Parliament, like nationalised industries.

At the Brighton Conference in October, Tom King said that the local authority membership was clearly not working as it should. I am now persuaded that it should be abolished, and Nicholas Edwards agrees.

The Consumer Interest

Nicholas Edwards and I have exchanged ideas about the best way to look after the consumer interest. He and Tom King are discussing this in a few days' time and we will report our conclusions to colleagues after that.

Timing

But I want to give you and our colleagues on E Committee this report on our main conclusion now for two reasons:-

1. to abolish local authority membership of Water Authorities and make new arrangements for the consumer interest would require legislation, and my proposed Public Bodies Management Bill would be the vehicle (we are to discuss next year's legislative programme in Cabinet this week); and

2. the time to announce our intentions would be when the MMC Report is published (probably at the end of May).

I am aiming to reach agreement with colleagues on the main issue and (particularly involving John Biffen) on the consumer interest before then.

I am copying this letter to members of E Committee, to Nicholas Edwards, Francis Pym, Michael Jopling and to Sir Robert Armstrong.

MH

MH

Local Gov't

Ref. A04599

PRIME MINISTER

The Water Industry: Structural Change

(E(81) 37)

BACKGROUND

Flag A — The Secretary of State for the Environment proposes, in E(81) 37, legislative changes to the organisation of the water industry.

2. He recommends that the National Water Council (NWC) should be abolished. At present the NWC has an advisory, co-ordinating and common service role - its main functions are summarised in paragraph 6 of the paper. The Secretary of State proposes that its functions should be taken over by a formal group of the Chairmen of the 10 regional water authorities (9 in England and 1 in Wales). He further proposes that the water authorities should be given the powers to form a company for export promotion (ie of consultancy services). The case for this change is that the NWC is not thought to be performing any useful role at present, and that the revised arrangements could save, on a conservative estimate, around £1 million a year.

3. The change would not have any direct implication for pay negotiations, but the Secretary of State argues - in his paragraph 8 - that negotiations would be better conducted by a Chairmen's group directly representative of the employers, and that, if they so wished, the way would be open for negotiations to be conducted on a regional basis.

4. The Secretary of State for the Environment further recommends that there should be no change in the requirements of the 1973 Act for the water authorities to have a majority of their members nominated by local authorities - his paragraphs 11-14. He comes to their conclusion reluctantly - his preference would appear to be for abolishing the local authority membership and moving to smaller, executive-type boards wholly appointed by Ministers - but fears a strong local authority reaction against losing their powers to nominate members, and consequent pressure to substitute statutory consumer councils. For the reasons

Flag B — set out in Mr Wyn Roberts' letter to you of 31 March, the Secretary of State for Wales questions this conclusion and would wish to give further thought to the case for changing the membership arrangements for the Welsh Regional Board.

5. If his proposals are approved, the Secretary of State for the Environment wishes to announce soon the intention to abolish the NWC subject to 'legislation as soon as practicable'. He would wish to include the necessary provisions in a Public Bodies Management Bill which he has proposed for the 1981-82 Session. QL Committee have reached the view, however, that there should be only one Department of the Environment Bill next Session and it is likely that, at their meeting next week, a majority will want this to be a Housing Bill. It would, therefore, seem prudent for the Secretary of State for the Environment to defer any announcement of his intentions for the water industry until it has been decided when the necessary legislation can be introduced. If it cannot be introduced in the next Session, it is open to question whether it is sensible to say anything publicly at all at this stage.

HANDLING

6. After the Secretary of State for the Environment has introduced his paper you might invite Mr Wyn Roberts (who is representing the Secretary of State for Wales) to say to what extent the proposals would be acceptable in Wales. The Chancellor of the Exchequer may wish to comment on whether he agrees that the changes would be helpful in promoting efficiency and the Secretary of State for Trade on any implications for consumers. The arrangements in Scotland are different - the Regional and Islands Councils have responsibility for water - but the Secretary of State for Scotland may well have views on the proposals and on any indirect implications they might have for Scotland.

7. The main questions before the Committee seem to be:-

(i) Should the NWC be abolished and a Committee of Chairmen of the water authorities set up?

(ii) Should the arrangements for appointing the members of the Regional Water Authorities stand?
If it were thought appropriate, could different arrangements in Wales be defended?

(iii) If it is agreed in principle that changes should be made, when should these be announced?

Flag C — As the Chancellor of the Duchy of Lancaster points out in his letter of 31 March to you, there is a strong case for deferring any announcement until Cabinet has considered QL's proposals for the 1981-82 Legislative Programme and, if the water legislation cannot be accommodated then, it is for consideration whether the announcement of intention should be deferred.

(iv) Are there any other points to be made on the arrangements for the water industry? eg should more be done to urge the Chairmen to work for regional variations in pay?

CONCLUSIONS

8. In the light of the discussion you will wish to record conclusions on:-

(i) Whether, in principle, the National Water Council should be abolished and replaced by a Chairmen's Group on the lines recommended in E(81) 37.

(ii) Whether the arrangements for nominating members of the Regional Water Authorities should stand, and whether the arrangements should be the same in Wales and in England.

(iii) Noting that QL Committee will be reaching decision shortly on its recommendations to Cabinet on which one of the Department of Environment's proposed Bills should be included in the 1981-82 Session.

(iv) Whether any announcement of changes in the water industry should be deferred until QL has reached decisions on the legislation and on whether, if there proves to be no suitable legislative vehicle in 1981-82, any announcement should be deferred until legislation is firmly in sight.

ROBERT ARMSTRONG

(approved by Sir R. Armstrong & signed on his behalf)

1 April 1981

C. 2pps

PRIVY COUNCIL OFFICE
WHITEHALL, LONDON SW1A 2AT

Chancellor of the Duchy of Lancaster

1 April
~~31 March~~ 1981

R

Dear Prime Minister,

E COMMITTEE: THE WATER INDUSTRY

I shall not be attending tomorrow's meeting of E Committee which is to consider Michael Heseltine's paper on the possible abolition of the National Water Council, but I think that I should record my concern at the suggestion in the final paragraph of the paper that there should be an early announcement of the intention to abolish the NWC. Although QL is still considering the recommendations which it will put to Cabinet about next Session's legislative programme, it seems unlikely that there will be room for the proposed Water Bill. If colleagues accept this view, it could be at least two years before legislation to abolish the NWC was passed, and in these circumstances it would surely be premature to make any announcement now about the Council's future.

My recommendation, therefore, is that no announcement should be made unless and until Cabinet decide that the proposed Water Bill should be included in next Session's legislative programme.

I am copying this letter to other members of E Committee, and to Sir Robert Armstrong.

Yours ever

Francis

FRANCIS PYM

The Rt Hon Margaret Thatcher, MP
Prime Minister
10 Downing Street
LONDON

CONFIDENTIAL

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From The Parliamentary Under-Secretary

31 March 1981

Dear Prime Minister,

27387. attached.

Michael Heseltine has circulated to E Committee a paper (E(81)37) about the Water Industry. I am writing to say that I have discussed this paper with Nicholas Edwards, and we are not convinced (at least as far as the Welsh Water Authority is concerned) by the paper's arguments against removing the local authority members from the water authorities. These members are very numerous and constitute a majority on the Welsh Water Authority; they import local government attitudes and methods which are not always suited to the operation of what is in effect a large industrial undertaking. We would therefore like to give further thought to ways of improving the structure of the WWA, and may suggest the transfer of local authority members from Authority to Divisional level. If we decide in favour of changes we will circulate our proposals to colleagues.

We have no objection to Michael Heseltine's proposals for abolishing the National Water Council, provided that the successor statutory body is constituted in such a way as to avoid its being dominated by particular regional interests. We are doubtful about the idea of separate regional pay negotiations, because of the risks of "leap-frogging" and of the unions following a divide and rule policy.

These are the points which I intend to make at Thursday's E Committee meeting.

I am sending copies of this letter to Michael Heseltine and other members of E Committee, and to Sir Robert Armstrong.

Yours ever
Wyn

WYN ROBERTS

Rt Hon Margaret Thatcher MP
The Prime Minister
10 Downing Street
London SW 1

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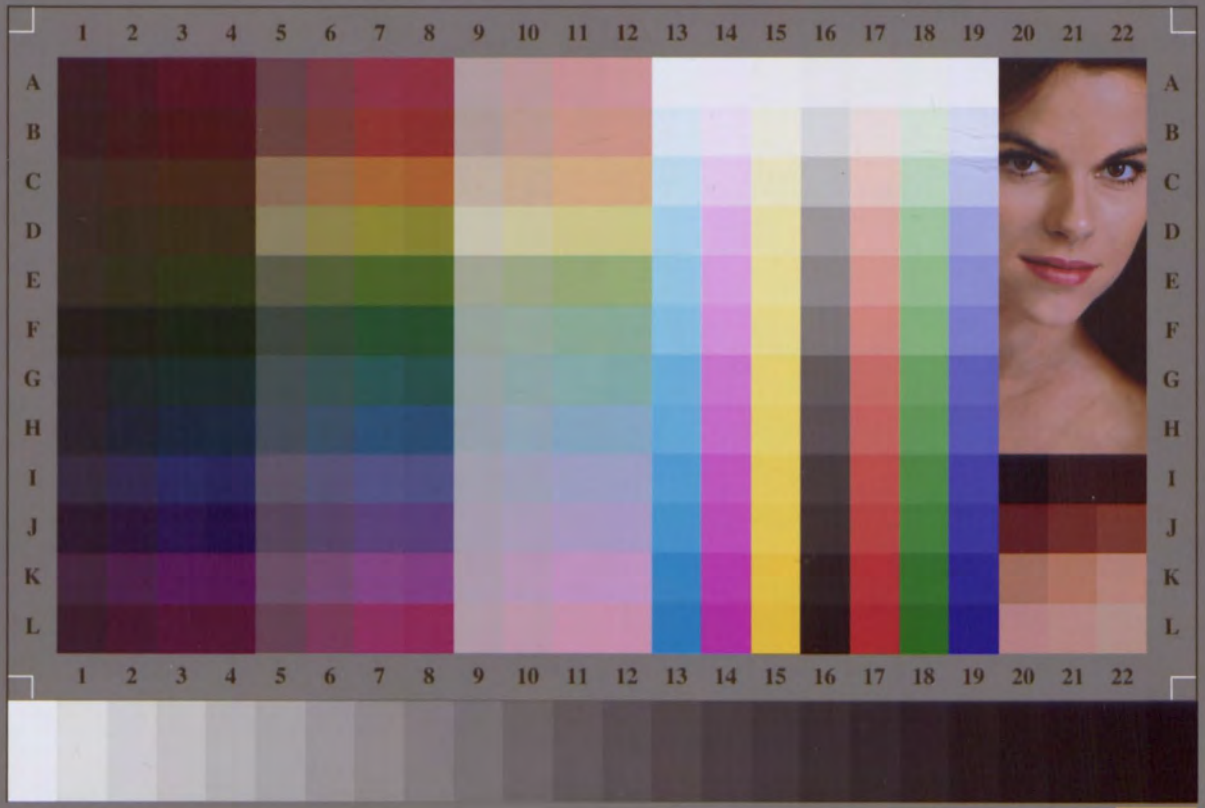

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