

PREM 19/1563

PART 2
SECRET

CONFIDENTIAL FILING

The Water Industry:
Structural Change
Constitution of the Welsh Water Authority

LOCAL
GOVERNMENT

Part 1 March 1981

Part 2 October 1982

Referred to	Date	Referred to	Date	Referred to	Date	Referred to	Date
27.10.82		11/4/84.		26.11.85			
3.11.82		17.4.84		XXXXXXXXXX			
8.12.82		8/1/84.		XXXXXXXXXX			
15.12.82		5.1.84		Pt 2			
4.3.83		26.7.84		ends.			
9.3.83		27.7.84					
11.3.83		3.10.84					
21.3.83		26.10.84		<p>PREM 19/1563</p>			
24.3.83		5.11.84					
2.4.83		17.12.84					
20.4.83		2.1.85					
28.4.83		15.1.85					
4.5.83		23.1.85					
14.7.83		4.2.85					
31.7.83		5.2.85					
3.8.83		20.2.85					
26.8.84		28.2.85					
30.3.84		8.3.85					
10.4.84		20.3.85					
		13.6.85					
		14/10/85					
		26/11/85					
		2/12/85					

PART 2 ends:-

DN to Environment 26.11.85

PART 3 begins:-

S/S Env to McGregor 2/12/85.

Published Papers

The following published paper(s) enclosed on this file have been removed and destroyed. Copies may be found elsewhere in The National Archives.

1. House of Commons Hansard, 27 July 1984, columns 1400-1407 (Water Supplies (England))
2. Cmnd. 9449: Financing and Administration of Land Drainage, Flood Prevention and Coast Protection in England and Wales
HMSO, March 1985

Signed AWayland Date 20 February 2014

PREM Records Team



DSG
bc: B. Griffiths

10 DOWNING STREET

From the Private Secretary

26 November 1985

Dear Robin,

WATER AUTHORITIES CHARGES & INVESTMENT:

1986/7

The Prime Minister was grateful for your Secretary of State's minute of 22 November reporting the outcome of the negotiations with the water authority Chairmen about next year's charges and investment.

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

*Yours ever,
David.*

David Norgrove

Robin Young, Esq.,
Department of the Environment.

CONFIDENTIAL

ccB
BT

Treasury Chambers, Parliament Street, SW1P 3AG

The Rt Hon Kenneth Baker, MP
 Secretary of State for the Environment
 Department of the Environment
 2 Marsham Street
 London
 SW1P 3EB

NBM.

25th.
November 1985

Dear Kenneth,

WATER AUTHORITIES CHARGES AND INVESTMENT 1986-87

with DDN

I have seen a copy of your minute of 22 November to the Prime Minister about your plans to lay the Water Authorities (Return on Assets) Order. I am pleased that in line with our agreement in MISC 120 it has proved possible to devise a package which can be presented positively if a debate on the new Order proves necessary.

I think it important, however, that we do not unnecessarily create problems for ourselves by public references to a forthcoming review of water charges. When we come to announce our intention to privatise the authorities, you might certainly indicate, if asked, that, as a consequence of this decision, we shall necessarily be considering in detail matters such as the future regulatory regime, the capital structure of the prospective water plcs and the terms on which they will be offered. But to go beyond this and to refer specifically to a review of water charges will give an unnecessary hostage to fortune.

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

Yours ever,

JOHN MacGREGOR

CONFIDENTIAL



CONFIDENTIAL



Patricia Hewitt
To write

cc/ps
cc/ST

DLW
25/11

ms

PRIME MINISTER

WATER AUTHORITIES CHARGES AND INVESTMENT 1986/7

As I plan to lay the Water Authorities (Return on Assets) Order for 1986 next Monday, 25 November, I thought I should let you know the outcome of John Patten's negotiations with the water authority Chairmen about next year's charges and investment.

You will recall that there is to be no increase in the planned EFL for the water industry in England and Wales. This made it difficult to achieve a more moderate charges increase while safeguarding necessary investment. Nevertheless we have been able to find a satisfactory compromise which can be presented positively.

The key points are:

(i) I expect the broad support of all Chairmen for our plans - and in particular I do not expect Thames Water to be campaigning against us again this year. (The charges increase in the Thames region is likely to be below 5% thanks to efficiency improvements and more buoyant revenue in the current year than had been expected).

(ii) The average charges increase should come out a little under 8% although the position will vary from region to region. Areas where the increase will be rather higher include North West (heavy investment in the Mersey Programme), Severn-Trent, Anglian and Yorkshire. But I do not expect any authority's increase to reach 10% though that of the North West will be very close to that figure. Several Chairmen have made the point to John Patten that they have prepared their customers for higher charges to support higher investment as a result of our decisions last year, so that a sudden reversal could give rise to criticism.



(iii) Water services investment, on the latest figures, should be a little over £900 million taking England and Wales together. This is an increase of about 10% over this year's likely outturn (in cash terms). This will be important in countering suggestions that we are allowing the infrastructure to crumble. In addition, there is a significant "Green" element in water investment.

These points will be helpful to us in presenting our policies for the water authorities. Nevertheless, an 8% charges increase is well above the expected rate of inflation and an Opposition prayer against our Order seems inevitable. By laying the Order in good time I hope that any debate will take place before the Christmas recess. Interest in possible privatisation of the water authorities should help to mute criticism of the increases from our own supporters and it will be helpful also to refer to the forthcoming review of water charges which was agreed in MISC 120.

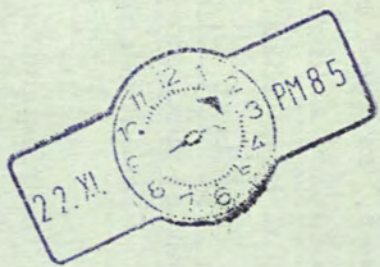
I am copying to other members of the Cabinet, to the Chief Whip and to Sir Robert Armstrong.

There is some disagreement about the terms of this review, and also about whether it should be mentioned in public.

R. Jones PP KB

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

22 November 1985



Prime Minister
You have dismissed water rates with
the Chancellor and Chief Secretary and told them
your doubts. But the negotiating tactics force
them to go for more than they expect in the end to get.

PRIME MINISTER

14 October 1985

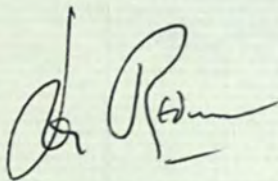
JR
14/10.

WATER RATES AND GAS CHARGES

The recent press stories about the Treasury seeking to pay for tax cuts by forcing up people's water rates and gas bills are damaging.

Last year, you backed the Treasury's enthusiasm for higher water rate bills. The Thames Water Authority fought an all too successful campaign against these charges, including sending out in every bill to every Thames Valley consumer a note blaming the Government for the increase in their water charges. I am sure they will do the same again this year if the Treasury has its way, and British Gas may well also make serious attempts to oppose the policy.

It is damaging to be seen to be using monopoly powers in public services to finance tax cuts. The public sees through this, and it would be better not to bother. Why not have a private word with the Chancellor if you agree, and explain to him the political difficulties in the way of forcing up the cost of living through public service price increases?



JOHN REDWOOD





2 MARSHAM STREET
LONDON SW1P 3EB

01-212 3434

My ref:

Your ref: 2 March 1985

Dear Nick,

NBPM
MST 2/3

SALMON AND FRESH WATER FISHERIES ACT 1975
RATING OF FISHERIES

I have seen your letter of 11 February to Michael Jopling and his reply of 20 February.

We for our part have been actively encouraging Water Authorities to act more commercially. Seeking ways of spreading the burden of charges to reflect more equitably the costs incurred in serving different categories of beneficiary is consistent with that general objective. I feel it may be particularly important following this year's increase in charges not to give the impression that some users are getting favoured treatment. I therefore agree with you that we should not resist the publication of the proposed Order under Section 28 and Schedule 3 of the Salmon and Freshwater Fisheries Act 1975.

I am copying this letter to the Prime Minister, Peter Rees, John Biffen, Michael Jopling, George Younger, Douglas Hurd and Sir Robert Armstrong.

You are

Patrick

PATRICK JENKIN

Local Govt Pt 2
Water Industry

21 MAR 1965
1965 MAR 21

CCNO



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

From the Minister's Private Office

Mark Addison Esq
Private Secretary
10 Downing Street
London SW1

NBPM
M/EA 5/3

8 March 1985

Dear Mark

**ADMINISTRATION OF LAND DRAINAGE, THE PREVENTION OF FLOODING
AND COAST PROTECTION**

I wrote to David Barclay on 28 February to say that my Minister intended to announce the publication of this Green Paper on 14 March. He has now decided to advance the date of publication to Monday 11 March. As I explained in my previous letter the announcement will be made via a Written Answer, and I enclose the final version of the text. The reference to the possibilities of privatisation in the water industry has been agreed with the Department of the Environment at official level.

... I am copying this letter, together with the text of the announcement and the final revise of the Green Paper, to Private Secretaries to members of the Cabinet and to Sir Robert Armstrong.

Yours ever
(Signature)

C I LLEWELYN
Private Secretary



DRAFT WRITTEN PARLIAMENTARY QUESTION

To ask the Minister of Agriculture, Fisheries and Food, when he will publish the consultation paper on Land Drainage and Coast Protection; what matters will be covered therein; and what further action the Government proposes to take.

DRAFT REPLY

A Green Paper, entitled "The Financing and Administration of Land Drainage, Prevention of Flooding and Coast Protection in England and Wales", is being published today for public comment. The Paper examines the current arrangements for financing and administering land drainage, flood prevention and coast protection, and in particular current and future financing arrangements, the structure of Water Authorities' land drainage committees, and the administration of Internal Drainage Districts.

My right hon Friend the Prime Minister has considered the question of Departmental responsibility for coast protection; responsibility for the Storm Tide Warning Service; payment of grant aid on land drainage schemes straddling the border between England and Wales; and the calling of public inquiries into land drainage matters. She has decided to transfer responsibility for coast protection in England from the Department of the Environment to my Department. My right hon Friend, the Secretary of State for Wales, already exercises responsibility for both land drainage and coast protection for Wales. Other changes in responsibilities, proposals for which are set out in the Green Paper, would be made at a later date.

The Government will consider, in the light of reactions to the Green Paper, what changes in the law relating to the financing and administration of land drainage and coast protection should be proposed. In this connection they will take account of the examination

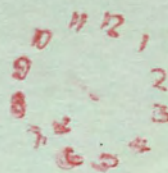


of the possibilities of privatisation in the water industry announced by my hon Friend the Minister for Housing and Construction during the debate on the Water Authority (Return on Assets) Orders on 7 February. Whatever the outcome of that examination, the financial and administrative issues raised in the Green Paper require consideration.

The Green Paper does not apply to Scotland where different arrangements exist.



- 8 MAR 1985





CF

CND

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

From the Minister's Private Office

David Barclay Esq
Private Secretary
10 Downing Street
London SW1

MAFF given clearance
by telephone
pa.

Dr

28 February 1985

1/3.

Dear David

ADMINISTRATION OF LAND DRAINAGE, THE PREVENTION OF FLOODING
AND COAST PROTECTION

My Minister wrote to the Prime Minister on this subject on 20 December, and you replied on her behalf on 2 January. As Mr Jopling mentioned then, he was in the course of clearing with the Ministers directly concerned the final text of the consultation document. This has now been done, and my officials have in hand the necessary arrangements for the printing and publication of the document as a Green Paper.

Published as Cmd. 9449

... A copy of the final text of the Paper is enclosed. The Paper deals largely with technical, but important, questions on the financing and administration of land drainage and coast protection, and should only receive low-key publicity. My Minister proposes, therefore, to make the announcement in the form of a Written Answer, and to back this up by a Press Release. He would like to do this on Thursday, 14 March. He would be grateful for the Prime Minister's agreement to this and, in view of the references to Ministerial responsibilities, to the wording of the attached draft Question and Answer. Mr Jopling will circulate a confidential final revise of the Green Paper to Cabinet shortly before publication.

I am copying this (with associated papers) to the Private Secretaries to the Leader of the House, the Secretaries of State for Defence, Scotland, Wales, Northern Ireland, Environment, Chief Secretary, Chancellor of the Duchy of Lancaster and Sir Robert Armstrong.

Yours ever

(Signature)

C I LLEWELYN
Private Secretary



(B)

DRAFT WRITTEN PARLIAMENTARY QUESTION

To ask the Minister of Agriculture, Fisheries and Food, when he will publish the consultation paper on Land Drainage and Coast Protection; what matters will be covered therein; and what further action the Government proposes to take.

Draft reply

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My rt. hon. Friend the Prime Minister has considered the question of Departmental responsibility for coast protection; responsibility for the Storm Tide Warning Service; payment of grant aid on land drainage schemes straddling the border between England and Wales; and the calling of public inquiries into land drainage matters. She has decided to transfer responsibility for coast protection in England from the Department of the Environment to my Department. My rt. hon. Friend, the Secretary of State for Wales, already exercises responsibility for both land drainage and coast protection for Wales. Other changes in responsibilities, proposals for which are set out in the Green Paper, would be made at a later date.

My rt. hon. Friends and I will consider, in the light of reactions to the consultation document, what other changes in the law relating to the financing and administration of land drainage and coast protection should be proposed.



C

DRAFT PRESS RELEASE

Joint Announcement by the Ministry of Agriculture, Fisheries and Food and the Welsh Office

14 March 1985

LAND DRAINAGE AND COAST PROTECTION IN ENGLAND AND WALES

In a Written Reply to a Question by Mr _____ MP,
in the House of Commons today asking when the consultation paper relating to the Interdepartmental Review of Land Drainage and Coast Protection will be published; and what further action the Government proposes to take, the rt. hon. Michael Jopling, MP, Minister of Agriculture, Fisheries and Food, said:

as final text

NOTES FOR EDITORS

1. Copies of the Green Paper can be obtained from Her Majesty's Stationery Office or from booksellers, price £
2. Comments on the proposals in the Green Paper are invited by 14 September 1985. They should be sent to :-

The Minister of Agriculture, Fisheries and Food
Room 402
Great Westminster House
Horseferry Road
LONDON
SW1P 2AE and

The Secretary of State for Wales
Welsh Office
Cathays Park
Cardiff
CF1 3NQ

LOWE
GANT
Water Industry Act





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

From the Minister

The Rt Hon Patrick Jenkin MP
Secretary of State for the Environment
Department of the Environment
2 Marsham Street
London SW1P 3EB

28 February 1985

THE FINANCING AND ADMINISTRATION OF LAND DRAINAGE, COAST PROTECTION AND THE PREVENTION OF FLOODING

I am grateful for the agreement of yourself, Peter Rees and Nicholas Edwards to the publication of the consultation paper. The necessary arrangements are now in hand for issue of the document as a Green Paper and I hope to publish it on 14 March. (My office is writing round separately on this.)

I agree with the comment in your letter of 15 January that the situation has changed since we embarked on this exercise. I agree therefore that we must expect a wide-ranging and diverse response to the Green Paper.

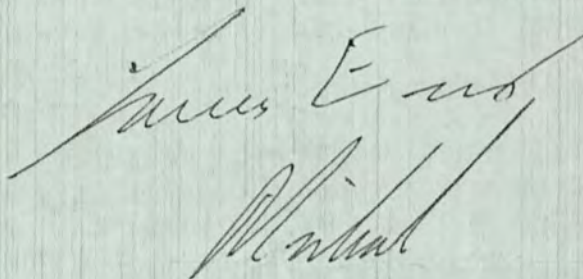
You will recall that Ministers decided initially that the review should concentrate on the administration and financing of land drainage and flood protection, an exercise likely to be difficult in itself in view of the existing complex administrative arrangements and the somewhat antiquated legislation and the very real financial difficulties that currently exist. I do not need to emphasise to you the political difficulties in major urban areas are flooded because no finance was available to fund flood relief schemes. I believe that we would therefore be unwise to be diverted from this central theme and that it would be a mistake to enter too far into the conservation arena. This is one of the few points on which the report of the Commons Committee on the Environment gives us a useful lead. It recognised that a significant change in attitude is taking place within the drainage industry and that it is too soon to reconsider the conservation and environmental responsibilities of drainage authorities under S.48 of the Wildlife and Countryside Act 1981.

/But it ...

But it also drew attention to the feeling that conservation issues are inadequately considered in drainage works because the administrative structure of land drainage (particularly Internal Drainage Boards) is weighted towards the promotion of drainage projects. This suggests that the Interdepartmental Committee would consider conservation etc. so far as it impinged on the administration and financing of land drainage and flood protection, but questions concerning the water authorities' responsibilities under S.48 would be excluded. This would be in line with our original agreement and with the spirit of the Rossi Report.

You also suggested that the Cabinet Office should provide the chairman of the Interdepartmental Committee, and Sir Robert Armstrong has made an offer to do so. I am content to accept the offer. Since I have the prime responsibility for the 1976 Act, and if we are to ensure a smooth transmission towards any new legislation, I accept that I must provide appropriate officials for the Secretariat and take responsibility for much of the preparatory work; and I shall make arrangements accordingly. Naturally the other Departments involved will be represented on the Interdepartmental Committee, will receive all the papers as they arrive and attend, if they wish, meetings with interested organisations.

I am copying this to the Prime Minister, Nicholas Edwards, Peter Rees, Grey Gowrie, George Younger and Sir Robert Armstrong.



The image shows two handwritten signatures in cursive. The top signature is 'Nicholas Edwards' and the bottom signature is 'Michael Jopling'.

MICHAEL JOPLING

610

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



From the Minister

Rt Hon Nicholas Edwards MP
Secretary of State for Wales
Gwydyr House
Whitehall
London SW1

*no pm dms
21/2*

20 February 1985

SALMON AND FRESHWATER FISHERIES ACT 1975
RATING OF FISHERIES

*will request
IP rec.*

Thank you for your letter of 11 February.

The results of your studies into the introduction of rating of fisheries in the Welsh Water Authority's area appear to reduce the practical problems. However, I am afraid they do nothing to alleviate my concern that the proposal will lead to an extended and bitter campaign of opposition because of (perhaps partially justified) fears of double rating. Without arguing over the principle that the user should pay, I question whether the amount of extra revenue is worth the fuss.

However, as I recognised in July 1983, the decision is for you to take, and the procedure to be followed in making the Order would offer ample opportunity for opposition to be expressed. If the reaction to publication of the Order is as strong as I fear, you will no doubt consider holding a public inquiry into the matter before settling the Order and risking the special parliamentary procedure. But I hope you will reconsider first whether the game is worth the candle.

I am copying this letter to the Prime Minister, Patrick Jenkin, Peter Rees, John Biffen, George Younger, Douglas Hurd and Sir Robert Armstrong.

MICHAEL JOPLING

LOCAL GOVT: Water Ind: Pt 2

21 FEB 1985

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CENT

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

11 February 1985

nbpm
DMS
2/2

De Michael

SALMON AND FRESHWATER FISHERIES ACT 1975
RATING OF FISHERIES

You may recall that I consulted colleagues on 28 April 1983 about the Welsh Water Authority's application to me for an Order under Section 28 and Schedule 3 of the Salmon and Freshwater Fisheries Act 1975, which would empower them to levy contributions on owners of fisheries throughout their area. My own view was that the Authority had made out a strong case for the powers they were seeking. You pressed me to refrain from proceeding with the Order and I undertook to let you know my intention after further information about costs and benefits had been obtained and assessed.

Financial estimates provided by the Authority and the District Valuer demonstrate that the cost of collection of fisheries' contributions would be acceptable and I am advised that there are no objections in principle to the proposed Order from a legal point of view as a means of levying contributions on owners of fisheries under the Salmon and Freshwater Fisheries Act 1975. I have also had an opinion from the Board of Inland Revenue's Solicitor on the question of double-rating. This is to the effect that fisheries' contributions may be considered as allowable deductions in the calculation of rateable values on general rates. Even so, I appreciate that the situation on rating values is not quite as straightforward as it sounds and am advised that it cannot be assumed that a deduction would be automatic.

When you wrote on 14 July 1984 you referred to both the strength of the likely opposition to the Water Authority's proposals and the implications of proceeding with the Order. I can assure you that I do not underestimate the difficulties likely to be associated with the introduction of such a controversial proposal. On the other hand, I accept the Welsh Water Authority's view that implementation of the proposal would allow them to raise contributions towards their fisheries' expenditure in a way which would be more equitable than hitherto and in line with the Authority's statutory obligations. Moreover, I know that the Authority reconsidered carefully the arguments for and against proceeding before confirming to me recently that they wished to have their proposals taken forward. My conclusion, therefore, is that I should not refuse to proceed to publication of the Order.

/I should

The Rt Hon Michael Jopling MP
Minister of Agriculture
Ministry of Agriculture, Fisheries and Food
Whitehall
LONDON
SW1A 2HH



I should be in a position to take this next step as soon as my Department and the Welsh Water Authority were agreed on a text for publication. However, I shall defer action until I know whether you and colleagues are content for me to proceed.

I am sending copies of this letter to the Prime Minister, Patrick Jenkin, Peter Rees, John Biffen, George Younger, Douglas Hurd and Sir Robert Armstrong.

J. Owen
Weil

LOCA L GOVT; water ind; Pt 2

27 FEB 1985

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4 5 6 7 8 9 10



70 WHITEHALL, LONDON SW1A 2AS

01-233 8319

From the Secretary of the Cabinet and Head of the Home Civil Service

Sir Robert Armstrong GCB CVO

Ref. A085/397

MINISTER OF AGRICULTURE, FISHERIES AND FOOD

*Robert
DUB
G/2*

The Financing and Administration of Land Drainage, Prevention of Flooding, and Coast Protection in England and Wales

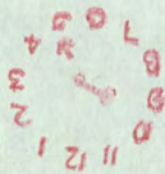
When he wrote to you on 15 January, the Secretary of State for the Environment suggested that the Cabinet Office might provide a Chairman and Secretariat for an interdepartmental Committee to consider the responses to consultation. I should of course be willing to make an Under Secretary available as Chairman if you and the other Ministers concerned would find that helpful. As to the Secretariat, I should be ready to provide a 'lead' secretary, but I think it would be sensible to look to Departments - say, your Department and the Department of the Environment - to provide supporting members of the Secretariat.

2. I am sending copies of this minute to the Prime Minister, the Secretaries of State for Scotland, Wales and the Environment, the Chief Secretary, Treasury, the Secretary of State for Northern Ireland and the Chancellor of the Duchy of Lancaster.

Robert Armstrong

5 February 1985

LOCAL ONE; Water
A 2



FEB 1955



NRPW
AT
5/2

CENO

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

4 February 1985

P J J Britton Esq
Private Secretary to the
Minister for Housing and Construction
Department of the Environment

Dear Paul,

WATER INDUSTRY PAY

The Chancellor has seen your Minister's letter of 23 January about water industry pay and is grateful to Mr Gow for impressing on the water industry employers the need for a continued downward trend in settlements. He is sure it is important to nail the argument that higher water charges mean there is more money available for pay: in fact, the Water Authorities' financial targets, EFLs, investment levels and performance aims all require pay increases to be kept to moderate levels.

The Chancellor understands that the Water Authorities are likely to decide on their response to the manual workers' claim at a meeting on 19 February. He would be grateful if he could be kept closely in touch with developments.

I am copying this letter to Andrew Turnbull (No.10), to the Private Secretaries to the other members of E(PSP), to John Graham (Scottish Office), Colin Jones (Welsh Office), Jim Daniell (Northern Ireland Office) and Richard Hatfield (Cabinet Office).

Yours sincerely,

Margaret O'Mara

MISS M O'MARA
Private Secretary

LOCAL GOVT: water industry: A2.

15 FEB 1985



010
CONFIDENTIAL



Minister for Housing and Construction

Department of the Environment
2 Marsham Street London SW1P 3EB
Telephone 01-212 7601

23 January 1985

Len Nezel,

WATER INDUSTRY PAY

will request you'd.

Further to your letter of 3 December 1984 to Norman Tebbit I have had a meeting with Len Hill, the Chairman of the Water Authorities Association, and with those other Authority Chairmen most involved in Water Industry pay negotiations. I put to them the relevant points which you mentioned in your letter, and in particular, stressed our wish to see this year's settlements continue the progressive decline in settlement levels which has taken place in the last year or two.

The Chairman told me that the increase in Water Authorities' charges had raised the expectations of the unions. More generally, Chairmen clearly believed that the pay climate is not good this year. While there are no problems with recruitment or retention of staff they are concerned that growing staff dissatisfaction could lead to combined action by both manual and white collar staff which would place authorities in real difficulty. In their view this could only be avoided by keeping pay settlements in the Water Industry in line with those for groups which are regarded as comparable. In that context developments in the gas and electricity industries would be influential as would any upward movement in the RPI.

The Chairmen emphasized the very considerable manpower reductions achieved by the English Water Authorities since 1979; in the year ended September 1984 numbers fell by nearly 6%. Many authorities have apparently made a "profit" on pay bills as a result. They are anxious to retain the co-operation of their workforce in continuing to make further manpower savings and believe that it will not be possible to reach settlements below 5% this year. On reductions in the working week the recent decision of the engineering employers' to make no immediate move in this respect was helpful but some concern was expressed at the possibility that a reduction in hours might feature as part of the arbitration award expected shortly for the local authority white collar workers. As we now know, that concern has been allayed by the announcement of the award.

CONFIDENTIAL

I made it clear to the Chairmen that in my view a 5% settlement would be too high and urged them strongly to seek settlements at a lower level. They agreed to keep me informed of developments.

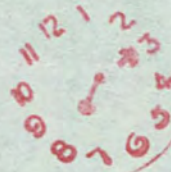
I am discussing the British Waterways Board's draft corporate plan with Sir Leslie Young and will want the Board to develop a three year rolling programme for operational expenditure in the Spring as part of our financial management cycle. Clearly questions of future pay will have to be a feature of those discussions which will take place before negotiations begin on the pay of British Waterway Board employees whose settlement dates are not until June and July.

I am copying this letter to the recipients of yours.

I. Gow
I. Gow

IAN GOW

25 JAN 1985





Minister for Housing and Construction

Department of the Environment
2 Marsham Street London SW1P 3EB
Telephone 01-212 7601

23 January 1985

Dear Janet,

N
25/1

THAMES WATER AUTHORITY

/ I attach a copy of a letter which my Minister is today sending to all MPs in the Thames Water Authority area.

I am sending copies of this to Andrew Turnbull (10 Downing Street), David Morris (Lord Privy Seal's Office), Murdo Maclean (Chief Whip's Office), Richard Broadbent (Chief Secretary's Office), Colin Jones (Welsh Office) and Alex Galloway (Paymaster General's Office).

Yours sincerely,

Neil Kinghan

N KINGHAN
Private Secretary

Janet Lewis-Jones



Minister for Housing and Construction

Department of the Environment
2 Marsham Street London SW1P 3EB

Telephone 01-212 7601

23 January 1985

I am sending this letter to those Members of Parliament any part of whose constituency falls within the area served by Thames Water.

I regret the difference of view which has arisen between the Thames board and the Government about next year's financial target and borrowing limit. The remaining eight authorities in England and the Welsh Water Authority have all accepted our proposals for next year.

Financial Targets

It is the policy of the Government that public sector industries should earn a proper return on public investment. We have announced a general policy for water authority financial targets which is to increase the average rate of return from 1% this year to 1.4% next year, 1.7% in 1986/7 and 1.9% in 1987/8.

These figures can be compared with a rate of return of 2.75% for the electricity supply industry, 4% for British Gas and 5.75% for British Airways in 1983/84. A current cost rate of return of 9% for major non-oil industrial and commercial companies in the private sector has been reported by the Bank of England for 1983.

The financial targets which I am proposing for Water Authorities take into account their starting position in the current year, and their investment plans. Because Thames starts with the lowest financial target this year (0.5%), the financial target which I am proposing for next year is also the lowest, 1.37%. This compares with 1.62% for Anglian and 1.54% for South West.

Thames is unwilling to accept the rate of return on assets which I am proposing for next year. Thames' plans would involve a rate of return of about 0.7% and rather lower rates of return in 1986/87 and 1987/88.

Making every allowance for the special circumstances and responsibilities of Water Authorities, a rate of return between 1% and 2% is in no way excessive.



Borrowing

The Government wishes to reduce the Water Authorities demand on public sector borrowing. The external finance limit (EFL) has been set at £203 million for next year (including £14 million for land drainage grants and £20 million for the Welsh Water Authority) compared with £284 million this year. In Thames' case, the reduction in borrowing takes the form of earlier repayment of debt - £60 million of debt repayment in 1985/86 compared with £34 million this year. This is because Thames inherited very little debt in relation to the current value of its assets, which are generally in good condition. Even a moderate rate of return generates sufficient funds to cover interest payments and investment at present levels. A negative EFL is not uncommon in public sector industries which, unlike private sector companies, do not pay dividends - for example, the Post Office, the British Airports Authority and the electricity supply industry will all be repaying debt in 1985/86. We have offered Thames the alternative of making deposits with the National Loans Fund, if that would make better commercial sense than early repayment of existing debt.

Investment

Secondly a higher rate of return on Water Authority assets is required because we need a higher level of investment in water services. Nationally, there is an increased provision of about £80 million for 1985/6 with further increases in the two following years. Our proposals for Thames are as follows:-

<u>1984/5</u>	<u>1985/6</u>	<u>1986/7</u>	<u>1987/8</u>
(£ million)			
103	109	119*	126*

* provisional figures

This investment should result in improved levels of service (including more work on sewers and water mains), and I know that Thames will ensure that these allocations are well spent for the benefit of their customers.

Charges

Roy Watts and his board have tackled vigorously efficiency improvement and cost reduction in Thames since they took office fifteen months ago. This is as welcome to the Government as it is to you and to your constituents. I can understand that the Thames board is disappointed about the effect of the Government's decisions on charges but it is necessary at the present time to give higher priority to improving the rate of return on assets earned by Water Authorities so that their investment can be increased and their borrowing reduced.



The average household bill in the Thames area is £73.41 for this year, 20p a day. If next year's increase for the domestic consumer should turn out to be 9%, that would mean an extra £6.61 a year - less than 2p per day. Even then, the charges made by Thames to its domestic customers would be among the lowest in England.

As you know, water charges are taken fully into account when calculating entitlement to Supplementary Benefit. About 3 million households receive help with their water charges in this way.

IAN GOW

23 JAN 1985

12
11 10 9 8 7 6 5 4 3 2 1



100-100-100
100-100-100
100-100-100

Water

WATER

Investment

The Government wants to see greater investment in repair and maintenance of sewers and water-mains. That is why we authorised much higher investment next year. Investment in England and Wales will be over £810 million - a 9% increase over this year. Total UK investment next year will be over £930 million.

Increase in Water Charges

Water charges are a matter for the authorities: they are, however, likely to rise by more than the level of inflation over the next 3 years in order to:

- finance the increased investment in the water industry;
- improve the rate of return on water authority assets, which is currently about 1%, to 1.4% next year, 1.7% in 1986/87 and 1.9% in 1987/88;
- to reduce water authorities' borrowing.

Effect of Increased Water Charges on the Poor

The average household water bill is about £78 a year (21p a day). If next year's increase in charges is 10%, that will amount to an extra 2p a day. All the main social security benefits have risen, under this Government, by more than the rate of inflation.

Rate of Return of 12% JF

16 January 1985

how many any authority



2 MARSHAM STREET
LONDON SW1P 3EB
01-212 3434

My ref:

Your ref:

15 January 1985

*nbpm
DMS
15/1*

Dear Michael,

THE FINANCING AND ADMINISTRATION OF LAND DRAINAGE, PREVENTION OF FLOODING AND COAST PROTECTION IN ENGLAND AND WALES

Thank you for sending me the final text of the consultation paper on this subject and for letting me see a copy of your minute to the Prime Minister, seeking among other things her agreement to the transfer of responsibility for the Coast Protection Act 1949 from me to you.

On the consultation paper, much has happened since the Interdepartmental Committee reported in April 1983, and I can foresee the responses to consultation opening up issues wider than those addressed in the paper. While I agree that the paper ought to be published without further delay, the responses will have to be looked at in the wider context of conservation interests, particularly the conflict between land drainage and conservation of wildlife habitats and wetlands; current government finance policies (for example reductions in the rate of grant and expenditure provisions for land drainage); and developments on the Local Government Finance Studies which I announced at the party conference and which will be looking at the whole basis of local government financing.

While I am happy that there should be some form of interdepartmental committee to consider the responses to consultation, I suggest that the Cabinet Office be asked to provide an independent chairman and secretariat who will be better placed to look at the responses in the light of the changed circumstances. Moreover, so that we can have a properly agreed mechanism for looking at the responses I suggest that the committee should meet as soon as possible to make detailed arrangements for their handling and consideration.

On the question of responsibility for the Coast Protection Act 1949, we agreed a year ago that there were advantages in combining the responsibilities for coast protection and sea defence works in a new category of coastal works to be administered by your Department. I agree to your taking over my present responsibilities for coast protection, subject to detailed arrangements about transfers of staff and resources. However, we may find that the results of the consultation and the new emphasis on land drainage arising from the recent

reductions in resources may mean that the question of responsibility for coast protection and sea defence works may also have to be reconsidered. For the time being, however, I agree that the transfer should be put in hand, and that we should aim to achieve this with effect from 1 April this year.

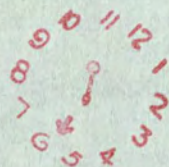
Copies go to the Prime Minister, George Younger, Nicholas Edwards, Peter Rees, Douglas Hurd and Grey Gowrie. I am also copying to Sir Robert Armstrong so that he may comment on my proposal for a Cabinet Office lead on consideration of consultation responses.

*You are
Patrick*

PATRICK JENKIN

Local Cart : Relations A2.

15 JAN 1985





10 DOWNING STREET

From the Private Secretary

2 January 1985

Dear Ivor,

Administration of Land Drainage, the Prevention
of Flooding and Coast Protection - Issues of
Ministerial Responsibility

The Prime Minister was grateful for your Minister's minute of 20 December on the above. She would be content for the proposed transfers of Ministerial responsibility set out in that minute to be included in the forthcoming consultation document.

I am sending copies of this letter to John Ballard (Department of the Environment), Richard Mottram (Ministry of Defence), John Graham (Scottish Office), Colin Jones (Welsh Office), Richard Broadbent (Chief Secretary's Office), Paul Thomas (Chancellor of the Duchy of Lancaster's Office) and Richard Hatfield (Cabinet Office).

Yours ever,
David

David Barclay

Ivor Llewelyn Esq
Ministry of Agriculture, Fisheries and Food.

RITA admin

GENO 1



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

From the Minister

PRIME MINISTER

ADMINISTRATION OF LAND DRAINAGE, THE PREVENTION OF FLOODING, AND
COAST PROTECTION - ISSUES OF MINISTERIAL RESPONSIBILITY

Note: RITA content

ours
2/1/85

Yes - of me to
consulted - document
concerning the
proposals
The Minister:
Agree to these
transfers of Ministerial responsibility
subject to the news on
Sir Robert Armstrong?

JF

22/1/85

When we set up an Interdepartmental Review on the financing and administration of land drainage, flood prevention and coast protection in England and Wales, we told Parliament that following the Review we would issue a consultation document. The Ministers directly concerned have agreed on the line to be followed in that document, and I am in the course of clearing a final text with them. I would be grateful for your agreement to include in the forthcoming paper four statements concerning matters of Ministerial responsibilities.

Coast Protection Act 1949

Confusion exists between the provisions of the Coast Protection Act 1949 (administered by DoE), relating to construction of works to protect land against erosion and encroachment from the sea, and the provisions of the Land Drainage Act 1976 (administered by MAFF), which cover the construction of works to protect land against tidal surges and flooding from the sea. The distinction between coastal erosion and sea defence in legal terms has become increasingly blurred in recent years and was further confused by a Court case in 1980. There is a strong suspicion that because of this blurring grant aid is being sought, by the local and water authorities responsible for these coastal works, under whichever Act provides the best rate of grant in their particular circumstances. The forthcoming consultation paper will suggest a new statutory definition embracing all coastal works; but this proposal can only be implemented following primary legislation, and will therefore take time to introduce. In the meantime it is proposed to transfer responsibility for the Coast Protection Act from the Secretary of State for the Environment to me. This transfer of functions from Environment to Agriculture would eliminate control of largely the same activities by two different Departments. There would be a transfer of one post from DoE to MAFF, together with funds currently amounting to about £11.5m a year.

7
immediate

/Public Inquiries under ...

Public Inquiries under the Land Drainage Act 1976

Consult | The consultation paper will say that the current arrangements should continue, whereby the Minister of Agriculture, Fisheries and Food has sole statutory responsibility in England to call public inquiries under the Land Drainage Act 1976. Inquiries under this Act may be called to investigate flood alleviation schemes proposed by drainage authorities. During the passage of the Water Act 1983, Parliament was told that further consideration would be given to whether the Secretary of State for the Environment should also have powers to call flood protection inquiries when environmental and conservation issues are at stake. Our conclusion is that no changes are necessary because, in calling inquiries, I act on behalf of the Government as a whole, after appropriate collective consideration. Both the Secretary of State and I also have responsibilities under the Wildlife and Countryside Act 1981 to further conservation and enhance the countryside, which ensure full consideration of these matters where they are involved.

Responsibility for Land Drainage in Border Areas

Consult | Nicholas Edwards and I would like the consultation paper to state that our respective responsibilities for grant aid to Water Authorities and Internal Drainage Boards under the Land Drainage Act 1976 should be divided according to the boundary of the Welsh Water Authority rather than, as at present, on the basis of the geographical boundary between England and Wales. Water Authority areas are determined on hydrographic principles so that complete river systems are the entire responsibility of one Authority. The Welsh WA therefore extends into England to take in the lower reaches of the River Wye, and the Severn-Trent WA extends into Wales to include the catchment area of the River Severn. At present however grant-aided land drainage and flood prevention projects which straddle the England/Wales boundary have to be broken down into their English and Welsh components in order to conform with the separate financial responsibilities of the two Ministers concerned. The change Nick and I propose would result in much simpler administration. It would need a Transfer of Functions Order in due course. In view of the sensitivity of water issues in parts of Wales, we advise formal consultation on this point.

Storm Tide Warning Service (STWS)

7 It is proposed that MAFF should have sole financial responsibility for the STWS, which warns of the occurrence of surge tides affecting the east and south coasts. At present, in addition to the costs MAFF incurs, the Minister of Defence incurs costs relating to naval hydrographers. There is currently no statutory provision for this expenditure. The change proposed would make for more efficient administration and would be introduced at the same time

/as legislation making ...

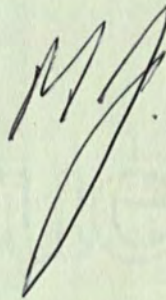
as legislation making statutory provision for the expenditure. No staff transfers would be involved but some budgetary changes would be necessary.

Subject to your agreement I plan to inform Parliament of these matters when announcing the issue of the Green Paper, probably in the Spring (I would clear the wording with you). The transfer of responsibility for the Coast Protection Act 1949 would be likely to take effect by Transfer of Function Order as soon as arrangements can be made. The other changes would be left until the necessary legislation was passed following discussion on the consultation document.

I am copying this to Patrick Jenkin, Peter Rees, Michael Heseltine, Nicholas Edwards, Grey Gowrie, George Younger and Sir Robert Armstrong.

NMTCs

MOD



M J
20 December 1984



Minister for Housing and Construction

Department of the Environment
2 Marsham Street London SW1P 3EB
Telephone 01-212 7601

CCND

17 December 1984

Dear Peter,

WATER FINANCE

Thank you for your letter of 28 November.

I expect a first report from Roy Watts on metering early next year and we can see then whether changes are in prospect that could affect the water authorities' investment and financing needs in the longer term. That is why it would be premature to try to reach agreement on arrangements for 1988/89 and 1989/90 just yet. There are other uncertainties too: the reviews of inflation accounting for nationalised industries being carried out by your officials; the separate review by the water authorities of their own application of CCA; and the capital restructuring proposals which are included in your suggestions for nationalised industries legislation could all affect the way in which rates of return are measured and hence our view of what is appropriate. Quite apart from these uncertainties, the very bad public reaction to the increases in water charges that we have already announced, and which will continue for 3 years, suggests to me that we should be cautious about entering into policy commitments beyond 1987/8.

In your final paragraph you say that "financial targets for the industry are now set for the industry for three years". That is not quite right. We have agreed a three year policy for financial targets and we intend to set the authorities financial targets year by year consistently with that policy. My point was that the increase in investments agreed by E(NI) was an important factor in the agreement on financial targets as the Prime Minister's summing up made clear. And we have made it a major plank in our public defence of the higher water charges that are now coming through. Therefore I would be bound to ask for the financial target policy to be looked at again if the investment levels that were agreed came to be reduced; and there could be other changes in circumstances which would lead us to want to review the policy.

I am copying this letter to the Prime Minister, other members of E(NI), Wyn Roberts and Sir Robert Armstrong.

Rt Hon Peter Rees Esq QC MP

IAN GOW

18/12
will request if required

100

178 DEC 1984

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CONFIDENTIAL

NAPM
AF 8/4



Department of the Environment
2 Marsham Street London SW1P 3EB
Telephone 01-212 7601

Minister for Housing and Construction

8 November 1984

Dear Chief Secretary,

WATER FINANCE

Thank you for your letter of 5 November. I accept your proposal on financial targets, subject to the points of qualification and clarification that follow.

In the relevant Financial Target Orders and in general statements about our overall financial policy for water authorities, I see no difficulty about setting and referring to targets which are single figures, with the average values you suggest viz 1.4% in 1985/6, 1.7% in 1986/7 and 1.9% in 1987/8.

However, in explaining to the water authorities (and, no doubt, to our Select Committee) how the individual authority targets have been arrived at I see no alternative but to explain the two elements which make up the final figure (ie. 5% on new investment, and a progressive increase towards a uniform return on existing assets, which we presently estimate will need to be 1.75% to achieve the required overall return of 1.9% in 1987/8). With both investment levels and existing rates of return varying considerably between authorities, this is the only way I can present and defend the individual authority targets that we have in mind.

I accept that we should announce this as a three year policy but I do not think that it will be possible to make the necessary statutory orders for more than one year at a time. This is because the orders have to state the targets for each authority individually and we will want to preserve our ability to adjust the individual figures year by year in the light of investment trends and other factors, consistently with the overall policy. I shall be seeking your formal approval for the individual targets for 1985/6 after the round of meetings which we now plan with the authorities early in December.

As for the 2 years beyond the present PES horizon, I still feel that it would be premature to seek to reach agreement, at least until we know the outcome of the metering studies.

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One caveat I must enter is that if the real investment levels agreed by E(NI) come to be reduced during the three year financial target period, I shall have to reopen the question of the appropriateness of the targets. The difference between the investment lines in the table enclosed with your letter is attributable to a difference in inflation assumption and not to a real difference in investment intentions.

I shall be exerting maximum pressure on the authorities to keep their charges increases as low as possible consistently with the financial target policy which we have now agreed. However there are pressures in the other direction and there is now a new factor to take into account: each 1% increase in electricity prices above what the authorities have assumed will add £1.2 million p.a to their pumping costs so that any significant increase could outweigh the economies which we were discussing earlier.

In view of the expected timing of the Chancellors autumn statement I shall be writing to the Chairmen about our new policies before the weekend.

I am copying this letter to the Prime Minister, other members of E(NI), Wyn Roberts and Sir Robert Armstrong.

Yours sincerely,

A. K. I. G.

A IAN GOW

*(Approved by the Minister
and signed in his absence)*

CONFIDENTIAL

8 NOV 1984





NBPM
BT
5/14

Treasury Chambers, Parliament Street, SW1P 3AG

Ian Gow Esq MP
Minister for Housing and Construction
Department of the Environment
2 Marsham Street
LONDON
SW1P 3EB

5 November 1984

Dear Minister

WATER INDUSTRY FINANCE

Thank you for your letter of 23 October about the implementation of E(NI)'s decision.

2. Our officials have discussed the figures underlying your proposals, and I note that they involve some changes to the EFL and investment lines agreed by E(NI). Details are set out in the attached annex. Provided you can agree to what I propose below on financial targets, I would be prepared to accept those changes.

3. I accept that you will want to vary financial targets for individual water authorities around the weighted average for each year, in the light of the different rates of return they are now earning and the investment they plan. But you seem to envisage separate targets for existing assets and new investment. That is not the way financial targets for nationalised industries are normally constructed. I suggest that we should follow normal practice in this case, setting a single target figure for each authority. This would prescribe the required return on its total net assets in current cost terms, and take account of the requirement that new investment should earn a 5% rate of return. (That is how the requirement for a 5% return on new investment is dealt with in other nationalised industries, and would implement E(NI)'s decision in July in a perfectly workable manner.) This was the approach I envisaged in putting forward the proposals for the years 1985-86 to 1987-88 which E(NI) endorsed earlier this month.

4. As regards the specific figures for financial targets, I note that the numbers which underlie your proposals (1.4%, 1.7% and 1.9% in the three Survey years) are slightly below those endorsed by E(NI) (1.5%, 1.8% and 2.0%). I am prepared to accept those lower figures provided it is agreed now that they are the firm figures for the weighted average of the financial targets to be set for individual water authorities. In other words, there would be room for negotiation with the authorities about the distribution of targets between them, but not on the weighted average of their figures.

5. I share your hope that it will be possible to bring down the numbers for increases in charges, consistently with adequate financial targets. We had identified some scope for further cost reductions in our earlier bilateral discussion with Patrick Jenkin, and I am sure you will be pressing the water industry to achieve maximum possible savings.

6. Financial targets should now be set firm for at least three years. It was always our intention to move away from last year's rather unsatisfactory expedient of a single year target, and E(NI)'s decisions provide the basis for a rather longer term target regime. Our officials are considering the technicalities of the financial target orders. If it proves not to be practicable to make orders for the full three years period, there should as a minimum be an announcement of the targets for the full three years.

7. E(NI) did in fact invite us to agree financial targets for five years. Our officials are discussing the practicability of doing this. If it can be done, it would give water authorities greater certainty for their forward planning.

8. I agree that the normal PES conventions should apply to the agreed EFL and investment figures: 1985-86 figures will be firm and figures for 1986-87 and 1987-88 will constitute the new baseline for those years.

9. I understand your wish to open discussions with the regional water authority Chairmen as soon as possible, but we have to consider the danger of leaks before the Autumn Statement, when figures for all nationalised industries' EFLs will be announced. I would have no objection to your talking to Chairmen a day or two before the announcement so that they have some advance warning, but a longer period of notice could be more difficult. Perhaps we could return to this point when we have agreed the other points discussed above.

CONFIDENTIAL

10. I am copying this letter to the Prime Minister, other members of E(NI), Wyn Roberts and Sir Robert Armstrong.

Yours Sincerely
p Paul Fegler
PETER REES

(Approved by the Chief Secretary
and signed in his absence)

CONFIDENTIAL

Figures endorsed by E(NI)

	1985-86	1986-87	1987-88
EFL (£m)	191	108	- 8
Investment (cash, £m)	811	870	925
Charge increase (real terms, on water industry inflation assumptions)	4.5%	3.5%	2.5%
Financial target	1.5%	1.8%	2.0%

Figures underlying proposals in Mr Gow's letter of 23 October

EFL (£m)	187	108	0
Investment (cash, £m)	819	888	956
Charges	5.4%	4.2%	4.0%
Financial target	1.4%	1.7%	1.9%

Local Govt
water

P12

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Minister for Housing and Construction

CONFIDENTIAL

Prime Minister ②
To note the consequences of
the E(NI) decisions on water

Department of the Environment
2 Marsham Street London SW1P 3EB
Telephone 01-212 7601

AT
24/110

23 October 1984

Dear Sir,

MT

WATER EFLS

I have been considering how best to put into effect the E(NI) decisions on water charges and water investment and am now writing to seek your agreement to my proposals.

To deliver the EFLs and investment figures agreed by E(NI) will require some £530 million of extra revenue to be raised from water consumers by way of higher charges over the 3-years of the PES period - £350 million to reduce borrowing and £180 million to increase investment.

To achieve this we shall need to set financial targets so that, in addition to the 5% return on new investment agreed by E(NI) in July, rates of return on existing assets are raised from the present average of 1% to 1.4% in 1985/6, 1.6% in 1986/7 and 1.75% in 1987/8.

To make all water authorities move immediately to a 1.4% return in 1985/6 would impose very severe increases in those regions where, for historic reasons, the present rates of return are relatively low (Wessex, Thames, North West and Southern).

I therefore propose a process of converging targets so that all authorities achieve 1.75% on existing assets by 1987/8.

I thought that you and other members of E(NI) would want to see how the decisions taken on 3 October will work out in practice. The enclosed table shows the charges increases which we expect to result from this process. The figures for each authority are average figures and increases in domestic charges will tend to be higher. Clearly there is a bumpy ride ahead: on average next year's charges increases will be more than twice the rate of inflation and the increases in subsequent years will be only a little lower.

These forecasts are based on the industry's own inflation assumptions and naturally we will be exerting maximum pressure on the authorities to get the numbers down. But there are pressures (drought losses, interest rates and wage claims for example) in the other direction also.

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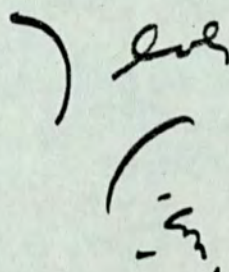
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I am assuming that we will proceed to firm agreement on financial targets, investment levels and EFLs for 1985/6 and provisional agreement on the later year's figures which will become the new baseline, subject to the outcome of future IFR discussions in the normal way.

I suggest that we hold over our consideration of what should be agreed for 1988/9 and 1989/90 pending consideration of the study of metering which we have commissioned. That could affect matters quite significantly.

Your officials will no doubt wish to examine the detailed implications of my proposals but I would like to reach agreement with you as soon as possible. I have a difficult task ahead persuading the Chairmen of the necessity of our decisions, which they will have to implement, and I would like to start on that soon.

I am copying this letter to the Prime Minister and other members of E(NI) and to Wyn Roberts.

Handwritten signature of Ian Gow, consisting of a large opening parenthesis followed by a stylized cursive name.

IAN GOW

The Rt Hon Peter Rees QC MP

2F

CONFIDENTIAL

WATER CHARGES PROSPECTS FOLLOWING E(NI) DECISIONS

<u>AUTHORITY</u>	<u>Charges increases (%)</u>		
	<u>1985/6</u>	<u>1986/7</u>	<u>1987/8</u>
North West	12.5	10.4	11.9
Northumbrian	11.2	11.6	8.5
Severn-Trent	11.4	8.8	7.3
Yorkshire	12.1	8.6	9.7
Anglian	11.4	7.5	7.6
Thames	9.0	8.4	8.7
Southern	11.5	9.8	9.0
Wessex	13.9	11.7	11.1
South West	9.1	8.1	9.7
ENGLAND (average)	11.2	9.2	9.1
Welsh	6.5	8.7	8.2
ENGLAND AND WALES	10.9	9.2	9.0

NOTES

- i. The water authorities have assumed inflation to be 5½%, 5% and 5% respectively in the three years.
- ii. Financial targets on existing assets to rise progressively to a common figure of 1.75% by 1987/8 while new investment from 1/4/85 is required to earn 5%.
- iii. Domestic charges increases will be 1-2% higher in areas where commercial customers are changing to meters and cross-subsidisation is being removed (4% in Wales).

SECRET

MR TURNBULL

2 October 1984

c Mr Redwood

WATER STRATEGY - E(NI) ON 3 OCTOBER

1. Rate of Return

E(NI) decided in July to require a real rate of return of 5% on all new Water Authority investment. The question is now what return to require from the existing assets, which allegedly have a replacement cost value of £22 billion. Treasury argue for a move towards 5% RRR by the year 2000 which implies an increase of RPI plus 3% every year for 15 years. Patrick Jenkin and Nicholas Edwards regard this as quite unsaleable, and argue for leaving the RRR on existing assets at around the present level of 1%.

We think the instincts of DoE and Welsh Office should - for once - prevail over Treasury logic. The replacement value of £22 billion (reduced from an earlier estimate of £28 billion) must be to some extent questionable: not all the assets will need replacing, and some of them cannot even be located. And a relentless price increase of RPI plus 3% over 15 years does not merely look like an abuse of monopoly power - it would be!

On the other hand, Treasury are right to argue that the taxpayer (through the industry's EFL) should not have to support the consumer. We therefore suggest that the right course to adopt is to raise charges by just enough to reduce the industry's EFL (currently about £250 million) to zero over 5 to 10 years. At that point, the industry would be self financing but not using its monopoly position to contribute to the state coffers. We judge that to be a defensible compromise, with charges rising at around RPI plus 1% to 1.25%.

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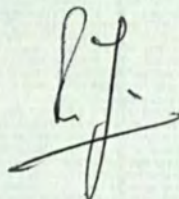
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It is for DoE and Welsh Office to determine financial targets for each of the 10 Water Authorities, but the long term objective must be for each to become self financing. And it is likewise for each authority, since none is connected to another, nor needs to be, to determine the balance of investment between fresh water supplies and sewerage.

2. Metering

Any technique which makes consumers cost conscious at the point of consumption is to be welcomed. In this case, the prime requirement must be a cheap, reliable water meter which costs little to install. For a market of nearly 20 million in the UK alone, human ingenuity can surely rise to the challenge? Although general metering will not help the short term finances of the Water Industry, the long term benefits look worthwhile, so we support the Patrick Jenkin/Nicholas Edwards proposals.

The one caveat we would enter concerns 'extra operating costs' - presumably to do with reading meters. Surely we are not going to continue with gas and electricity and water meters being read separately, by three large workforces?



ROBERT YOUNG

SECRET



P. 01400

PRIME MINISTERWater Strategy

(E(NI)(84)13 and 15)

Flag A+B

BACKGROUND

Until the mid-1970s, when the Regional Water Authorities (RWAs) were set up in England and Wales, water and sewerage were regarded as largely local authority responsibilities, as they still are in Scotland. They still retain features of the local government system: in particular, the great majority of domestic consumers pay water charges based, not on their consumption, but on the rateable value of the property they occupy. It was only last year that the RWAs were brought under the same control regime as the other nationalised industries.

Flag C

2. The Sub-Committee discussed strategic issues for the industry in July (E(NI)(84)4th Meeting, Item 3). The Secretaries of State for the Environment and Wales proposed then:

i. that investment in water services should increase to a level 5 per cent above the present level over five years so as to make progress towards environmental aims.

ii. A real rate of return on new investment in water services lower than that required of the other nationalised industries should be accepted (3 per cent, as against 5 per cent); and existing assets should be required to earn only 1 per cent in real terms.

3. The Chief Secretary, Treasury (in E(NI)(84)10), opposed these proposals. He argued, in particular, that the RWAs,



like other nationalised industries, should be required to earn 5 per cent in real terms on their assets, though he accepted that a move to this level would have to be phased over ten to fifteen years. He suggested that a charging policy based on this approach would provide substantial savings for the Public Expenditure Survey.

4. The Sub-Committee decided in July:

- 19/6/84
- i. that RWAs should be required to earn a rate of return of 5 per cent on new capital assets; and
 - ii. that they should return to discuss the other issues (raised in E(NI)(84)7 and 10) in September on the basis of a study of the implications of a general introduction, over a suitable period, of water metering. The study was to include cost, implications for financing the industry and for charges; and incentives to consumers and others to encourage a move towards general water metering.

5. These remits are dealt with by the Secretaries of State for the Environment and for Wales in E(NI)(84)13. The Chief Secretary, Treasury's views are in E(NI)(84)15.

MAIN ISSUES

6. Main issues are:

- i. what should be decided about issues still outstanding from July, namely:
 - a. what provision should be made for capital investment by the RWAs?
 - b. What is the desirable rate of return on the existing assets of the RWAs, bearing in mind



the consequences of the decision for water charges?

ii. What further action should be taken on metering?

Investment

7. The proposals by the Secretaries of State for the Environment and for Wales in paragraphs 6-10 of E(NI)(84)13 call for greatly increased levels of investment compared with those they proposed in July - an increase over five years to levels 20 per cent higher than current ones (the increase they proposed in July was 5 per cent over the period, although they did suggest that more investment might be undertaken if resources permitted). On the face of it, this increase seems too great to be explained by the new factors at paragraph 8 of E(NI)(84)13: in July the RWAs said that current levels of investment were adequate to maintain present standards for five years. The increase now proposed would mean in effect that the full amount raised by requiring a rate of return of 5 per cent on new assets from 1985 would go to water investment; and not, as earlier proposed by the Chief Secretary, Treasury, as a benefit to public expenditure generally.

8. The Chief Secretary, Treasury proposes EFL savings as set out in paragraph 6 of E(NI)(84)15. He is prepared for these EFL reductions to be accompanied by increased investment either at the levels now proposed in E(NI)(84)13 (ie 5 per cent growth a year) or at the lower level proposed by the sponsoring Secretaries of State in July (1 per cent a year). The difference comes out in charges to consumers, the effects on which of the various options under discussion are shown in the Annex to E(NI)8(4)15. The higher level of investment would involve a 4.5 per cent real increase in charges next year; the lower level a 3 per cent real increase.

9. Charges, together with operational needs and the priority they should be afforded, given the need for public expenditure savings, will thus be key factors in deciding levels of investment and the EFL levels which should be set along with them. On the one hand, as the Chief Secretary, Treasury, says, the effect of higher charges



on individual consumers is small. On the other, water bills, perhaps because they are not closely related to consumption and are perceived as akin to domestic rates, may be disproportionately contentious; and it may be argued that consumer resistance would be stiffened if, in the aggregate, large financial surpluses were generated in excess of the amounts reinvested. There is an obvious attraction in being able to explain increased water charges in real terms at least in part by reference to increased investment.

Financial targets

10. As in July, the Secretaries of State for the Environment and for Wales argue that the return on water authority assets existing at 1 April 1985 should be kept at about 1 per cent of their current valuation. They argue that RWAs have substantial social and environmental responsibilities. For this reason, and because of the } long life and low risk of the investment, a lower rate than that required of other nationalised industries is justified. Moreover, large increases in charges which would occur if a higher rate of return were required would be inflationary and would be misunderstood and disliked both by the industry and by consumers.

11. The counter-arguments also remain the same, in essentials, as in July. The Chief Secretary, Treasury, argues that the same 5 per cent rate of return should be required as of nationalised industries, though he recognises that the effects of the change would require it to be phased over up to fifteen years. He points out that the required rate of return of 5 per cent does not reflect financial risk but is a measure of the opportunity costs of capital; and argues that the cash and Retail Price Index effects of the increases in charges claimed for by his proposals would be almost negligible.

How to proceed

12. You will not want to spend time on a theoretical discussion on the rate of return on existing water industry assets which might eventually be achieved in the year 2000. There is agreement on a 5 per cent rate of return on new assets. A decision on how far and how



fast the rate of return on existing assets might be increased could perhaps be left until it becomes clearer whether widespread metering (see below) would be feasible, since this would provide a better link between charges and the demand for water services. The immediate requirement is to agree on a path of investment and charges over the next three years which is both politically acceptable and consistent with the need to restrain public expenditure. Is it agreed that there should be some increased investment and some real increase in charges over the next three years? If so, what real increase in charges would be politically tolerable? Having set that constraint the Sub-Committee would then leave it to the Chief Secretary, Treasury and the two water industry Ministers to settle the details of the EFL, reconciling the desire for more water industry investment with the need to restrain public expenditure.

Metering

13. The report by officials at Annex A to E(NI)(84)13 points up a number of considerations which prevent clear conclusions from being drawn on the basis of earlier work about the technical, financial and other implications of a move to metering. The Secretaries of State for the Environment and Wales propose a full feasibility study followed by a further report to the Sub-Committee. The Chief Secretary, Treasury, is content to proceed in this way. As time will be short, you may wish simply to record the Sub-Committee's agreement to the work proposed and establish how long it is likely to take.

HANDLING

14. You will wish to ask the Minister of State, Department of the Environment, and the representative of the Secretary of State for Wales to introduce the discussion. The Chief Secretary, Treasury will wish to respond. The Secretaries of State for Trade and Industry, Energy and Transport may have comments as Ministers sponsoring other nationalised industries. The Secretary of State for Scotland may have comments on the implications for the water industry in Scotland, which is organised quite differently from that in England and Wales. The Secretary of State for Trade and Industry may have views on the implications for water charges to industry.



CONCLUSIONS

15. You will wish to reach conclusions on the following:

- i. what should be the path of water charges and investment over the next three years;
- ii. what, if anything, should be said to the water industry at this stage about the rate of return to be achieved on its existing assets;
- iii. whether there should be a full-scale feasibility study of metering.

PLG

P L GREGSON

2 October 1984

*cc Questions
Press.*



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FROM THE PRIVATE SECRETARY
TO THE SECRETARY OF STATE
FOR WALES

26 July 1984

Dear Sir

*N
217*

WATER SITUATION IN WALES

The increasing shortage of water in the area of the Welsh Water Authority (WWA) is giving rise to the strong probability of rationing of supplies in parts of Wales from 1 September. Mounting public concern reflected in Opposition pressure and associated with the fact that the WWA has had to seek my Secretary of State's approval to a number of Drought Orders (under the provisions of the Drought Act 1976), make it necessary for my Secretary of State to make a very early statement to the House.

... I enclose a copy of the statement which I propose, on the advice of the Leader of the House, to make this afternoon. The subject is one which has not been the subject of reference to the Cabinet or to any of their Committees since it is specific to Wales.

/ Copies of this letter and the proposed statement go to the Private Secretaries to the Leader of the House, the Lord President of the Council, the Government Chief Whip, the Secretaries of State for Scotland, the Environment, and Trade and Industry, the Minister of Agriculture, Fisheries and Food and Sir Robert Armstrong; and also to Mr Bernard Ingham.

*Yours sincerely
C L Jones*

C L JONES

Tim Flesher Esq
Private Secretary
10 Downing Street



DRAFT STATEMENT ON THE WATER SUPPLY SITUATION IN WALES TO BE MADE BY THE SECRETARY OF STATE FOR WALES ON THURSDAY 26 JULY 1984

With permission, I should like to make a statement about the water situation in Wales.

Since February of this year rainfall in the Principality has been abnormally low, and over the whole of the WWA area has only been 44% of the long-term average. The Authority has been monitoring the water supply situation carefully since Easter and taken measures to conserve stocks of water held in reservoirs by application for Drought Orders to reduce compensation water discharges from reservoirs and to increase abstraction from rivers. The Authority has also sought to reduce consumption by banning the use of hosepipes and garden sprinklers. In spite of these measures reservoir levels have continued to fall and further action will be necessary to conserve the remaining stocks of water until there is sufficient rainfall to replenish them. Nobody can be certain when this will be, but meteorological records point to rain by the third week of October and the WWA have formulated their emergency plans accordingly.

The areas most seriously affected are south East Wales, Preseli, with a population of about 40,000 people, and the Lleyn Peninsula where the influx of summer tourists more than doubles the population to about 66,000. However, the shortage of water in South East Wales gives the greatest cause for concern because some 1 million people are involved. The WWA have therefore set up a Drought Liaison Committee for South East Wales with representatives from the local authorities, the health authorities, my Department, the CBI, NFU, FUW and other bodies. The Committee met last Monday when the WWA presented the facts about the supply situation and outlined their plans for meeting the shortage. In the first instance there will be a ban on the non-essential users of water such as automatic car washing plant and a Drought Order has been signed to put this into effect. If the dry weather continues the WWA will then need to ensure a further reduction in consumption to about 50% of normal from 1 September. They intend to do this by shutting off supplies to domestic consumers for up to 17 hours per day; industrialists and agriculturalists will be relied upon to make their own plans for reducing consumption by a similar amount. The organisations represented on the Drought Liaison Committee now have a month to consider the implications of these measures and to make their own plans



accordingly. Further meetings of the Committee will take place as necessary to resolve any outstanding problems before the WWA begin to shut off supplies.

Problems of varying severity exist in other parts of the WWA area and appropriate measures are being taken to limit consumption and to make the best use of the available stocks of water. The powers available under the Drought Act 1976 are being and will continue to be used to the full and there is close contact between the WWA and my Department in order that I am kept regularly informed of the situation. Finally I should like to pay tribute to the great efforts which are being made by WWA personnel to overcome the problems caused by the exceptionally dry weather of recent months.

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MR TURNBULL

25 July 1984

WATER AUTHORITIES - E(NI) ON 26 JULY

1. The Problems

Both papers are disappointing, in that they either miss or treat lightly some key issues. We think E(NI) should consider:

- i. efficiency - of management, labour and use of capital; and with that the attraction of private capital and greater use of private contractors;
- ii. the absence, after 10 years, of an agreed rationale for setting financial targets for the Water Authorities;
- iii. the absence of service (eg water quality) objectives which customers can understand and which might provide a justification for investment.

The result of all this is a muddle of expectations as between ratepayers, water authority managers and central government; and uncertainty as to what mix of charges and EFLs should be used to pay for revenue costs and new investment.

2. Some key observations

Annex A sets out salient facts and figures about the water industry. The conclusions we draw from them are as follows:

- i. water industry costs are not quickly reducible. But steady pressure on efficiency is desirable. Uncertainty about the life of the authorities' assets and the way in which they might be replaced calls into question the replacement cost of £28 billion ascribed to them. Why put a replacement cost on assets for which the replacement intention is far from clear?
- ii. Since the water authorities exercise a near-perfect monopoly, they can achieve any given real rate of return simply by adjusting their charges. We doubt the effectiveness of an RRR technique for setting charges.

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3. The DoE and Treasury views

DoE want increasing investment in real terms, but with modest real rates of return - 3% on new works after April 1985, but existing rates (approximately 1%) on existing investment. Surpluses generated should go to a Water Environment Fund "which would be used to support worthwhile projects for environmental improvement within the Water Authorities' investment programmes". They also suggest an officials' study of restructuring the Authorities' capital.

Treasury are happy to investigate the restructuring of capital, but do not like either the Water Environment Fund, or the low real rates of return suggested by DoE. The Treasury long-term financial target, however, is surprisingly vague - the achievement of approximately 5% over 10 to 15 years, with an increase in water charges a little above the general rate of inflation. Treasury are not persuaded of the need for a 5% real terms increase in investment over the next five years. Their main target is the reduction of taxpayer subsidy (ie the EFL) in the PES period.

4. The Policy Unit view

We believe that DoE and Treasury each have points in their favour.

Treasury are right to be sceptical about the Water Environment Fund and about the need for a real increase in the rate of Water Authority investment. The first sounds like expensive do-gooding, while the second falls into the "NHS trap", ie the assumption that more money automatically means a better service, and that the service always needs to be better.

On the other hand, Environment are better attuned to the presentational difficulties of stiffer financial targets. A flat-footed increase of so many per cent above RPI year after year for more than a decade will produce rising discontent and incomprehension, especially if the underlying valuation of assets is open to suspicion.

We feel it would be useful to look at other mechanisms that might be used for regulating monopoly activities. The "RPI minus X" formula to be used for British Telecom in the future seems to us well worth exploring. It is intended to provide a check on rapacity, pressure towards efficiency, and the opportunity to adjust annually in the light of political sensitivities. Why not apply the same formula to the costs of each of the 10 Water Authorities - not to the

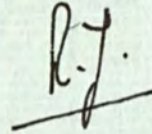
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industry as a whole - and couple the value of X to objective efficiency targets.

If E(NI) is content to have this explored further, we believe it would be useful to reassess at the same time whether rateable value should continue to be the basis for charging consumers for water services. Much ink has been flowed on this point in recent years. Surely mankind can now devise a better basis?

5. In summary we recommend that E(NI) should:

- i. reject DoE's request for a 5% real increase in investment over the next five years. Investment needs should follow on from precise and meaningful quality objectives, and even then will need to take account of public expenditure constraints;
- ii. reject the DoE proposal to establish a Water Environment Fund;
- iii. reject both Treasury and DoE targets expressed as real rates of return;
- iv. ask Treasury and DoE to explore the application of 'RPI-X', coupled with efficiency targets, to Water Authority costs.



ROBERT YOUNG

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Annex A

WATER AUTHORITIES IN ENGLAND AND WALES

1. In 1974 nine Water Authorities were established for England and one for Wales, each responsible for the whole water cycle from rainfall to disposal within "natural watershed" areas.
2. The Authorities raise revenue of around £2 billion per annum, and enjoy an EFL on top of around £300 million per annum. They invest around £800 million per annum. The largest element by far of their total costs (some 45%) is in financial charges - depreciation and debt-servicing. About 25% is manpower costs and the remaining 30% is largely in electricity, chemicals and other consumable materials. Although the Water Authorities have severed their connection with Local Authorities, their charges are still based on rateable values. The average bill to the domestic consumer is £75-80 per annum.
3. These are average figures which differ widely between Authorities. Thames is in surplus, and is paying off its debt, whereas the North West and Northumbria are bogged down in debt charges.
4. Independently of the Water Authorities, there exist 28 statutory water companies, which date back to the nineteenth century. Where it suits the Water Authorities, they exercise their statutory duty to supply by means of an agreement with the water companies.
5. On the whole, our climate ensures that we are not short of water. There is no obvious case for investing in major new storage or exploration schemes (the huge Kielder project is virtually surplus to requirements) and no case for a national water grid, which, capital costs apart, would entail enormous pumping costs. Although our water mains distribution system is leaky, and in some cases badly corroded, there is no objective evidence in support of a national spending spree. Interestingly, the CPRS reported in 1981 that only one-third of all water consumption in England and Wales comes via the Water Authorities or the statutory companies. Industry abstracts the remaining two thirds for non-drinking use.
6. Disposal (mainly sewerage) is, however, becoming financially more demanding. Sewer collapses are numerous - over 3,000 per year - but most are in small pipes and can be put right by local repair. The huge, highly publicised collapse is extremely rare. Virtually all the problems appear to be the result of hydraulic overloading rather than deterioration of

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the sewer material. The implication is that network analysis, aimed at identifying the worst pressure points, will be more cost effective than wholesale replacement. Large parts of the nation's sewerage system are unmapped so it may even be necessary on occasions to wait for a collapse in order to locate it. The re-lining of short sections with modern materials is a developing technique.

7. Although a reduction in total water consumption and total disposal would help the finances of the industry, metering does not provide a satisfactory solution. It costs about £50 per household to install a meter, and we have 18 million households. And we would still not have a grip on the two-thirds of water consumption which would not flow through meters, but would require disposal.

h.j.

PRIME MINISTERWater Industry

Could I add one or two comments to Bob Young's note. This will be a difficult discussion to handle as two separate issues are intertwined.

- (i) The strategic decision on how the rate of return on the industry should be structured with the Treasury favouring a higher return on the total capital stock and DoE wanting a higher return to be applied only to new investment.
- (ii) Having decided the basis for setting the rate of return, what numbers should be set? This will have important implications for the industry's EFL.

You will want to avoid decisions being taken which pre-empt the Chief Secretary's efforts to secure from the water industry an adequate contribution to the savings which E(A) has agreed from the IFR.

On (i) the Treasury are not entirely candid about the impact of moving to a 5 per cent real return on total capital over 10-15 years. Over 10 years this would be RPI + 5 and over 15 years RPI + 3. I doubt if this could be described as "a little above the general rate of inflation". By contrast, Mr. Jenkin's proposal for 1 per cent on existing assets and 3 per cent on new investment is equivalent to about 3 per cent of the existing capital, the average rate of inflation would build up only slowly.

On the structure of the financial target, Policy Unit are sympathetic to DoE. One argument for adopting this

approach is that the higher return on new investment will provide a break on enthusiasm for a larger capital programme.

If Mr. Jenkin's proposals were adopted, it is doubtful whether the water industry would be providing an adequate contribution to the savings of

£1,142m	£1,830m	£2,315m
which E(A) agreed to seek. Mr. Jenkin is offering only to eliminate the excess over baseline of		
£64m	£105m	£107m.

Whatever is adopted for the structure of returns, the Chief Secretary must be left with freedom to ask for a bigger contribution, e.g. by arguing for a once and for all increase in the return on existing assets from 1 per cent to 2 per cent, with 3 per cent on new investment. This would add £280m for water industry revenues.

Changes are needed to the water industry capital structure as it will very soon have repaid all its debt to HMG. One possibility would be to give it some kind of public equity capital on which it is required to pay a dividend.

AT

ANDREW TURNBULL

25 July, 1984



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P.01357

PRIME MINISTER

Water Authorities: the Strategic Issues

(E(NI)(84)7 and 10)

BACKGROUND

The Regional Water Authorities (RWAs) are relatively recent creations. Until the mid-1970s, when the RWAs were set up in England and Wales, water and sewerage were regarded as largely local authority responsibilities, as they still are in Scotland. Despite a further reorganisation under the Water Act 1983 to make the RWAs more commercial, they still retain features of the local government system: in particular, the great majority of domestic consumers pay water charges based not on their consumption but on the rateable value of the property they occupy. It was only last year that the RWAs were brought under the same control regime as the other nationalised industries.

2. The proposals in the joint memorandum by the Secretary of State for the Environment and the Secretary of State for Wales (E(NI)(84)7) reflect that background to some extent. The proposals are as follows.

FLAG F

(i) That investment in water services should increase by at least 5 per cent a year in real terms over the next five years, and more if resources permit, so as to make progress towards environmental aims.

(ii) A real rate of return on new investment in water services lower than that required of the other



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nationalised industries (3 per cent as against 5 per cent) should be accepted; and existing assets should be required to earn only 1 per cent in real terms.

(iii) Part of the surpluses generated by a charging policy consistent with (ii) above should be put into a Water Environment Fund (WEF), to be used for environmental improvements rather than taken for the benefit of public finances generally.

(iv) Officials should report on the possibility of a capital restructuring to provide a mechanism for recovering part of the surplus (presumably the amount not paid into the WEF) and to remove inconsistencies between authorities.

FLAG G___ 3. The memorandum by the Chief Secretary, Treasury (E(NI)(84)10) opposes all these proposals except the last.

(i) The Chief Secretary opposes any commitment to the proposed increase in investment; by implication, he regards present levels of investment as adequate for at least the next five years.

(ii) He argues that the RWAs should be treated like other nationalised industries and required to earn 5 per cent in real terms on their assets, though he accepts that a move to this level would have to be phased over 10 to 15 years. He suggests that a charging policy based on this approach would provide substantial savings for the Public Expenditure Survey.

(iii) He argues against the establishment of a WEF because it would add to public expenditure.



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The Chief Secretary suggests that he should seek to agree with Mr Jenkin and Mr Edwards on specific financial targets and investment figures in the early Autumn (ie. after more progress has been made with the nationalised industries Investment and Financing Review(IFR)).

MAIN ISSUES

4. The specific issues before the Sub-Committee are as follows.

(i) What provision should be made for capital investment by the RWAs?

(ii) What is the desirable rate of return on the assets of the RWAs, bearing in mind the consequences of the decision for water charges?

(iii) Should a WEF be set up?

(iv) Should officials be asked to report on a capital restructuring of the water authorities?

5. Although no operational decision on the point is needed, the Sub-Committee's conclusions on the questions in the preceding paragraph are likely to be coloured by the view they take of the nature of the RWAs: should they be assimilated as closely as possible to the nationalised industries, or treated as special? Clearly there is force in the points that the RWAs have substantial responsibilities affecting the environment and public health; and that charges to domestic consumers are largely unrelated to consumption. On the other hand, there is a risk that the RWAs will, in effect, be allowed to pick out the favourable aspects of different financial regimes. One of the justifications for controlling nationalised industries through



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their external financing limits (EFLs) is that their charges are not like taxation but reflect market demand. If water charges are to be regarded as analogous to taxes, the logic is that the whole of their capital expenditure should be treated as public expenditure, as with the capital programmes of central and local government, and be subject to similar disciplines.

Capital Investment

6. The RWAs have said that present levels of investment are adequate for five years to maintain present standards and deal with the needs foreseen for new housing and industrial development. Paragraph 7 of E(NI)(84)7 implies that more investment will be needed over a period of 10 to 15 years to replace assets. It is not clear whether the implication is that present levels of investment will not after all be adequate for the next five years.

7. Paragraph 8 of E(NI)(84)7 also bids for substantial additional investment: a minimum of 5 per cent a year in real terms. Ministers will need to consider whether they wish to give this expenditure, and the development of water and environmental services which is its objective, priority.

Rate of Return and Charging Policy

8. Their decision will be influenced by the view the Sub-Committee take of charging policy. If additional capital expenditure by the water authorities is not covered by additional revenue, it self-evidently adds to the EFLs, the public expenditure planning total and the PSBR; and if it is not required to produce an economic return it requires a clear social justification.

9. Paragraphs 4, 13 and 14 of E(NI)(84)7 set out the considerations which Mr Jenkin and Mr Edwards suggest provide such a justification. In essence, they are as follows.



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(a) Water authorities have substantial social and environmental responsibilities. For this reason, and because the financial risk in the water industry is low, RWAs should be asked to earn only about 3 per cent in real terms on new assets rather than the 5 per cent required of other nationalised industries.

(b) Water charges, at least to domestic consumers, are more akin to taxation than to prices.

(c) High water charges would have an inflationary effect.

(d) Substantially higher charges would generate large financial surpluses, which would be attacked by consumers as clear evidence of abuse of a monopoly position.

(e) The accounting basis is not sufficiently strong to bear a large immediate increase in charges.

10. The last of these arguments does not seem relevant, since Mr Rees is proposing only a gradual move towards securing an economic rate of return. For the rest, the Sub-Committee will wish to consider the following points on the other side.

(a) The required rate of return of 5 per cent does not reflect financial risk, as suggested in paragraph 14(a) of E(NI)(84)7: it is a measure of the opportunity cost of capital. (However, if Ministers considered that investment in water produced substantially larger social benefits than investment in either the other nationalised industries or the private sector, this would justify accepting a lower financial return).



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(b) The more the RWAs are treated as levying taxes rather than charging market prices, the less the justification for treating them as nationalised industries when their investment programmes are considered.

(c) It is contrary to Government policy to keep nationalised industry charges below an economic level in the supposed interests of reducing inflation: the immediate effects on the retail prices index are outweighed by the general inflationary effects of the higher borrowing or taxation required.

(d) The justification for the proposal in E(NI)(84)7 to seek a lower return on existing assets than on new assets is far from clear.

Specific Financial Targets and Investment figures

11. The Sub-Committee will probably wish to invite the Secretary of State for the Environment, the Secretary of State for Wales and the Chief Secretary, Treasury to reach agreement on specific financial targets and investment figures in the light of their views on the general questions discussed above.

Water Environment Fund

12. Whether the Sub-Committee favour in principle the proposal to set up a WEF will depend on two main considerations.

(i) Whether Ministers accept the view clearly favoured by the Chief Secretary that surpluses on investment in the water industry should be regarded, as with surpluses in other nationalised industries, as a return on public investment to which the taxpayer is entitled, or whether at least part of the surplus should be regarded as hypothecated to the industry. Presumably the justification for raising this part of the surplus, rather than simply keeping charges down,



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would be that it is necessary for current consumers to make some sort of advance payment for later environmental benefits.

(ii) Whether setting up a WEF would generate irresistible pressures for other hypothecated funds (a Road Fund and a North Sea Oil Fund to benefit Scotland are both well-known suggestions).

13. If the Sub-Committee should in principle favour the establishment of a WEF, they will probably wish to invite the Secretary of State for the Environment and the Secretary of State for Wales to bring forward detailed proposals.

Capital Restructuring

14. The Sub-Committee seem likely to accept the proposal, favoured by all three Ministers, for a study by officials of a possible restructuring of the capital of the water authorities to provide, among other things, a mechanism for the recovery of part of any surpluses.

HANDLING

15. You will wish to ask the Secretary of State for the Environment, the Secretary of State for Wales, and the Chief Secretary, Treasury to introduce their memoranda. All members of the Sub-Committee are likely to wish to comment from the standpoint of nationalised industry policy. The Secretary of State for Scotland may have comments on the implications for the water industry in Scotland, which is organised quite differently from that in England and Wales. The Secretary of State for Trade and Industry may have views on the implications for water charges to industry.

CONCLUSIONS

16. You will wish the Sub-Committee to reach conclusions on the following.



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(i) What broad level of investment in water services should be accepted as reasonable over the next five years?

(ii) What rate of return should be required from the RWAs:

(a) on new assets;

3.2.

(b) on existing assets?

1.6.

How quickly should the water authorities be required to move to earning that rate of return, bearing in mind the implications for water charges?

The Sub-Committee will probably wish to invite the Secretary of State for the Environment, the Secretary of State for Wales and the Chief Secretary, Treasury to discuss the detailed implications of their conclusions on these questions as part of the nationalised industries IFR.

(iii) Do the Sub-Committee in principle favour the establishment of a Water Environment Fund on the lines described in paragraph 19(a) of E(NI)(84)7?

(iv) Should officials be instructed to examine the possibility of restructuring the capital of the water authorities as proposed in paragraph 19(b) of E(NI)(84)7?

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P L GREGSON
Cabinet Office.
25 July, 1984

WATER AUTHORITIES - E(NI) ON 26 JULY

1. The Problems

We agree with Patrick Jenkin and Nicholas Edwards² that water industry organisation is in good shape. But:

- i. after 10 years there is still no agreed rationale for setting financial targets for the Authorities;
- ii. the rateable value basis of charging consumers for water services is unsatisfactory;
- iii. it is not clear who owns the Water Authorities. Until Government establishes ownership, it cannot take in surpluses as and when they are earned;
- iv. service (eg water quality) objectives for the Authorities are ill-defined.

The result of all this is a muddle of expectations as between ratepayers, water authority managers and central government; and uncertainty as to what mix of charges and EFLs should be used to pay for revenue costs and new investment.

DoE are anxious to provide a stable planning framework for the Authorities. Treasury are more bothered about the industry's claims on public expenditure over the period. We think that E(NI) must address both concerns.

2. Some key observations

Annex A sets out salient facts and figures about the water authority. The conclusions we draw from them are as follows:

- i. water industry costs are not quickly reduceable unless the taxpayer is to pay off the industry's massive debt (a total of £-----) in order to wipe out interest charges. But steady pressure on efficiency is desirable. Uncertainty about the life of the authorities' assets calls into question the replacement cost of £28 billion ascribed to them. Why put a replacement cost on assets for which the replacement intention is far from clear? We doubt that the general public would understand or accept replacement cost as a basis for much higher water charges.

- ii. Since the water authorities exercise a near-perfect monopoly, they can achieve any given real rate of return simply by adjusting their charges. We doubt the effectiveness of an RRR technique for setting charges.

3. The DoE and Treasury views

DoE want increasing investment in real terms, but with modest real rates of return on the investment - 3% on new projects after April 1985, but existing rates (approximately 1%) on existing investment. Surpluses generated should go to a Water Environment Fund "which would be used to support worthwhile projects for environmental improvement within the Water Authorities' investment programmes". They also suggest an officials' study of restructuring the Authorities' capital.

Treasury are happy to investigate the restructuring of capital, but do not like either the Water Environment Fund, or the low real rates of return suggested by DoE. The Treasury long-term financial target, however, is surprisingly vague, the achievement of approximately 5% over 10 to 15 years, with an increase in water charges a little above the general rate of inflation. Treasury are not persuaded of the need for a 5% real terms increase in investment over the next five years. Their main target is the reduction of taxpayer subsidy, (ie the EFL) in the PES period.

4. The Policy Unit view

We believe that DoE and Treasury each have points in their favour.

Treasury are right to be sceptical about the Water Environment Fund and about the need for a real increase in the rate of Water Authority investment. The first sounds like expensive do-gooding, while the second falls into the "NHS trap", ie the assumption that more money automatically means a better service, and that the service always needs to be better.

On the other hand, Environment are better attuned to the presentational difficulties of stiffer financial targets. A flat-footed increase of so many per cent above RPI year after year for more than a decade will produce rising discontent and incomprehension, especially if the underlying valuation of assets is open to suspicion.

We feel it would be useful to look at other mechanisms that might be used for regulating monopoly activities. The "RPI minus X" formula to be used for British Telecom in the

future seems to us well worth exploring. It is intended to provide a check on rapacity, pressure towards efficiency, and the opportunity to adjust annually in the light of political sensitivities. Why not apply the same formula to each of the 10 Water Authorities - not to the industry as a whole - recognising that X may need to have a negative value in order to permit increases to run ahead of RPI when necessary.

If E(NI) is content to have this explored further, we believe it would be useful to reassess at the same time whether rateable value should continue to be the basis for charging consumers for water services.

5. In summary we recommend:

- i. examination by Treasury and DoE of the "RPI plus or minus X" formula for each water authority;
- ii. re-examination of rateable values as the basis for charging consumers;
- iii. re-examination of the capital structure of the industry;
- iv. rejection of DoE's proposal for a Water Environment Fund;
- v. rejection of DoE's request for 5% real increase in investment over the next five years. Investment needs should be determined only after precise and meaningful quality objectives have been set, and even then they will need to take account of public expenditure constraints.

ROBERT YOUNG

WATER AUTHORITIES IN ENGLAND AND WALES

1. In 1974 nine Water Authorities were established for England and one for Wales, each responsible for the whole water cycle from rainfall to disposal within "natural watershed" areas.
2. The Authorities raise revenue of around £2 billion per annum, and enjoy an EFL on top of around £300 million per annum. They invest around £800 million per annum. The largest element by far of their total costs, (some 45%) is in financial charges - depreciation and debt-servicing. About 25% is manpower costs and the remaining 30% is largely in electricity, chemicals and other consumable materials. Although the Water Authorities have severed their connection with Local Authorities, their charges are still based on rateable values. The average bill to the domestic consumer is £75-80 per annum.
3. These are average figures which differ widely between Authorities. Thames is in surplus, and is paying off its debt, whereas the North West and Northumbria are bogged down in debt charges.
4. Independently of the Water Authorities, there exists 28 statutory water companies, which date back to the nineteenth century. Where it suits the Water Authorities, they exercise their statutory duty to supply by means of an agreement with the water companies.
5. On the whole, our climate ensures that we are not short of water. There is no obvious case for investing in major new storage or exploration schemes (the huge Kielder project is virtually surplus to requirements) and no case for a national water grid, which, capital costs apart, would entail enormous pumping costs. Although our water mains distribution system is leaky, and in some cases badly corroded, there is no objective evidence in support of a national spending spree. Interestingly, the CPRS discovered in its 1981 report that only one-third of all water consumption in England and Wales comes via the Water Authorities or the statutory companies. Industry abstracts the remaining two thirds for non-drinking use.
6. Disposal (mainly sewerage) is, however, becoming financially more demanding. Sewer collapses are numerous - over 3,000 per year - but most are in small pipes and can be put right by local repair. The huge, highly publicised collapse is extremely rare. Virtually all the problems appear to be the result of hydraulic overloading than to deterioration to

sewer material. The implication is that network analysis, aimed at identifying the worst pressure points, will be more cost effective than wholesale replacement. Large parts of the nation's sewerage system are unmapped so it may even be necessary on occasions to wait for a collapse in order to locate it.

7. Although a reduction in total water consumption and total disposal would help the finances of the industry, metering does not provide a satisfactory solution. It costs about £50 per household to install a meter, and we have 18 million households, nearly £1 billion of investment. And we would still not have a grip on the two-thirds of water consumption which would not flow through meters, but would require disposal.

010



CONFIDENTIAL

CE/MB

2 MARSHAM STREET
LONDON SW1P 3EB
01-212 3434

File

My ref:
Your ref:

5 July 1984

Dear Peter, → Yes please

WATER STRATEGY

Thank you for your letter of 29 June. As you cannot accept either of the propositions I put forward to try to meet you, I now see no alternative but to put Nicholas Edwards' and my proposals, in the form in which I sent them to you on 11 May, to colleagues in E(NI) for decision. Accordingly I am arranging for our paper to be circulated with a view to it being discussed as soon as possible.

The reasons why I cannot let this matter drag on are straightforward. The guidelines on nationalised industries planning circulated by the Treasury look for strategic issues arising from corporate plans to be considered early in the year. We were already aware last year that strategic decisions were required for the water industry but the change in board arrangements precluded effective consultation then. A one year interim financial regime therefore had to be aged for 1984/85.

The new authorities were consulted on the main issues between November and February and decisions are now overdue. Ian Gow and William Waldegrave had to stall on the Government's position on the vital questions of future investment and future financial targets in their recent series of meetings with the Chairmen to discuss their 1984 corporate plans. The Chairmen are, not unreasonably, becoming increasingly restive and if they are to give an effective lead in explaining the Government's policies to the new Consumer Consultative Committees and in implementing them successfully they must be told what our policies are as soon as possible.

You may want to argue that it is not appropriate to settle a strategy for water outside the annual consideration of public expenditure. That would be contrary to the decisions we reached at E(NI) (82) 3rd meeting on the CPRS report. Without a strategy, annual decisions will lack proper direction and important policy objectives will fail to be fulfilled. However, I believe that the strategy I propose meets reasonable public expenditure constraints inasmuch as it provides for a modest but much needed boost to water investment within a public expenditure

CONFIDENTIAL

24 July 1984

CONFIDENTIAL

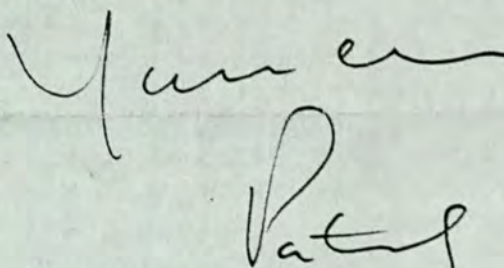
line that continues to decline, while the increase in water charges will be only a little above the rate of inflation. Our detailed scrutiny of the authorities' 1984 plans has shown the need for higher water services investment to be more urgent than we had expected and also shows water charges rising faster because of adverse capital price index movements.

As I understand it your main difficulty is with the financial target policy I propose which in your view does not result in water charges rising sufficiently fast. We discussed that when we met in May and the main counter-arguments are in the E(NI) paper (particularly paragraph 13). Notwithstanding their small contribution to RPI movements, water charges remain politically very sensitive. I see this particularly in its juxtaposition with our policies for local Government: in that context we have sought to keep down the burden of rates. I think the public would find it totally inconsistent to impose high water charges increases. It would damage the credibility of the new boards, from which we only last year removed the local authority majority. And frankly I do not think that the people who write to us in such large numbers to complain about their water charges would be impressed if told that their charges are going up to reduce public expenditure.

It would be most unfortunate to make water charges politically contentious just when we should be getting credit for the success of our policies over the last five years to make the water authorities more efficient and more effective.

This letter has the full support of Nicholas Edwards, who is jointly putting forward the E(NI) paper with me.

I am copying this letter to the other members of E(NI), to Michael Jopling in view of his interest in water authorities and to Sir Robert Armstrong.



PATRICK JENKIN

CONFIDENTIAL





PPS
FST
MST
EST
Sir P Middleton
Mr Bailey
Mr Byatt
Mr Anson
Mr Monck

Treasury Chambers, Parliament Street, SW1P 3AG

Rt Hon Patrick Jenkin MP
Secretary of State for the Environment
Department of the Environment
2 Marsham Street
LONDON
SW1P 3EB

Mr Burgner
Mr Pestell
Mr Houston
Mr Pirie
Mr Scholar
Mr Lord
29 June 1984

Mr Short
Ms Spencer

WATER STRATEGY

Thank you for your letter of 22 June.

I would have found it useful to have another bilateral to discuss all the options in the table. I am afraid I find little to commend the two options you advance in your letter for reasons we have discussed before. I had hoped it might be possible to find common ground in an option which would have increased the present inadequate rate of return on total assets a good deal more quickly. However, if you feel that a meeting is unlikely to enable us to make progress, then I accept that we will each have to go to E(NI) with our respective arguments.

Other pressures which are building up convince me more strongly than ever that we cannot form a proper judgement on water strategy in isolation from the rest of public expenditure. In particular I would mention the severe pressures from local authority current and, now, capital spending which seem likely to call for some difficult decisions to be made. Against this background, it cannot make sense to settle for a strategy for water which is not demanding enough and restricts our very limited room for manoeuvre.

I am copying this letter to Wyn Roberts.

Peter Rees

PETER REES

6 JUL 1984

12 1 2 3
4 5 6 7 8 9 10 11



Minister for Housing and Construction

Department of the Environment
2 Marsham Street London SW1P 3EB
Telephone 01-212 7601

NSPM *AT* *8/11*

Our Ref: J/PSO/13238/84

28 MAY 84

Dear Secretary of State,

BRITISH WATERWAYS BOARD: OBJECTIVES

I have seen your letter of 17 April to Nigel Lawson on the proposed objectives for the British Waterways Board.

I agree that we need specific targets for financial performance. Once the objectives are settled we can do this best in the context of the corporate plan, on which BWB is working at present.

We have also asked the Board to prepare suitable methods of performance measurement and monitoring. When we have examined the plan and proposed performance indicators our intention is to set quantified objectives and targets as appropriate for their business.

I am copying this letter to members of E(NI).

Yours sincerely,

Paul Britton

for

IAN GOW

(Agreed by the Minister
and signed in his absence)

The Rt Hon Nicholas Ridley MP

Local Govt : Water Industry A2.

8 MAY 1984





NBPN
RT 815
cc 20

Department of the Environment
2 Marsham Street London SW1P 3EB
Telephone 01-212 7601

Minister for Housing and Construction

Dear Peter,

My Ref G/PSO/42355/84

- 8 MAY 84

BRITISH WATERWAYS BOARD : OBJECTIVES

Thank you for your letter of 11 April agreeing the proposed objectives.

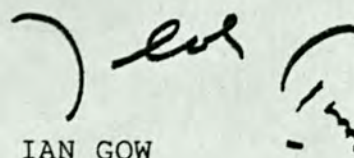
I can see attractions in a shortened version for publication but I also think there could be dangers of misunderstandings and misinterpretations and I fear that the process of agreeing a revision with BWB could delay publication.

I agree that BWB's progress in selling non-operational holdings has been very disappointing. I have stressed to the present chairman and to the chairman designate the importance of action on this front and our officials are discussing the possibility of providing BWB with an incentive in the form of retention of capital receipts for reinvestment. The reference in the objectives to "commerically sensible" disposal is by no means a recipe for delay but it will allow BWB to phase their sales sensibly and avoid any drop in market prices through expectation of a glut of sales.

I have also impressed upon the Board the need to make rapid progress this year over the development of a corporate plan and suitable methods of performance measurement. We expect to receive their outline proposals in May and I shall ensure that they are an accurate and full reflection of the objectives. Whatever information we get at that stage will be well timed for the Investment and Financing Review. But the Board's corporate planner has only been in post since January and it would be counterproductive to press for a full plan too soon.

My officials are looking at revised draft terms of appointment for auditors which include value for money audit requirements and I agree the terms of appointment must give us clear access to the auditors' reports.

I am copying this letter to members of E(NI).


IAN GOW

The Rt Hon Peter Rees QC MP

Local Govt : Water Industry #2.

29 MAY 1984





DEPARTMENT OF TRANSPORT
2 MARSHAM STREET LONDON SW1P 3EB

01-212 3434

CCND
NPPM

AT 17/14

The Rt Hon Nigel Lawson MP
Chancellor of the Exchequer
HM Treasury
Treasury Chambers
Parliament Street
LONDON SW1P 3AG

17 April 1984

Dear Nigel

BRITISH WATERWAYS BOARD - OBJECTIVES

Ian Gow copied to me his letter to you of 30 March and the proposed objectives for the British Waterways Board.

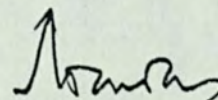
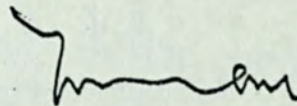
Although I have only a limited direct interest, I have contrasted these objectives with those we set for the Railways Board Chairman last year. Unlike those for British Rail, the Waterways Board objectives seem to me to lack substance and precision. They do not make clear to the Board what we expect of them. In particular, the two main objectives - achievement of an acceptable return for those activities capable of being operated commercially, and a reduction in Government support for activities requiring continuing subsidy - are neither clearly defined nor, more importantly, quantified in any way.

I realise that general objectives are easier to agree with an industry than specific targets for financial performance, but quantified objectives, clearly expressed, have considerable advantages. They provide both a clear target to which the Chairman can commit himself and a yardstick

against which Ministers can assess the industry's plans and subsequent performance. The financial targets we set for the Railways Board are proving particularly useful in this respect.

Ian Gow says that he has reached agreement with the Board over the proposed objectives and I accept that it may not be possible at this stage to write into the document clear financial targets. I trust, nevertheless, that the intention is to agree such targets in the near future, since without them the objectives risk being merely a statement of good practice rather than a firm guide to the future business strategy we expect BWB to follow.

I am copying this letter to members of E(NI).



NICHOLAS RIDLEY

Local Govt for
Water Industry



NBPM

AT

CCNO

13/4

Treasury Chambers, Parliament Street, SW1P 3AG

Mr I Gow MP
Minister for Housing and Construction
Department of the Environment
2 Marsham Street
London
SW1P 3EB

11 April 1984

John Law

BRITISH WATERWAYS BOARD - OBJECTIVES

I am replying to your letter of 30 March to Nigel Lawson about objectives for BWB.

I welcome the fact that you are making progress in this area. I am content with the broad thrust of the objectives and I do not have any drafting amendments to suggest to the text. I do however have the following comments.

In general the objectives are more detailed than we would expect in a document which is aimed to be a statement of strategic objectives. I can understand your reason for doing this but you may want to consider whether the published version should be shorter and more succinct. I am content to leave this to you to decide.

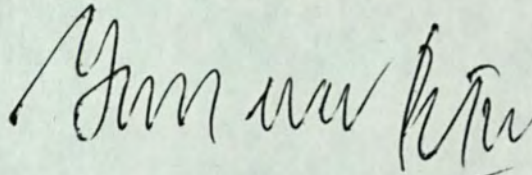
BWB's progress in selling non-operational holdings of land and buildings and involving the private sector in its activities has been very disappointing. I therefore hope that the reference to selling non-operational holdings "as soon as this is commercially sensible" will not be allowed to become a further excuse for delay. It is important that BWB are pressed in this general area.

I am pleased that the Board are producing a corporate plan at long last and it is important that this should be ready in time for it to inform our consideration of BWB in this year's Investment and Financing Review. It is unsatisfactory that

financial targets, performance aims and proper monitoring arrangements are not yet in place and I hope you will be able to remedy this as soon as possible.

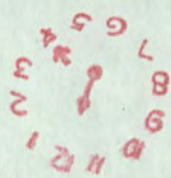
Finally, I am sure you are right to require that BWB's auditors carry out a proportion of value for money audit annually. Such audits will give the Government a valuable insight into the efficiency of the BWB and I assume that arrangements will be made for the Department of the Environment and the Treasury to see the auditors' reports.

I am copying this letter to members of E(NI).

A handwritten signature in cursive script, appearing to read 'Peter Rees', written in dark ink.

PETER REES

Local Govt
Water Industry Pt 2



113 APR 1984



File

10 DOWNING STREET

From the Private Secretary

Note to be Recored

I discussed N Young's minute with him. I felt that he was going beyond the E(N1) discussion of March 1983. This saw only limited scope for selling off canals but emphasized disposal of other surplus assets and better use of remaining network.

He agreed to discuss issue with N Gos on two levels

(i) has to draft objectives to bring out spirit of E(N1) discussion more clearly

(ii) whether there is a case for reconsidering E(N1) conclusions and going for something more radical.

AT
10/4

MR TURNBULL

c Mr Redwood

BRITISH WATERWAYS BOARD - OBJECTIVES

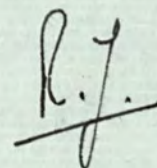
Ian Gow's letter of 30 March to E(NI) members is a poor attempt at defining objectives. Although in public expenditure terms this is a small issue (BWB runs on an EFL of around £40 million per annum) Waterways could be a troublesome environmental issue.

We recommend against announcing more than Leslie Young's appointment in May. At the same time, and in confidence, DoE should set as his prime task the preparation of a draft strategy which sets out:

- (a) what Board structure and appointments are needed;
- (b) how BWB's leisure waterways can best be privatised;
- (c) what the transport role of the BWB canals should be, and how private capital can be introduced;
- (d) what arrangements need to be made with Regional Water Authorities to preserve the land drainage functions of canals.

We suggest a first draft not later than 31 December 1984.

The reasoning behind our recommendations is set out in the Annex.



ROBERT YOUNG

BRITISH WATERWAYS BOARD

1. The background is that BWB is in steady receipt of about £40 million per annum of Exchequer support. Most of that goes on financing deficits of around £30 million per annum on a turnover of £15 million to £20 million (!). Annual investments of between £5 million and £10 million are made in the backlog of maintenance, which was assessed in 1982/83 at £120-150 million. On the face of it, BWB's worst problem is the 340 miles of designated commercial waterways, on which it lost £12 million in 1981; it lost a further £12 million on 1100 miles of designated cruising waterways; and £4 million on the remainder of 600 miles.

2. DoE's background paper to E(NI) in March 1983 admitted:

"the relationship between central Government and BWB has not been easy in the last 10 years ... the senior management is generally not of high quality ... the Board are reluctant to provide the kind of information Departments get from grant in aid bodies, and rest on the traditional arm's length relationship of an orthodox nationalised industry".

3. E(NI) conclusions about policy for BWB were that it should:

- operate as commercially as possible;
- privatise as much as possible;
- operate principally as a leisure industry;
- undertake a commercial appraisal of its freight operations.

There was correspondence either side of E(NI)'s meeting about the importance of bringing in a new Chairman with leisure industry

experience, and of supporting him with a Chief Executive of similar background. That has clearly not happened. The composition of the current Board (see attachment) is unsatisfactory.

4. Against 10 years of difficult BWB/Government relationships, the appointment of a new Chairman in July, and the call on him to produce a corporate plan as soon as possible, we judge it unwise to lay down in May objectives which are neither a clear policy statement nor workable targets.

Financial considerations apart (and these are important) we must also reckon that the environmental lobbies will be out in force. DoE estimate that there are 2,000 hire boats, 22,000 private boats and 250,000 anglers using BWB's waterways. To these numbers we must add several hundred thousand members of the Ramblers' Association and other nature conservancy bodies. All these numbers are rising steadily. The "freight-off-roads" lobby will probably be vocal. And on top of that, 75% of BWB's mileage is in the Midlands and North, giving an unhelpful geographic focus to the combined lobbies.

Why antagonise them before giving the new Chairman a chance to sort out his Board and the commercial potential of his organisation?

5. The main defects of Mr Gow's proposals as written are:
 - failure to define "value for money" and "adequate rate of return on specific activities" (in paragraph 2);
 - in paragraph 4 no criteria are set for judging what part of "the network" (is it really a network?) is sensible for freight, or what an adequate rate of return on freight actually is;
 - in paragraph 5, there is reference to keeping up charges, but none to keeping down costs;
 - what are the priorities between leisure, freight and drainage? (Paragraph 7);

- the first corporate plan should be a costed strategy document, and should have a date attached to it.

Above all, Mr Gow's document overlooks the fact that the private sector appears to live comfortably off the canals - from the individual fisherman up to the canal cruiser companies. Why should the taxpayer chip in a subsidy of £40 million per annum? It is hard to avoid the impression that BWB have slumbered for years on assets which could be beautiful to look at and lucrative to develop. It is high time DoE woke them up.

R.J.

CONFIDENTIAL

BRITISH WATERWAYS BOARD

	<u>AGE</u>	<u>CAREER</u>	<u>FIRST APPOINTED</u>	<u>RE-APPOINTED</u>
<u>CHAIRMAN</u>				
Sir Frank Price	61	Planning	4.67 Member 6.68 Chairman	-6.83 Extended to 12.83 and 6.84
<u>VICE-CHAIRMAN</u>				
Dr. Alan Robertson OBE	63	Chemicals Ind.	10.83-9.86	
<u>MEMBERS</u>				
Rear Admiral D.A. Dunbar-Nasmith CB	63	Royal Navy M.O.D.	11.80-11.83	11.83-10.85
P.R. Lisle OBE		Civil Eng., Waterways	11.81-10.83	11.82-10.84
R.J. Weston		Chart. Surveyor	6.80-5.82	6.82-5.84
M. Everard		Shipping	7.83-6.85	
H.G.C. Aldous		Accountancy	1.83-12.84	
Leslie Young CBE	58	Ind. Man'mt, Regional Dev.	1.84 (Chairman from 7.84)	

All appointments are part-time.

The industry and the Department of the Environment were unable to supply the age of certain Members.

CONFIDENTIAL

Telephone
01-212 7601

DEPARTMENT OF THE
ENVIRONMENT
2 MARSHAM STREET
SW1P 3EB

Department of the Environment
Marsham Street London SW1P 3EB
phone 01-212 7601



This letter is now being re-circulated as the enclosure was inadvertently omitted originally. Please accept our apologies for any inconvenience caused.

With the Compliments of
the Minister for
Housing and Construction

30 March 1984

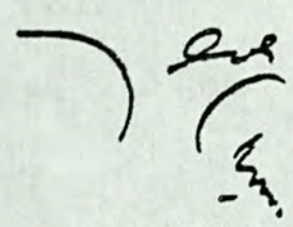
On 9 March 1983, E(NI) decided the shape of future policy toward British Waterways Board and priorities for action by the next Chairman. With these policy requirements in mind, we have, as you know, appointed Leslie Young (Chairman of J Bibby plc and Merseyside Development Corporation) as a Board member from January and to take over as Chairman in July with the supporting appointment last August of Dr Alan Robertson (ex director, ICI) as Vice-Chairman.

We have reached agreement with the present Board over the enclosed objectives, the text of which I finalised in discussion with Sir Frank Price, Mr Young and Dr Robertson.

They embody the E(NI) decisions in a form which provides guidelines for the present Board and a blueprint for future policies by the new Chairman.

The Board is now consulting its statutory recreational user body, the Inland Waterways Amenity Advisory Council, after which we intend to inform the House and to publish the objectives: probably in May. We expect the Council to endorse the objectives in their present form but I will of course report back to E(NI) colleagues if there should be any significant changes to the text.

I am copying this letter to E(NI) colleagues.


IAN GOW

The Rt Hon Nigel Lawson MP

BRITISH WATERWAYS BOARD
STATEMENT OF OBJECTIVES

OBJECTIVES

General

1. Consistent with its statutory obligations and powers, the Board should, so far as practicable, run its affairs on a commercial basis.

2. In promoting the fullest practicable use of the waterways for leisure, recreation and amenity, and for freight transport where appropriate, the Board should aim (a) to achieve value for money in all its activities including the maintenance of waterways, (b) to secure an adequate rate of return on specific activities and (c) consistently with its other objectives to increase opportunities for private sector participation in the business for example through direct investment, joint ventures, asset sales, contracting out and hiving off. By these means the Board's demands on Exchequer funds should be kept to a minimum.

3. The Board should comply with financial targets and external financing limits set by the Secretary of State and should achieve performance aims, agreed with the Secretary of State, for manpower and other operating costs for each part of the Board's activities. Proposals by the Board for capital investment should be subject to proper investment appraisal as in the Department's guidelines dated 25 May 1983. Those outside the delegated limits agreed from time to time between the Secretary of State and the Board should be submitted for approval. The currently agreed limit for this is £200,000.

Freight

4. That part of the network which is suitable for freight transport should be managed (in addition to the purposes set out below) primarily for the commercial traffic of private operators. The Board's direct freight activities (as distinct from the upkeep of the waterways) should be confined to those which can achieve an adequate rate of return. Those which do not should be sold

off or closed down. Opportunities to attract private sector capital for the expansion and development of commercial freight traffic, including the relevant waterways, possibly by means of joint ventures, should be pursued. Maintenance standards should be appropriate to the actual use (including land drainage where necessary), and the prospects of use, of the stretches of each waterway.

Leisure, recreation and amenity

5. The greater part of the network is unlikely to be suitable for freight transport and should be managed imaginatively for the purposes of leisure, recreation, amenity (and land drainage as necessary). Public use and enjoyment of the waterways should be enhanced. Opportunities to expand and develop profitable activities (in conjunction with the private sector where possible) should be pursued in ways which would increase the Board's resources. Charges should be kept under review, with the aim of maximising revenue. Maintenance standards should be appropriate to the actual use (including land drainage where necessary) and the prospects of use, of the various stretches of each waterway.

Land Holdings

6. The Board should define as operational only such land as (a) is essential to the maintenance of the waterways, or (b) must be held by the Board for running its freight, leisure, recreation and amenity activities. Non-operational holdings of land and buildings should be sold freehold to the private sector as soon as this is commercially sensible, or developed with the private sector through profitable joint ventures. The Board should maintain an up to date appraisal of their land holdings and their capital valuation.

Maintenance and Engineering Works

7. The scope and standards of maintenance of particular stretches of waterway should be appropriate to their use. They should be kept under review taking into account the number and

size of vessels using them. The Board should make proposals to the Secretary of State for any desirable changes in the statutory standards and classifications of commercial, cruising and remainder waterways. The Board should contract out maintenance work to the private sector wherever that is cost effective. In the case of waterways which are also "main rivers" for land drainage purposes the Board should seek to co-operate with the relevant authority (the Regional Water Authority in England and Wales) to maintain the waterways as economically as possible. The possibilities of either the Board or the relevant authority undertaking all work subject to reimbursement should be pursued.

Research and Development

8. The Board's research programmes should be geared to its objectives and should be settled annually with the approval of the Secretary of State as required by Section 46 of the Transport Act 1968.

Corporate Plan

9. The Board should develop procedures whereby its objectives and performance are kept under review, the efficiency and effectiveness of its operation are monitored and the results reported to the Secretary of State. This will require the early adoption of a corporate plan, updated annually, for approval by the Secretary of State, the settling of performance aims and indicators, and the further development of performance review and financial monitoring.

Accounts and Audit

10. The Board should adopt management accounting systems compatible with the form of accounts directive, and its businesses as defined in the corporate plan. The auditors, who are appointed by the Secretary of State, will carry out a proportion of value-for money

audit annually, reporting on that and other audit matters to the Board in the first instance.

Relations with Users

11. The Board should consult waterways users and others affected by the Board's activities about their needs and about the Board's policies. On matters affecting leisure recreation and amenity the Board should liaise closely with the Inland Waterways Amenity Advisory Council, making use of the Council's links with user organisations.

DOE

March 1984

Local Govt. : The Water Industry A2

24 APR 1984





Minister for Housing and Construction

Department of the Environment
2 Marsham Street London SW1P 3EB
Telephone 01-212 7601

CCNO
NBM
AT
3/4

30 March 1984

Ian Gow

On 9 March 1983, E(NI) decided the shape of future policy toward British Waterways Board and priorities for action by the next Chairman. With these policy requirements in mind, we have, as you know, appointed Leslie Young (Chairman of J Bibby plc and Merseyside Development Corporation) as a Board member from January and to take over as Chairman in July with the supporting appointment last August of Dr Alan Robertson (ex director, ICI) as Vice-Chairman.

We have reached agreement with the present Board over the enclosed objectives, the text of which I finalised in discussion with Sir Frank Price, Mr Young and Dr Robertson.

They embody the E(NI) decisions in a form which provides guidelines for the present Board and a blueprint for future policies by the new Chairman.

The Board is now consulting its statutory recreational user body, the Inland Waterways Amenity Advisory Council, after which we intend to inform the House and to publish the objectives: probably in May. We expect the Council to endorse the objectives in their present form but I will of course report back to E(NI) colleagues if there should be any significant changes to the text.

I am copying this letter to E(NI) colleagues.

Ian Gow

IAN GOW

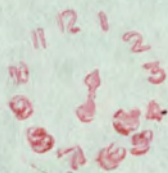
The Rt Hon Nigel Lawson MP

Local Gov

Water Ind.

Pt 2

3 APR 1984





cc: LPSO .
CWO .
Mr. Ingham .

10 DOWNING STREET

From the Private Secretary

30 January, 1984

Water in Wales

Thank you for your letter of 24 January to Robin Butler.

The Prime Minister has noted and is content with your Secretary of State's proposal to publish the Government's response to the Select Committee's Report on "Water in Wales", on Thursday 2 February.

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

DAVID BARCLAY

C. L. Jones, Esq.,
Welsh Office

CONFIDENTIAL

PRIME MINISTER

ms

To note that the Government's response to the Welsh Committee's report on Water in Wales will be published next Thursday (2 February).

The report itself was not well thought of. The draft response is robust in tone, and repudiates the Select Committee's criticisms of Welsh Office Ministers and civil servants. You may like to glance at Mr. Edwards' covering letter to the new Chairman of the Welsh Select Committee, Mr. Gareth Wardell (Flag A).

Dafydd Wigley has a Question to you about Welsh water rates at No. 4 on the day of publication. Briefing is in hand.

DWB

26 January 1984

CONFIDENTIAL



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Tel. 01-233 3000 (Switsfwrdd)
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ODDI WRTH YSGRIFENNYDD
PREIFAT YSGRIFENNYDD
GWLADOL CYMRU

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

24 January 1984

Dear Mr Butler,

GOVERNMENT RESPONSE TO COMMITTEE ON WELSH AFFAIRS - WATER IN WALES

My Secretary of State proposes to publish the Government's response to this ... report on Thursday 2 February at 3.30 pm. I enclose a copy of the printers first draft. The contents of the response have been cleared by my Secretary of State with interested ministerial colleagues.

We appreciate that it is usual to avoid Thursdays for publication when possible, but my Secretary of State wishes to publish this response at the earliest opportunity.

As the contents of the response relate in the main to Welsh affairs, we propose to release CFRs on a selective basis to the Parliamentary lobby. This will be done at 9.15 am on 2 February. In addition because of the special requirements of the South Wales based media we propose to make CFR copies available to them on a very selective basis shortly afterwards. A lobby note will accompany the CFR's and will be in identical terms to the eventual press notice.

We have timed the publication to avoid problems with Prime Minister's question time and also so that the publication can be announced by means of an answer to a Parliamentary Question. That answer will include the laying in the library of the House a letter which my Secretary of State intends to send to Mr Gareth Wardell, the Chairman of the Committee on Welsh Affairs. ... I enclose a copy of that draft letter. We have noted that Mr Dafydd Wigley has an oral Question about control of water rates at No 4 to the Prime Minister on that day but do not expect this to cause problems.

We have informally cleared the publication date and time with the No 10 Press Office.

/ I am copying this letter to the Private Secretaries to the Lord Privy Seal, Chief Whip and Bernard Ingham.

Yours sincerely
J Roberts

for C L JONES

F E R Butler Esq
Private Secretary to
The Prime Minister

CONFIDENTIAL

CONFIDENTIAL

6106

6106

The Rt Hon Nicholas Edwards MP

January 1984

THE COMMITTEE ON WELSH AFFAIRS - WATER IN WALES

The Government's response to the report by the Committee on Welsh Affairs on Water in Wales will be published on _____ and I enclose a copy.
...

Although you did not, of course, chair the Committee during this enquiry there are a number of matters relating to its conduct that concern me, and since I am anxious to be as helpful as I can to the Committee I am taking this opportunity to write to you about them now.

I have noted that on many of the major issues, the Committee did not come to a unanimous conclusion but divided on political lines. I also note with some concern that it reached sweeping conclusions on the basis of brief oral responses to detailed questions about technically complex issues and events that occurred many months or even years before.

I believe that such responses provide an inadequate basis for some of the conclusions that the Committee reached. By the same token, the Committee appears to have placed a great deal of reliance on the written comments made by the then Water Authority about the evidence given by myself and others and to have taken these comments as weighty evidence to support the conclusions reached, though these comments were not subject to further evidence of examination.

As I have said, I am anxious to be as helpful as I can to the Committee. Nevertheless, if it is to undertake lengthy examinations of complex technical subjects, and if its conclusions are to be fair to individuals and valuable to those to whom they are directed, I do feel that a rather more satisfactory method of considering evidence will have to be devised. Naturally, I should be very willing to consider with the Committee ways of improving the present arrangements.

In the meantime, and notwithstanding that the Government has been able to accept a good many of the Committee's recommendations, I feel bound to put on the record my firm view that some of the conclusions reached by the Committee were unsoundly based for the reasons I have given and that a number of the criticisms directed at Ministers and Civil Servants were not justified. These matters are discussed in more detail in Annex 1 to the response document.

/ I am copying this letter and the enclosure to Donald Anderson, who chaired the Committee during the water enquiry, and it is my intention in announcing publication of the Government's response, also to arrange for a copy of the letter to be placed in the Library of the House.

CONFIDENTIAL

Local Govt.



NORTHERN IRELAND OFFICE
GREAT GEORGE STREET,
LONDON SW1P 3AJ

SECRETARY OF STATE
FOR
NORTHERN IRELAND

The Rt Hon Nicholas Edwards MP
Secretary of State for Wales
Gwydyr House
Welsh Office
WHITEHALL
London
SW1

W
4/83

3 August 1983

Dear Sir

SALMON AND FRESHWATER FISHERIES ACT 1975: RATING OF FISHERIES

Thank you for copying to me your letter of 28 April 1983 to Peter Walker on this subject.

The situation in Northern Ireland is different from that applying in Wales in that the levying of charges in respect of water and of fisheries is already separate. The owners of fisheries pay rates, anglers and commercial fishermen pay an annual licence fee and those using public angling waters pay an annual permit fee.

In the circumstances therefore, your proposal to levy contributions on fishery owners and thereby relieve water rate payers of the fishery element of the present environmental service charge would have no significant implications for me. I have however, noted the views expressed by Michael Jopling in his letter of 14 July 1983.

I am copying this letter to Patrick Jenkin, Peter Rees, John Biffen, Michael Jopling and George Younger; and for information to the Prime Minister and Sir Robert Armstrong.

Yours faithfully
John Biffen

LOCAL Gov: Water Ind: 4: 1/2

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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

31 July 1983

Den Michael

*on
1/8*

SALMON AND FRESHWATER FISHERIES ACT 1975
RATING OF FISHERIES

Thank you for your letter of 14 July. I am very conscious of the difficulties which arise from the Welsh Water Authority's proposal to levy contribution on owners of fisheries. My officials have asked the Authority for details of the expense of setting up the new system so that I can better judge whether its introduction will be worth the trouble.

/ I will let you know later what I intend. Copies of this letter go to the recipients of yours.

*J. C.
N. J.*

The Rt Hon Michael Jopling MP
Minister of Agriculture, Fisheries and Food

LOCAL Gov: The Water Industry: Pt 2

11 APR 1983



Wesley
900-4000
1/2 ft 2



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

From the Minister

WH
14/7

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

14 July 1983

SALMON AND FRESHWATER FISHERIES ACT 1975: RATING OF FISHERIES

Thank you for your letter of 28 April to Peter Walker about the Welsh Water Authority's application for an Order which would empower them to levy contributions on owners of fisheries throughout their area. The decision on whether to proceed with the Order is, of course, for you but I would strongly urge you not to do so.

One or two English Water Authorities inherited such Orders from their predecessor bodies but I understand that they do not make use of them because the expense of administration would exceed the amounts recouped. Nevertheless, some Authorities are waiting to see what becomes of the Welsh Order before they consider whether to ask for updated Orders themselves. Whatever decision you take, therefore, will almost certainly have implications for me.

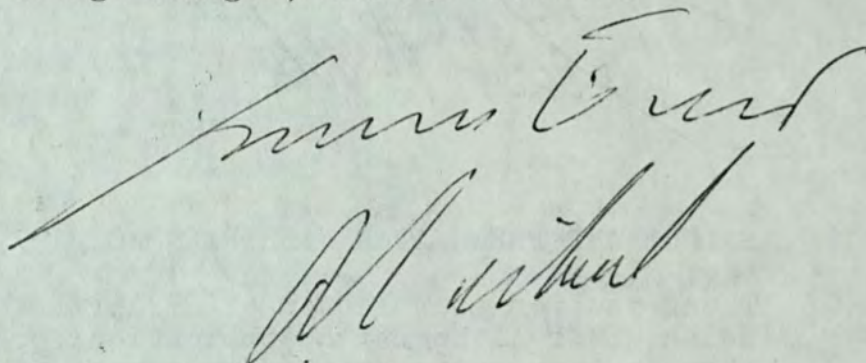
I have, of course, seen Tom King's letter to you of 11 May and while I recognise that what he says reflects our general policy towards water charges, I have little doubt that the net financial benefits that would be derived from the new charges would be relatively marginal and would not justify the rumpus that the Government would have to face in agreeing to them. Fisheries are already treated as a special case because, under the Salmon and Freshwater Fisheries Act 1975, water authorities must seek our approval of their fishing

/licence duties if ...

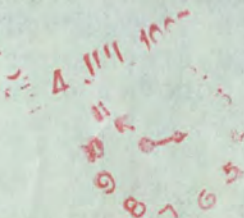
licence duties if any objections are made when their proposals are advertised. Indeed, fisheries may already be subject to local authority rates and water charges. To subject them to a third charge would cause a storm of protest. I recall the opposition to water abstraction charges imposed by water authorities on the users of small water turbines under the Water Resources Act 1963. During the passage of the Energy Conservation Act 1981 we had to give way to an amendment exempting such turbines from abstraction charges. We had to give way then and my judgement is that we might have to give way on this. I am certain that memorials would be presented against an Order which would then be subject to special parliamentary procedure. This would provide ample opportunity for opposition to be expressed.

In the circumstances, I hope that you will agree not to go along with the Welsh Water Authority's application. It simply would not be worth the fuss.

I am sending copies of this letter to the Prime Minister, Patrick Jenkins, Peter Rees, John Biffen, George Younger, and Jim Prior and Sir Robert Armstrong.

A handwritten signature in dark ink, appearing to read "Michael Jopling". The signature is written in a cursive, flowing style with long, sweeping lines.

MICHAEL JOPLING

A red circular stamp located at the bottom left of the page. The text inside the stamp is partially legible and includes the date "4 JUL 1982" and the number "98765".



2 MARSHAM STREET
LONDON SW1P 3EB
01-212 3434

MBPM

ms 12/5

My ref: K/PSO/12467/83

Your ref:

11 May 1983

Dear Nick,

SALMON AND FRESHWATER FISHERIES ACT 1975: RATING OF FISHERIES

Thank you for your letter of 28 April.

I am sure it is right that the water charges levied on individual consumers should as far as possible reflect the actual costs of the services they receive, or in the case of owners of fisheries the costs their activities impose on water authorities.

I therefore welcome your proposal. As the Welsh Order could well serve as a model for other orders under the Salmon and Freshwater Fisheries Act, I would however be grateful if my officials could be fully consulted on the drafting of the Order.

I am copying my letter to the recipients of yours.

Tom King

TOM KING

LOCAL GOVT : Water Industry

Pt 2 .



SCOTTISH OFFICE
WHITEHALL, LONDON SW1A 2AU

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

WA
12/5

11 May 1983

Dear Nick,

SALMON AND FRESHWATER FISHERIES ACT 1975
RATING OF FISHERIES

Thank you for copying to me your letter of 28 April about the Welsh Water Authority's (WWA) wish to levy rates on the owners of fishing rights.

As you know arrangements for managing salmon and freshwater fisheries are quite different north of the border. How best to share the cost of such management is, however, a common issue. At present the total cost of local salmon management in Scotland falls on the proprietors. This seems inequitable and I am under pressure to find a way of widening District Salmon Fishery Boards' income base, for example, by diverting some of the local authority rate burden which also falls on proprietors. I can understand the argument that some costs of maintaining salmon fisheries should fall on rate-payers - well run fisheries can make a useful contribution to the economic well-being of an area through tourism etc.

Your letter points out that there is at present pressure to shift some of the cost of the WWA's fisheries budget away from the general ratepayer. The WWA's proposal seems likely to lead to a better balance of financial responsibility. It is a balance I shall consider in trying to find a suitable way of financing the Scottish District Salmon Fishery Boards. Meantime I would not wish to resist your publishing the WWA's draft Order.

I am copying this letter to the recipients of yours.

Yours
wv.
Cunage.

010

NBPM at this stage
W. H. G. G. G.
28/4

Y SWYDDFA GYMREIG
GWYDYR HOUSE
WHITEHALL LONDON SW1A 2ER
Tel. 01-233 3000 (Switsfwrdd)
01-233 6106 (Llinell Union)



WELSH OFFICE
GWYDYR HOUSE
WHITEHALL LONDON SW1A 2ER
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Oddi wrth Ysgrifennydd Gwladol Cymru The Rt Hon Nicholas Edwards MP

From The Secretary of State for Wales

28 April 1983

De Pol

SALMON & FRESHWATER FISHERIES ACT 1975
RATING OF FISHERIES

The Welsh Water Authority (WWA) have recently formally submitted an application to me for an order under Section 28 and Schedule 3 of the Salmon and Freshwater Fisheries Act 1975 which would empower them to levy contributions on owners of fisheries throughout their area. The Authority has made out a strong case for the powers they seek.

As the Authority already has powers under earlier legislation with respect to 5 of their 6 divisions (but exercises them only in respect of the Usk, Wye and West Wales Divisions) their proposal can be seen as rationalising the situation in Wales. They claim that the increased charges that they will be raising from riparian owners will, in future, be commensurate with the benefits that they already receive.

However, the Authority's intention will be to obtain from riparian owners a much more significant proportion of its total fisheries expenditure than has been the case in the past. The effect of the proposal will be a shift in the burden of fishery rating on to a relatively small number of riparian owners; and to relieve water ratepayers of part of the charges at present raised through the environmental services charge, though with very small impact on average water bills.

The Rt Hon Peter Walker MP MBE

/...



Although the Authority's objective is to recoup costs from those who benefit, the proposal will give rise to strong opposition. Objectors to the order will no doubt be sufficiently vocal to require a reference of the issue to a Public Inquiry. The Order would set a precedent for other Water Authorities. As the order is made in my name I am asking my officials to discuss with the Welsh Water Authority some aspects of the Order including discretionary powers the Authority are seeking to vary the valuation procedures and powers of entry before proceeding.

Subject to anything emerging from those discussions, I shall be under some pressure from the Authority to publish the draft order; and indeed unless there are very strong policy factors pointing to the contrary I would expect to have to go ahead despite the likely response of riparian owners. Nevertheless I would be grateful for confirmation from you and other colleagues that no objection is seen to my proceeding accordingly.

I am sending copies of this letter to Tom King, Leon Brittan, John Biffen, Janet Young, George Younger and Jim Prior; and for information to the Prime Minister and Sir Robert Armstrong.

J. King
W. C. I.
28 APR 1983
11 12 1 2 3 4 5 6 7 8 9 10

ccno



2 MARSHAM STREET
LONDON SW1P 3EB
01-212 3434

My ref: K/PSO/12113/83

Your ref: Qa 06329

NBPM
MCS 21/4

20 April 1983

Dear John,

Thank you for your letter of 12 April about the British Waterways Board.

I am with you about the importance of the Chief Executive's role in achieving what we want for BWB. That was one of the matters which Peter Harrop agreed with John Humphries when he met him recently to talk over the job we expect from the new chairman. Humphries in fact volunteered that he will need to assess the calibre of the present Chief Executive, and of the other top managers, very carefully as one of his first tasks. He wants to make a success of his chairmanship and I am quite sure he will be completely objective about how he goes about getting the best director team. He is aware of the importance we attach to having the Chief Executive and the Finance Director on the Board but, naturally enough, he wants to make up his own mind about the calibre of the individuals before forming a view on whether he wants them as Board members. If he is dissatisfied with either or both of them he will not exclude making them redundant and finding suitable replacements, and for our part we may be called upon to support him over a revision of the Board's present redundancy payments scheme.

I am copying this to the Prime Minister, Geoffrey Howe and Sir Robert Armstrong.

TK

TOM KING

John Sparrow Esq

Local Govt. Water Industry

Pt 2



Local Govt
Prime Minister

MS 12/4

CABINET OFFICE
Central Policy Review Staff

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

Qa 06329

From: John Sparrow
CONFIDENTIAL

12 April 1983

The Rt Hon Tom King MP
Department of the Environment
2 Marsham Street
S W 1

Dear Tom,

British Waterways Board

We have been following with interest action on BWB since the E(NI) discussion last month. In particular, I see from your recent message to the Prime Minister that you have succeeded in finding a new Chairman.

When I wrote to you on 3 March one of my points was the need for a Chairman with experience and knowledge of the leisure industry as well as having a dynamic commercial approach. I had then in mind that you would be looking for a full-time Executive Chairman. But I can understand the attractions of having a part-time Chairman, provided he is supported by a full-time Chief Executive with the right qualities.

The appointment of a BWB Chief Executive is the responsibility of the Chairman, and not a matter for Government, so long as the post does not carry a seat on the Board. The choice of Chief Executive will be crucial to the achievement of what the Government wants to see happen in the BWB and, in my view, the Chief Executive (and, indeed, the Finance Director too) should be Board members. I suggest, therefore, that the guidelines to be agreed with the new Chairman should include a specific requirement that he should appoint a full-time Chief Executive with experience and knowledge of the leisure

CONFIDENTIAL

industry as well as a dynamic commercial approach and that the person selected should have a seat on the Board. The guidelines should also include a requirement that the Finance Director has Board membership. This would presumably mean that both appointments would require Government approval.

I am sending copies of this letter to the Prime Minister, the Chancellor of the Exchequer and Sir Robert Armstrong.

*Yours sincerely,
John.*

John Sparrow

LOCAL COV: Walker Ind: Per

12 APR 1950

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G 2 4

CONFIDENTIAL



cc Mr. Mount

Local Govt

10 DOWNING STREET

From the Private Secretary

29 March, 1983

Sewerage

Thank you for your two letters of today's date with the draft amendments to Clause 6 of the Water Bill on local authority sewerage arrangements.

The Prime Minister is content with the amendments which your Secretary of State is planning to put down.

M. C. SCHOLAR

Mrs. Helen Ghosh,
Department of the Environment.

CONFIDENTIAL



Prime Minister

CCNO

2 MARSHAM STREET
LONDON SW1P 3EB
01-212 3434

I have discussed these amendments with Ferdie Mount.

My ref:

It is clear that Mr King has now done what was asked of him: he retains

Your ref: 29 March 1983

the duty on water authorities to enter into sewerage arrangements with local authorities; and if the water authorities wish to

Dear Michael, may or end the arrangements the local authorities have the

WATER BILL: SEWERAGE ARRANGEMENTS right of appeal, as before, to the Secretary of State.

I sent over earlier today a copy of the draft amendments to Clause 6 of the Water Bill on local authority sewerage arrangements. The covering letter did not expand on their context, but it may be helpful to you if I summarise what they would mean.

As the Secretary of State said in his letter of 16 March, the intention of the amendments is to make it clearer that the government is seeking not to end sewerage agencies but to improve their efficiency. The amendments now retain the duty to endeavour to enter into agency arrangements instead of replacing it with a power; they remove those features of the present Section 15 which the Monopolies and Mergers Commission said (in para 14.34 of their report) would probably require amendment; they provide for appeal by local authorities against variation or ending of arrangements proposed by the water authority; and they provide for new arrangements where they would be cost-effective. There has been consultation with local authority and water authority representatives on them. The Prime Minister will recall that the Secretary of State's letter outlined the statement that would be made in moving the amendments setting out the policy underlying them.

yours sincerely
Helen Ghosh

MRS H F GHOSH
Private Secretary

These amendments, Ferdie believes, will not make it more likely that sewerage works are taken on by water authorities.

KCNO



2 MARSHAM STREET
LONDON SW1P 3EB
01-212 3434

My ref:

Your ref:

29 March 1983

Dear Michael

WATER BILL: CLAUSE 6

The Prime Minister asked to see the amendments to Clause 6 of the Water Bill on local authority sewerage arrangements, before they were laid. I attach a copy of the amendments which the Secretary of State has approved. We would like to lay these amendments today - I would be grateful for comments by 4.00 pm this afternoon if at all possible.

yours sincerely
Helen Ghosh

MRS H F GHOSH
Private Secretary

Local Gov: Water Ind: #42

COMMISSIONER

WATER BILL
AMENDMENTS
TO BE MOVED ON REPORT
BY THE LORD BELLWIN

Clause 6

Leave out clause 6 and insert the following new clause -

("Arrangements for carrying out sewerage functions.

6.-(1) The following section is substituted for section 15 of the principal Act -

"Arrangements for carrying out sewerage functions.

15.-(1) It shall be the duty of every water authority and of every relevant authority whose area is wholly or partly in the area of the water authority to endeavour to make arrangements for the relevant authority to discharge, as respects their area, the sewerage functions of the water authority.

(2) Schedule 4A to this Act shall have effect for the purpose of supplementing this section."

(2) After Schedule 4 to the principal Act there are inserted, as Schedule 4A, the provisions set out in Schedule (Arrangements for carrying out sewerage functions) to this Act."

CLAUSE 11

Page 8, line 15, leave out ("5") and insert ("6")

Page 8, line 18, at end insert -

("(dd) Schedule ("Arrangements for carrying out sewerage functions");")

After Schedule 2

After Schedule 2 insert the following new Schedule -

("SCHEDULE 2A

ARRANGEMENTS FOR CARRYING OUT SEWERAGE FUNCTIONS

The following is the Schedule inserted in the principal Act by section 6(2) of this Act -

"SCHEDULE 4A

ARRANGEMENTS FOR CARRYING OUT SEWERAGE FUNCTIONS

1. In this Schedule "arrangements" means arrangements (whenever made) under section 15 of this Act.

General

2. Arrangements entered into by a water authority shall be made with a view to ensuring that their sewerage functions, taken as a whole, are carried out efficiently.

3. (1) All arrangements shall comply with the requirements of such regulations as may be made by the Secretary of State for the purposes of this paragraph.

(2) Any such regulations may, in particular, include requirements as to the obligations to be imposed by any arrangements on the parties to those arrangements.

(3) Regulations under this paragraph shall be subject to annulment in pursuance of a resolution of either House of Parliament.

(4) Where arrangements are in force at the time when the first regulations made under this paragraph come into force, the parties to those arrangements shall, within such period as may be specified by the Secretary of State, make such alterations in the arrangements as are necessary to ensure that

they comply with the regulations; and where, on the expiry of that period, any arrangements fail to comply with the regulations those arrangements shall have effect subject to such alterations as the Secretary of State may direct.

Cases where duty to make arrangements does not apply

4.-(1) The duty imposed by section 15(1) of this Act shall not apply in relation to any sewerage functions where -

- (a) the water authority and relevant authority concerned agree that it would be inexpedient for arrangements to be made in respect of those functions;
- (b) arrangements in respect of those functions have been brought to an end within the previous five years and either the water authority or relevant authority concerned are of the opinion that it would be inexpedient for arrangements to be so made; or
- (c) any relevant authority requesting the making of arrangements have had a similar request refused by the water authority concerned within that period and the water authority are of that opinion.

(2) A water authority may refuse to enter into arrangements with a relevant authority where they are of the opinion that it would be inexpedient to do so, but where a water authority so refuse, in a case which does not fall within subparagraph (1) above, the relevant authority may apply to the Secretary of State for the decision to be reviewed.

(3) On any such review the Secretary of State may confirm the water authority's decision or give a direction requiring them to enter into arrangements with the relevant authority; and any such direction may specify the provision to be made by the arrangements (either in substitution for or in addition to any provision required by regulations under paragraph 3 above).

Variation and termination of arrangements

- 5.-(1) Any arrangements may -
- (a) be varied or brought to an end by agreement between the parties;
 - (b) be brought to an end by the relevant authority giving reasonable notice to the water authority; and
 - (c) subject to sub-paragraph (2) below, be varied or brought to an end by the water authority giving reasonable notice to the relevant authority.

(2) Where a notice has been served under sub-paragraph (1)(c) above, the Secretary of State may, on an application made to him by the relevant authority before the expiry of the notice, review the proposed variation or ending of the arrangements; and on any such review the Secretary of State may confirm the proposals or give a direction -

- (a) requiring the arrangements to be brought to an end, or varied, in accordance with the terms of the direction; or

(b) requiring the notice to be withdrawn.

(3) The matters to which the Secretary of State must have regard in conducting a review under paragraph 4(2) or sub-paragraph (2) above, include the likely financial consequences for the parties of the proposed action.

(4) Where a review is conducted under sub-paragraph (2) above the notice in question shall not take effect except in accordance with a confirmation or direction under that sub-paragraph.

Local authority committees etc.

6.-(1) Where by virtue of any arrangements functions of a water authority are to be discharged by a local authority, then, subject to the provision made by the arrangements, the local authority may arrange for the discharge of those functions by a committee, sub-committee or officer of theirs.

(2) Where by virtue of sub-paragraph (1) above any such functions may be discharged by a committee of a local authority, then, unless the water authority or local authority otherwise direct, the committee may arrange for the discharge of any of those functions by a sub-committee or an officer of the local authority.

(3) Where by virtue of sub-paragraph (1) above any such functions may be discharged by a sub-committee of a local authority, then, unless the water authority, the local authority or the committee otherwise direct, the sub-committee may arrange for the discharge of any of those functions by an officer of the local authority.

(4) Any arrangements made by a local authority or committee under this paragraph for the discharge of any functions by a committee, sub-committee or officer shall not prevent the authority or committee by whom those arrangements are made from discharging those functions.

Transfer of officers

7. Where arrangements are made, varied or brought to an end, provision may be made by the parties to the arrangements for the transfer of any officers of either party to the other.

Compensation

8.-(1) Where an authority who are party to any arrangements have compensated any officer of theirs who has suffered loss as a result of the making, variation or ending of those arrangements, the authority who are the other party to those arrangements may make such payment to the compensating authority, by way of total or partial reimbursement, as they consider appropriate.

(2) The application, by section 34 of this Act, of section 259 of the Local Government Act 1972 (compensation for loss of office), and accordingly the regulations made under section 259, shall cease to have effect in relation to any loss of employment or loss or diminution of emoluments resulting, after the passing of this Act, from the making, varying or ending of any arrangements.

Interpretation

9. In this Schedule, and in section 15 of this Act -

"council" means the council of a district or London borough or the Common Council of the City of London;

"relevant authority" means a council or -

- (a) in relation to a new town as respects which an order is in force under section 34 of the New Towns Act 1981 (provision of sewers and sewage disposal works by development corporation), the development corporation or any council within whose area the town is wholly or partly situated;
- (b) in relation to a new town as respects which an order is in force under paragraph 51 of Schedule 3 to the Development of Rural Wales Act 1976 (provision of sewers and sewage disposal works by Development Board for Rural Wales), the Board or any council within whose area the town is wholly or partly situated;
- (c) in relation to an area designated as an urban development area under Part XVI of the Local Government, Planning and Land Act 1980, the urban development corporation or any council within whose area the urban development area is wholly or partly situated; and

"sewerage functions" means, in relation to a water authority, the functions of the authority under Part II of the Public Health Act 1936, other than those relating to sewage disposal.")



bc N.O.

JD

10 DOWNING STREET

From the Private Secretary

21 March 1983

WATER BILL: SEWERAGE ARRANGEMENTS

The Prime Minister was grateful for your Secretary of State's minute of 16 March.

She has asked if she may see the amendments which your Secretary of State will be tabling at Report Stage, before they are tabled.

29/3/83
B/K

M. C. SCHOLAR

David Edmonds, Esq.,
Department of the Environment.

Prime Minister (2) CC NO



Prime Minister

This now seems to be on right lines. 16 March 1983
MLs 17/3

WATER BILL: SEWERAGE ARRANGEMENTS

I am sorry that I was not able to join your discussion on the Water Bill and the particular point regarding agency arrangements for local authorities, but Giles Shaw has reported to me your concerns. Might I say straight away that there is no difference of view whatsoever about the importance of maintaining the major role for local authorities in sewerage work as agents for water authorities. In recent meetings with the ADC I have borne in mind the obvious lessons that flow from the water strike.

The only real area of concern is that recognised by the MMC in their Report of the need to ensure that local authorities are working efficiently and economically in discharging their responsibilities as agents for the water authorities. This has been the subject of criticism in the past from water authorities and while there is no doubt that some of the complaints from certain authorities have been influenced by a desire to take over an increased amount of agencies from local authorities, nonetheless I also accept that there have been difficulties with a few authorities over which water authorities have justifiable complaint. What I have been anxious to ensure is that there should be some opportunity for water authorities to sort out any obviously unsatisfactory arrangements while at the same time ensuring against any empire building of water authorities. In the light of your discussion with Giles Shaw I gave instructions for the new clause to be withdrawn at Committee stage on 4 March to allow time for the matter to be considered further. I have now discussed this with Giles and Irwin Bellwin will be tabling new amendments at Report stage designed to make it clear that the Government is seeking not to end sewerage arrangements but to improve their efficiency, in accordance with the Monopolies and Mergers Commissions recommendations.

In moving this new amendment, the opportunity would be taken to make a statement of our policy on sewerage arrangements. This would emphasise that the MMC, although making a number of criticisms and recommendations for improvements, did not find the concept of arrangements with local authorities to be against the public interest and clearly did not favour any general abandonment of them. It would state the Government's view that such arrangements should generally continue but that the detailed provisions of individual agreements should be amended in the ways suggested by the MMC.

I believe that these proposals are in line with your comments and this is the basis on which we are proceeding unless there are any further comments you would like to make.

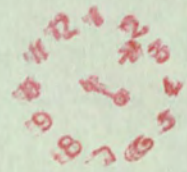
Can we see the amendments before they are tabled

TK

Local Gov: Water Ind Pt 2



16 MAR 1997



Local Govt

MR MOUNT

cc Mr Scholar ✓

WATER BILL: CLAUSE 6

After my meeting this afternoon about machinery for water pay, on which I am sending you a separate note, I had a word with John Gunn about clause 6. You will recall that Michael Scholar wrote on 4 March, on your advice, conveying the Prime Minister's dismay at the proposal to remove the duty on water authorities to contract out sewerage functions where possible to local authorities.

John Gunn said that the proposal was put forward in response to the MMC observations that a number of local authorities were inadequately executing these functions, and that water authorities were finding it difficult to extricate themselves from their duty to contract them out. He would not expect that the change to clause 6 section (1), replacing the duty with a power, would have the effect of changing the contracting out arrangements save in those cases where they were working inadequately. But I understand that the DoE have now withdrawn the clause, and are proposing to amend subsection (1): Mr King will be seeking an opportunity to mention this to the Prime Minister, and meanwhile you may want to glance at the attached internal DoE papers about the issue.



11 March 1983

SUBJECT

FILE
CONFIDENTIAL

bc DOE (S/S) - da
HMT (Ch/Ex) -
DOE (Lord Bellwin)
Mr. Mount



10 DOWNING STREET

u Master

From the Private Secretary

4 March 1983

Dear Joan,

Sewerage and the Water Bill

The Prime Minister had a discussion this afternoon with your Minister about the Water Bill, future sewerage arrangements, and the amendment to the Bill which is proposed to be introduced in the House of Lords on Tuesday.

The Prime Minister said that she was opposed to this amendment, since its effect would be to make it easier for Water Authorities to take over sewerage work, together with the associated manpower, now done by local authorities. This would increase the monopoly power of Water Authorities, and might have disastrous effects on the pay of water workers and thus on the pay scene generally. The Prime Minister noted that in the recent strike there had been no strike by sewerage workers employed by Local Authorities, and that this had been an important factor in prolonging endurance during the strike. The conclusion of the Monopolies and Mergers Commission had been that no change in the law was required, but that the Department of the Environment should supervise these arrangements so as to improve their efficiency.

After discussion, your Minister said that the water strike had created a new situation which brought into question the change in the law which had been proposed. He would look again at this matter, and at the thrust of the Monopolies and Mergers Commission's report. The Prime Minister said that if, on reflection, he still inclined to pursue the amendments in the form in which they had been tabled she would wish to discuss the matter on Monday with your Minister together with the Secretary of State and Lord Bellwin.

I am sending a copy of this letter to John Gieve (Chief Secretary's Office).

Yours sincerely,

Michael Scholar

Mrs. Joan Dunn,
Department of the Environment.

CONFIDENTIAL

da

CONFIDENTIAL



LOCAL GOV.
cc HMT
Mrs M. O'Hara, HMT
Mr Mount

10 DOWNING STREET

From the Private Secretary

4 March, 1983

SEWERAGE AND WATER AUTHORITIES

The Prime Minister was concerned to hear that the Department of Environment were proposing to introduce a new clause into the Water Bill, early next week, which would make it possible for Water Authorities to expand their labour force by taking over sewerage functions from Local Authorities.

The Prime Minister understands that the 1973 Act imposed a duty on Water Authorities to seek to enter into arrangements with Local Authorities for the provision and maintenance of sewers, and that the result of this is that the overwhelming majority of sewerage workers work for District Councils. The Prime Minister notes that the sewer men did not go on strike last month.

As the Prime Minister understands it, the Water Bill, now going through the Lords, replaces the 1973 Act duty on the Water Authorities by a mere power to enter into arrangements with the District Council concerned; and that the Water Authority would have the right to vary or end any such arrangement. The Prime Minister also understands that the Monopolies and Mergers Commission Report of November, 1982, into the sewerage function in the North West and Anglian Water Authorities concluded that the best arrangement was to retain the existing law, on the grounds that District Councils were local, flexible and effective sewer managers, but that Department of the Environment supervision should be improved by revising the "model arrangements" covering these agency agreements.

The Prime Minister believes that it would be a mistake to increase the monopoly power of the Water Authorities by making possible the transfer of these functions from Local Authorities to Water Authorities. She would be grateful for your Minister's observations on this.

We have arranged a meeting later on today to discuss this issue.

I am sending a copy of this letter to Mr. John Gieve, H.M. Treasury.

Mrs Joan Dunn
Department of the Environment

CONFIDENTIAL



10 DOWNING STREET

G.R

Can this be typed as
a letter from Michael
Scholar to P/S in G's Shaver
Office.

The abbreviations (WA, DC
^{DOE}~~etc~~. etc) should not be used.
I presume confidential.

Thanks

Andy

Tele
01-212 3434

DEPARTMENT OF THE
ENVIRONMENT
2 MARSHAM STREET
SWIP 3EB



*With the Compliments of
the Private Secretary to
the Parliamentary Under Secretary of State*

LETTER FROM PS/PRIME MINISTER TO PS/MR SHAW

Sewerage and Water Authorities

The Prime Minister was concerned to hear that the Department of Environment were proposing to introduce a new clause into the Water Bill, early next week, which would make it possible for Water Authorities to expand their labour force by taking over sewerage functions from Local Authorities.

The Prime Minister understands that the 1973 Act imposed a duty on Water Authorities to seek to enter into arrangements with IAs for the provision and maintenance of sewers, and that the result of this is that the overwhelming majority of sewerage workers work for District Councils. The Prime Minister notes that the sewer men did not go on strike last month.

As the Prime Minister understands it, the Water Bill, now going through the Lords, replaces the 1973 Act duty on the WAs by a mere power to enter into arrangements with ~~the~~ District Council concerned; and that the WA would have the right to vary or end any such arrangement. The Prime Minister also understands that the Monopolies and Mergers Commission Report of November 1982 into the sewerage function in the North West and Anglian WAs concluded that the best arrangement was to retain the existing law, on the grounds that DCs were local, flexible and effective sewer managers, but that DOE supervision should be improved by revising the "model arrangements" covering these agency agreements.

The Prime Minister believes that it would be a mistake to ^{increase the monopoly power of WA's by} make possible the transfer of these functions from IAs to WAs. She ^{is} would be grateful for your Minister's observations on this. ^{making}

We have arranged a meeting later on today to discuss this issue.

E J

I am sending a copy of this letter to Mr H-M Gieve, HM Treasury.



Michael Scholar Esq
Private Secretary
10 Downing Street
LONDON SW1

✓
Shaw to
PM
MS4/3
cc FM

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

My ref:

Your ref:

4 March 1983

Dear Michael

WATER BILL: SEWERAGE ARRANGEMENTS

Thank you for your letter which is to be discussed at the meeting this afternoon.

Water authorities currently have and will retain overall responsibility for sewerage. District Councils almost always carry it out on their behalf, but the water authorities pay for it. The main conclusion of the Monopolies and Mergers Commission was that these arrangements should generally continue but that clearer control should be given to the water authorities in order to improve efficiency. They suggested some changes to the law to achieve this but it was not part of their remit to consider the legal position in detail.

Our amendments, which were tabled last week, are in line with the Commission's recommendations. Although unwelcome to the Association of District Councils, they are, we understand, prepared to accept them. They are designed to put the arrangements more nearly on a conventional principal-agent footing. The change from a duty to a power to make or continue arrangements is an important component.

There is already in the existing law provision for water authorities to take back the function from local authorities and a number of agencies have been surrendered voluntarily. There is at present a right of appeal to the Secretary of State in the event of disagreement about this, but it has never been exercised. Our amendments retain the right of appeal by District Councils where Water Authorities propose to terminate the agency. In addition, at the local authorities' request we are adding a right of appeal on the part of those district councils who do not have a sewerage agency if at a future date they seek one and the water authority turns down their request.

It is not our purpose to reduce the number of agency arrangements as a result of the amendments; our purpose is to strengthen the control of Water Authorities in the interests of efficiency. We have given assurances, and made it clear to the Water Authorities, that we do not wish to see the wholesale abandonment of agency arrangements. And we shall be making a statement in the House of Lords about the

policy which we shall follow in appeal cases. It will be designed to ensure that no termination of present agency arrangements takes place against the wishes of a district council unless the change is manifestly cost-effective in the light of the effects on both the water authority's and the local authority's finances.

I am sending a copy of this letter to Mr E J W Gieve, HM Treasury.

Joan Dunn.

MRS J DUNN
Private Secretary



CABINET OFFICE
Central Policy Review Staff

With the compliments of
John Sparrow

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



cc: [handwritten initials]

Prime Minister (4)

CABINET OFFICE
Central Policy Review Staff

Mus 3/3

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

Qa 06283

From: John Sparrow

CONFIDENTIAL

3 March 1983

The Rt Hon Tom King MP
Department of the Environment
2 Marsham Street
S W 1

Dear Tom,

British Waterways Board: Future Policy

I have read your paper E(NI)(85)5 on options open to Government on the future of the British Waterways Board. I agree with the proposals contained in paragraphs 5 - 8 of the paper.

I would like to suggest pushing the logic of your thinking a little further. As BWB is a leisure business, it should concentrate on becoming sufficiently successful in leisure to be capable of being privatised. This would involve -

- (a) Disposing of the profitable as well as the unprofitable freight operations, thus confining the BWB to the provision of leisure facilities, the maintenance of the canal system and drainage for water authorities.
- (b) Giving BWB full support to recover a proper proportion of maintenance and other operating costs, including charging water authorities for land drainage.
- (c) Appointing as the new Chairman somebody with experience in and knowledge of the leisure industry as well as a dynamic commercial approach. He should be given every encouragement to turn BWB into a profitable leisure business - other leisure parks could be a model. Initially some additional expenditure may be required but joint ventures and contracting out should be encouraged.

CONFIDENTIAL

(d) Keeping BWB as a nationalised industry and not changing it into a grant-aided body.

Such an approach would bring more sharply into focus the specific problem of the maintenance backlog. Relevant questions here include -

(a) What are we getting for the figures of £120m.-£150m. which have been quoted?

(b) Are some canals more expensive to repair than others?

(c) Could priority be given to some canals and others be left out altogether, bearing in mind the objective of making BWB as a whole profitable? (Presumably legislation would be needed to reduce the size of the canal network.)

These issues should be tackled in the next Corporate Plan and various options put to Ministers. One point which Ministers will want to bear in mind is whether speeding up all the maintenance work could, in the context of wider economic objectives, have useful consequences for the construction industry.

I am sending copies of this letter to the Prime Minister, other members of E(NI), and to Sir Robert Armstrong.

Yours sincerely,

John.

John Sparrow



Local ~~Govt~~ ^{Govt} ~~SE~~
Prime Minister (2)
MUS 16/12

Treasury Chambers, Parliament Street, SW1P 3AG

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

15 December 1982

D. Michael

M

PRIVATE FINANCE FOR THE WATER INDUSTRY

Thank you for your letter of 8 December.

With the best will in the world, I really think that the sewage treatment plant in the Merseyside is a bad test case for private finance, for all the reasons I have given. I would much rather get on with plans to finance it in the normal way, and I have agreed sufficient public expenditure provision to make that possible. However, I can see that you will not be satisfied until we test the market.

As I understand it, you are now proposing that the North West Water Authority should talk to contractors about a limited project, worth about £40 million. I am prepared to agree to this provided there is no undue pressure on the NWWA, the talks are entirely exploratory, there is no commitment to inviting "parallel bids" or to bringing in private finance in any other way, and above all, there is no special publicity. We would simply ask the water authority to see whether contractors would be interested in operating and financing, as well as designing and building, the proposed sewage treatment plant, and if so on what terms. We should make it absolutely clear that we should only be in the market for schemes which offered overall savings to the public, after taking all ramifications into account. We might ask for a report by, say, the end of the financial year.

... I attach a redraft of the letter to the North West Water Authority to reflect these points.

Copies go to the recipients of yours.

LEON BRITTAN

DRAFT LETTER TO: GEORGE HAIN ESQ,
CHAIRMAN
NORTH WEST WATER AUTHORITY

PRIVATE FINANCE FOR THE MERSEY

I was very glad you were able to participate in the launch of our consultation document "Cleaning up the Mersey" and I am grateful for all your assistance with it. I look forward to seeing your own consultation document in due course.

2. As you know, there was a reference to discussions about extending the use of the private sector in your improvement programmes beyond the conventional use of contractors for virtually all the construction work. This has been discussed between our officials. It might be possible to apply the approach to the proposed Liverpool sewage treatment works, provisionally costed at about £40 million.

3. I wonder if you could set up discussions with private sector firms to establish whether they would be interested in operating and financing, as well as designing and building, the proposed sewage treatment plant; if so, how they would expect costs to compare; and whether there would be special terms and conditions. The discussions would of course be entirely exploratory and without commitment.

4. You would no doubt make it clear that you would be looking for cheaper ways of providing the plant, at an overall saving to the public. The question would not be whether to build the plant, but how to build it. I hope you would be able to avoid any special publicity, to minimise the risk of raising false expectations.

5. It would clearly be right for your authority to take the lead, since any resulting contracts would be between you and the private sector firms; but I should be grateful if my officials could be involved, in view of the close government interest in the outcome.

6. It would be very helpful if you could let me know by the end of March what answer you have had from the private firms, and whether you believe the option to private financing is worth taking further.

Local Govt, Water Industry, P72

16 DEC 1982

11 12 1 2 3 4
5 6 7 8 9



Prime Minister ②

✓ 25

Ms 8/12

2 MARSHAM STREET
LONDON SW1P 3EB
01-212 3434

My ref: H/PSO/17858/82

Your ref:

LOCAL GOV.

Dear Sir

ms

- 8 DEC 82

PRIVATE FINANCE FOR THE WATER INDUSTRY

Thank you for your letter of 15 November.

To take the last point first, I was content with the draft of the consultation document which my officials had discussed with yours and I have now launched it.

I am anxious not to lose any opportunity for using private finance for the North West Water Authority's Merseyside schemes. Your suggestion seems to me to be just a recipe for delay. My officials have now sent yours a more detailed note of where things stand on private finance for the water industry generally. we are still at an exploratory stage and it is going to take some time to establish what are the most promising runners. I cannot say that the Mersey scheme will turn out to be the best. We cannot know until we have tried it, and the reasons I gave in my last letter justify trying it.

I therefore propose to write to the Chairman of the water authority in the attached terms asking him to set in hand discussions with the private sector, to explore the market without commitment. I expect my officials to participate in the discussions to ensure that the government's position is safeguarded. I hope you will agree to my writing in this way.

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

Yours ever

MICHAEL HESELTINE

The Rt Hon Leon Brittan QC MP

(1)

DRAFT LETTER FROM THE SECRETARY OF STATE TO GEORGE MANN, ESQ, CHAIRMAN,
NORTH WEST WATER AUTHORITY.

Private Finance for the Mersey.

1. I was very glad you were able to participate in the launch of our consultation document "Cleaning up the Mersey" and I am grateful for all your assistance with it. I look forward to seeing your own consultation document in due course.

2. As you know there was a reference to discussions about extending the use of the private sector in your improvement programmes beyond the conventional use of contractors for virtually all the construction work. This is a topic which has been discussed between our officials. The most promising line of approach seems to be "parallel bids": On the one hand, design and construction, and, on the other, design, construction, operation and financing. A promising candidate for this approach would be the proposed Liverpool Sewage Treatment Works.

3. We need to make progress on this fairly quickly given the timetable you are now working to for your enlarged programme for the estuary. Could you set up discussions with private sector firms, who would presumably form themselves into consortia for this purpose, to establish what interest there is in this proposal and on what sort of terms? It is clearly right for your authority to take the lead in this, since any resulting contracts would be between you and the private sector firms, but I would be grateful if my officials could be involved in view of the close government interest in the outcome.

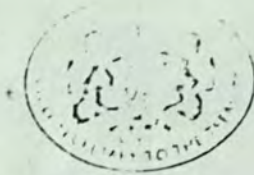


*With the Compliments
of the
Chief Secretary to the Treasury*

AS REQUESTED

Treasury Chambers,
Parliament Street,
SW1P 3AG

Miss Kelly
Mr Culpin
Miss Noble
Mr Chivers
Mr Morgan
Mr Harris
Mr Ridley



4/52
MST
EST
MST(C)
MST(R)
Sir A Rawlinson
Mr Wilding
Mr Pestell
Miss Brown

Treasury Chambers, Parliament Street, SW1P 3AG

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

15 November 1982

2 Minutes

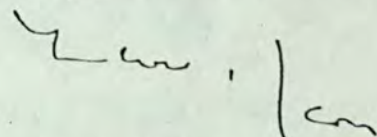
PRIVATE FINANCE FOR THE WATER INDUSTRY

Thank you for your letter of 8 November.

Your letter, along with the other material which your officials have sent mine, clarifies your intentions on the Merseyside sewerage scheme itself. I understand your intention is that North West Water Authority should press ahead with its accelerated programme of works but that you wish to discuss with some contractors whether there might be scope for using private finance for one or two components of the programme such as the main treatment works.

But I am not yet convinced that this is the best focus for discussions with outsiders. I say that partly because of the figure you quote in your letter of required operating cost savings and partly because I still do not know what the alternatives are. The paper to which you refer me contains only a few sentences on the water industry. I have asked my officials to contact yours for more details. As I have said before, my concern is not to delay the investigation of worthwhile proposals for private sector finance, but to ensure that we are choosing the most promising candidates.

In the meantime, I understand that the consultation paper which you propose to issue, and which my officials have seen in draft, contains only the briefest reference to the water authority "discussing with the government the extent to which the private sector could be involved" in the task of cleaning up the Mersey. I have no objection to you issuing the consultation paper on 22 November as planned, but I would be grateful if your officials could clear the final draft of the paper with mine. If you wish to say more about the private finance option I am afraid I would have to ask you to postpone the publication of the paper, until the alternatives are more fully developed and a proper choice can be made between them.


LEON BRITTAN

PART 1 ends:-

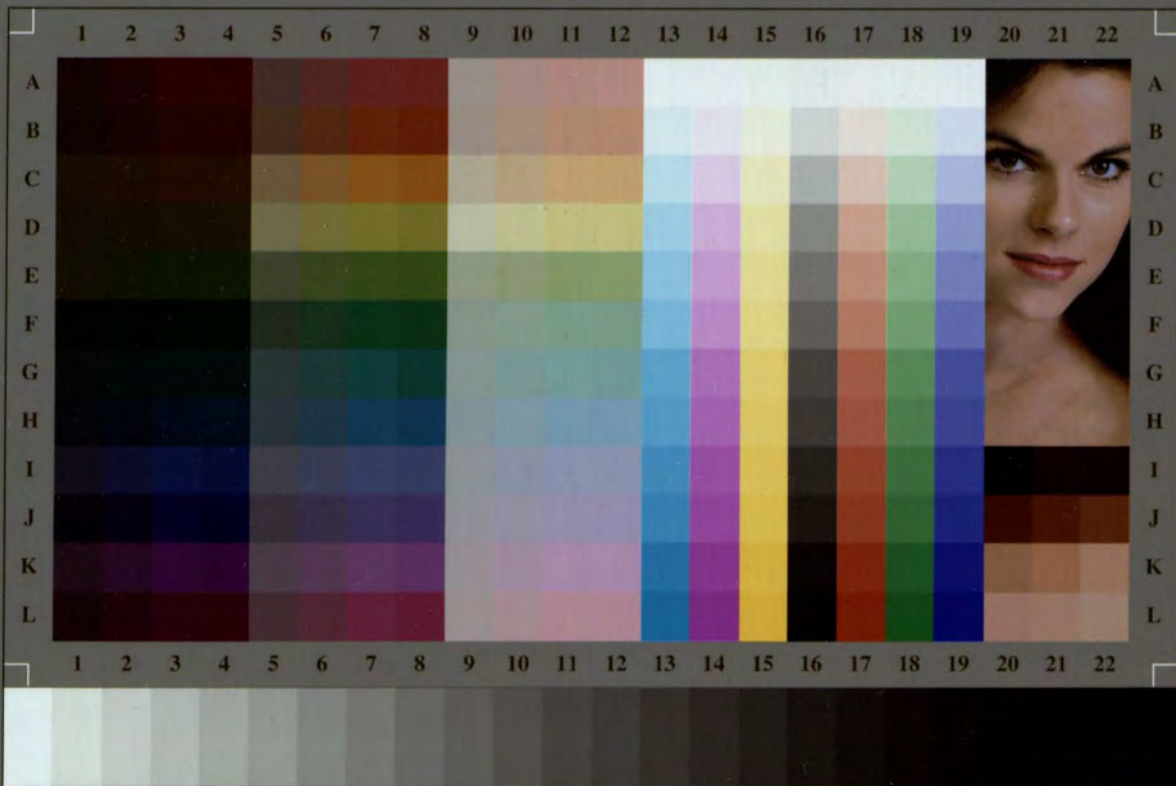
CPRS la Env 4.10.82.

PART 2 begins:-

L(82) 85 27.10.82.

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