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CABINET

GOVERNMENT'S RESPONSE TO COMMITTEE ON WELSH AFFAIRS - WATER IN WALES

Note by the Secretary of State for Wales

The attached pre-publication version is circulated for the information of Cabinet. It will be published on 2 February.

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The Government Response
to the first Report
from the Committee on
Welsh Affairs
Session 82/83 Entitled
Water in Wales

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**GOVERNMENT RESPONSE TO THE FIRST REPORT
FROM THE COMMITTEE ON WELSH AFFAIRS, SESSION 1982/83**

1. INTRODUCTION

1.1 The Report of the Committee on Welsh Affairs (the Committee) into the water industry in Wales was published on 11 May 1983. As the Committee itself records, the period of their examination was one of substantial change and reappraisal. That reappraisal, and the changes stemming from it, is now largely complete. This response to the Committee's report accordingly takes into account not only the Committee's recommendations but the action that has since been taken.

1.2 The Government believes that some of the comments and criticisms made by the Committee were based on false assumptions or unjustifiable interpretations of the evidence. This resulted in unmerited criticisms of the actions of both Ministers and civil servants. The Government has sought to put the record straight in its response. The rebuttal of certain specific criticisms is dealt with in Annex 1.

1.3 The Government feels it is important to correct what appears to be some misunderstanding about the respective responsibilities of Government and the Welsh Water Authority, and the relationship between them. On the one hand the Committee has recommended that "the Government should seek to reduce its intervention in the affairs of water authorities . . .", while on the other, some of the Committee's criticisms appear to be based on the assumption that the Welsh Office should be involved in closer and more detailed supervision. The Government believes that the principal task of the Welsh Office in its relationship with the Authority is to set overall financial targets and objectives and to monitor its performance against them, but not to be involved in second guessing or supervising its day to day operations. In brief the Government believes that intervention should be kept to the minimum commensurate with its responsibilities.

1.4 This point is particularly important in relation to the Committee's comments about the review carried out in February 1981 by Arthur Andersen & Co. That firm was asked by the Government to discuss with the Authority, in the light of its experience of the Regional Water Authorities, whether any changes could be made leading to reductions in charges. Arthur Andersen & Co. and the Welsh Water Authority exchanged views and the Authority took its decisions after receiving the firm's advice. The Secretary of State for Wales welcomed the fact that the Authority had felt able to make certain changes following those discussions. Those decisions were, however, quite clearly for the Authority to take having regard to its financial and statutory responsibilities. It was not open to the Secretary of State to assume the responsibility for taking them himself; nor did he seek to do so.

1.5 The Committee drew attention to the severe criticisms made by the Secretary of State of the Welsh Water Authority's performance before reorganisation and in particular of its management and financial information systems.

The Committee in paragraph 114 set out in detail the Authority's response and appeared to suggest that the criticisms were ill founded. The Government is of the opinion that the criticisms were fully justified, since the serious inadequacies of the financial information system made effective management by the Authority and proper monitoring by the Welsh Office impossible. Even the determined efforts of the new Board to improve the situation, which the Government notes with approval, have not yet fully overcome these problems. The Government believes that many of the criticisms advanced with the benefit of hindsight by the Committee are accounted for by the unreliability of the financial information being received at that time, which was one of the central reasons for the Government's decision to reorganise the membership of the Authority.

1.6 Nevertheless of the 47 conclusions and recommendations in connection with matters for which it has responsibility, the Government has been able to accept 31, in whole or in part. Responses to the substance of the Committee's principal conclusions and recommendations, which are listed and numbered in Annex 2, have been grouped together into chapters by subject heading and are set out in chapters 3 to 13. For ease of reference, Annex 2 also identifies the paragraph in which the Government's response may be found.

2. REORGANISATION OF THE WELSH WATER AUTHORITY

2.1 The Government has consistently advocated the need for industries in the public sector to be organised and to operate as the large-scale businesses they are so as to ensure that the customer receives a satisfactory service at a reasonable price. Following the reorganisation of the water industry in 1974, there has been close public interest in the way that the Welsh Water Authority has conducted its affairs and there have been criticisms of poor levels of service, inefficiencies and high charges. While some of those criticisms may not have been fully justified, in any large public organisation there is room for improved performance and the need from time to time to review the whole organisation and structure. The disciplines set out in Cmnd 7131 for the nationalised industries provide the appropriate framework in which the industry should operate. It was against this background that the Secretary of State for Wales decided in 1981 to reconsider the membership of the Authority.

2.2 After public consultation the Secretary of State appointed a 12 man board under a new Chairman, comprising 4 members with local authority experience, one each with fisheries and land drainage interests and 6 with extensive experience of business and large scale managerial operations. The new Authority took office on 1 April 1982. To ensure that the views of consumers were received and taken fully into account, Local Consumer Advisory Committees were set up in each operating division of the Authority, representing a wide variety of consumer interests. Similar organisational changes have now been introduced in England as a result of the Water Act 1983.

2.3 Since the new Authority has been in operation the Government's decision to move to a smaller and more business-oriented board has been amply vindicated. Not only has the Authority's financial position shown a marked

improvement, with a £4.4m surplus being achieved on Revenue Account in 1982/83 compared with a deficit of £8.6m in 1981/82, but the Authority is starting to get to grips with the essential task of improving efficiency. Reductions in manpower have been made while maintaining levels of service. Non-manpower costs have also come under close scrutiny: for example, an energy review has been undertaken and a comprehensive monitoring system has been introduced to minimise the cost and maximise the benefit from energy use. The Authority had also identified weaknesses in other areas, on which the Committee commented, such as inadequacies in the accounting and management information systems, and had acted to correct them although the benefits will not accrue for some time.

2.4 With the help of consultants the Authority has recently reviewed its management operating structure to ensure that the organisation, levels of delegation and methods of operating match its management needs, whilst continuing to meet the objectives set by the Government in November 1982.

2.5 Much remains to be done, but the Government has been encouraged by the progress so far achieved and believes that it would not have taken place without the changes that were made in April 1982.

3. STRUCTURE AND PROCEEDINGS OF THE AUTHORITY

Membership

3.1 The Government agrees with the Committee's recommendation (rec 1) that the number of members appointed who have local authority experience should be increased to 5. The five members, including one from England, have now been appointed after consultation with the relevant local authority associations.

3.2 The Government agrees with the Committee on the importance of conservation (rec 2) and accepts that conservation interests should be represented. In the "Guidelines for the Establishment of Local Consumer Advisory Committees", the Authority has been required to appoint one amenity/conservation member to each of the Local Consumer Advisory Committees from nominations put forward by those interests. The Government will continue to take account of experience in conservation, when considering potential appointees' qualifications for board membership.

Public Access to Meetings

3.3 The Committee recommended that the public should continue to have access to all the meetings of the Authority and its committees (rec 44). The Government, however, believes that water authorities like other parts of the nationalised industry sector and major commercial undertakings, should be able to hold meetings in private so that members' views on matters of policy can be aired and discussed freely and privately. The Water Act 1983 accordingly removed water authorities from the provisions of the Public Bodies (Admission to Meetings) Act 1960, although the public will continue to have full access to meetings of the Local Consumer Advisory Committees. Because of the

interest shown by the public in water authority decisions, arrangements for the dissemination of information direct to the press after board meetings have already been agreed by water authority chairmen. However, the Government considers that it should be for water authorities to decide how they should conduct their business and it has noted that the Welsh Water Authority decided in October 1983, subject to review after 12 months, to hold its board meetings in public.

Chief Executive

3.4 The Committee recommended that the Chief Executive of the Authority should become an ex-officio board member (rec 49). The Government believes that the chief executive should play a full part, not only in the management of an authority but also in its policy decisions. It is the Government's intention that chief executives should normally be appointed as executive board members of their authorities. Provision was accordingly made in Section 1 and Schedule 1 to the Water Act 1983 to enable employees to become full members of an authority, and the Secretary of State has now appointed the new Chief Executive of the Welsh Water Authority to membership of the board. The Government does not agree however, that there should be a statutory prohibition on the same person holding the posts of chairman and chief executive simultaneously (rec 49). There may be circumstances in which this might be desirable. An example was the recent interregnum of a few months between the resignation of the former Chief Executive of the Welsh Water Authority and the appointment of a successor. During this period the Chairman undertook certain functions of the Chief Executive on a temporary footing.

Members' Remuneration

3.5 The Government agrees with the Committee's recommendation that the members of water authorities should be remunerated (rec 50). Provision was made in Schedule 1 of the Water Act 1983 and as from October 1983 all members of the Welsh Water Authority are remunerated on a similar basis to members of other nationalised industries.

Scrutiny by Commissioner for Local Administration

3.6 The Committee recommended that the Commissioners for Local Administration should continue to have powers to investigate allegations of maladministration in water authorities (rec 51). After debate and further consideration during the passage of the Water Act 1983 through Parliament, the Government concluded that no change should be made in the powers of the Commissioners for Local Administration.

4. OBJECTIVES AND CHARGES

Water Authority Objectives

4.1 At the time of the investigation the Government already had under review the need for policy objectives for water authorities and therefore agrees with

the Committee's recommendation supporting the issue of guidelines on national water policy objectives (rec 20). The main objectives were issued late in 1982 and are as set out below:

- a. to offer a quality of service that is acceptable having regard to costs and to effects on the environment and to remedy recognised deficiencies over a reasonable period;
- b. to achieve the service objectives at the least cost and with steadily improving efficiency making the best possible use of manpower and physical assets, having developed techniques for assessing and monitoring cost effectiveness and the systematic evaluation of investment projects;
- c. to comply with financial targets and external financing limits set by the Secretary of State after consultation with the Authority and to achieve demanding performance aims, agreed with the Secretary of State, to an agreed timescale, for the reduction of manpower and other operating costs based on detailed budgets for each part of the Authority's activities.

The supporting objectives for the Welsh Water Authority are set out in Annex 3. The specific point of concern to the Committee on whether authorities might develop new major water resources without full consideration of all factors is covered by objective b. above. As part of the normal and continuing dialogue with water authorities, the Government would expect to be consulted about the need for any new major water resource project before detailed planning started. Any proposals would automatically come within the Government's annual review of authorities' investment plans.

Charges

4.2 The Government has noted the three recommendations to the Welsh Water Authority (recs 5, 6, 7) containing various proposals for re-examination of and alteration to the existing charging structures for water and sewerage. The Authority has recently completed a major review of its charging structure. The proposals in the report are now the subject of public consultation by the Authority. Its decisions will be within the context of Section 30 of the Water Act 1973 which requires that its "charges are such as not to show undue preference to, or discriminate unduly against, any class of person". The Government agrees with the Committee that any move to universal metering would require considerable further study (rec 4). Both the social and financial implications would need to be examined. Research is continuing into ways of reducing the cost of metering.

Rebates

4.3 In paragraphs 41-43 the Committee considered the subject of rebates on water supply charges and made two recommendations (rec 8). One suggestion was that a system of rebates similar to the general rate rebate system should be implemented. The Committee is incorrect in its statement in paragraph 43 that until 1973 there were rebates on combined water and general rates. Rebates were paid only on the general rates prior to 1973. These included charges for sewerage services but not for water, so that in England and Wales there were no rebates for water supply charges. In some instances local authorities did make a rate fund contribution towards the cost of water services up to 1973.

Government policy, enshrined in the Water Act 1973 and maintained by subsequent administrations, has been that water authorities should generally stand as self financing bodies charging on a non-discriminatory basis for the services, facilities and rights they provide. As the Committee recognised, the social security system provides a measure of relief for cases of hardship. The Government considers that the Welsh Water Authority billing material adequately indicates the availability of such assistance and that its divisional finance officers are equipped to advise people in need of help. The Government has no proposals to introduce rebates for water authority charges.

Rebates in Scotland

4.4 Rebates are available on part of the water charges in Scotland because a proportion of the charge comprises part of the general rate: public water supplies for domestic consumers are funded partly by a domestic water charge and partly (generally up to one third of the net cost) through the general rate. Sewerage costs are met entirely through the general rate, as are the costs of functions such as river pollution control which are financed by water authorities' environmental services charges in England and Wales. Scottish consumers who qualify for rate rebates thus receive such rebate in respect of the costs of sewerage and "environmental services" and in respect of the rate borne part of the water supply charge.

4.5 Separate provisions in the Rating (Disabled Persons) Act 1978 apply to Scotland and because of the different structure of the water industry, separate rebates are available for the disabled on their domestic water rates. The Government has no plans to introduce a rebate system for water charges paid by the disabled in England and Wales as recommended by the Committee (rec 8).

5. EQUALISATION OF CHARGES

Welsh situation

5.1 The Committee reviewed in paragraphs 44-53 the reasons why charges in Wales are higher than in some areas of England and accepted that these included reasons outside the control of the Authority. It then considered in paragraphs 54-56 the two major arguments which are advanced for some form of subsidy to Welsh Water Authority customers. In the case of the first, that there could be some loss of amenity to Wales because of the provision of reservoirs and water resource facilities for consumers in England, the Committee considered that while there was some merit in this argument, there can also be considerable benefits in river regulation, flood protection and amenity. The Committee noted the second argument that consumers in Wales, as a major resource area, should receive recompense to equate their charges with those receiving water from Wales and went on to examine various ways in which this might be achieved.

Total equalisation

5.2 The Committee examined the objections to total equalisation of charges between England and Wales in paragraphs 57-59. Three particular bases for

total equalisation were examined in detail and for a number of reasons the Committee concluded that "there are serious doubts about the acceptability of all three and the anomalies inherent in each might well preclude their general acceptance in the context of the retention of autonomous regional water authorities" (rec 9). It accepted that total equalisation would probably lead to a national water authority and agreed with the view that if there were no other way of achieving equalisation of charges then that would have to be accepted. The Committee however considered that "there are other ways in which the interests of Welsh Water Authority customers could better be served than by the centralising of the management of water services throughout England and Wales" (rec 10). The Government considers that a national authority would not be in the best interests of consumers as a whole and furthermore that such an authority would probably lead to inefficiency, increased bureaucracy and hence higher overall costs to customers.

Partial equalisation

5.3 The Committee, having had some reservations about total equalisation, considered ways in which some partial equalisation might be achieved; these included amending water authority boundaries (paragraph 66, rec 11), and a comparison of the varying costs to different authorities of supplying a common standard of service (paragraph 68, rec 12). It accepted that the latter proposal would take time to both research and implement and took the view, therefore, that while a scheme of this kind was being worked out an interim scheme should be introduced based on unit operating cost and units of output related to assets employed (rec 13).

5.4 The Government agrees with the Committee that "The failure of the previous equalisation scheme, and the resentments caused by it, are powerful, practical arguments against seeking to introduce a new scheme of partial equalisation.". It was for this reason that the Water Charges Equalisation Act 1977 was repealed by Section 8 of the Water Act 1983. In the Government's view the problems and objections to total equalisation identified in paragraphs 57-61 apply equally to any partial equalisation scheme. The Government therefore rejects the recommendations for the introduction of any partial equalisation scheme. The Government believes that the best way forward is for the Welsh Water Authority to remain autonomous and to seek to satisfy the needs of its customers through the wide range of services it provides. It believes that the pursuit of cost reductions and of other measures to improve operational and financial efficiency offer the most effective way of obtaining value for money in the interests of consumers. The Government will continue to ensure that the authorities appointed since the passing of the Water Act 1983 will continue to press forward with such measures.

Exchequer subsidy

5.5 In paragraph 71 the Committee considered the possibility of Exchequer support to the Welsh Water Authority in order to reduce charges and concluded that this would not be acceptable to the Government (rec 14). Since the problems faced by the Authority are not unique, the Committee is correct in supposing that an Exchequer subsidy specifically to the Welsh Water Authority would be unacceptable.

Reduction of debt and financial target

5.6 As was pointed out in the evidence given by the Secretary of State and the Parliamentary Under-Secretary of State, the effect of writing off any part of the Welsh Water Authority's debt, inherited or otherwise, would be to transfer the burden of repayment elsewhere, in this instance to the Exchequer and thus to the taxpayer at large. Similar arguments apply to relieving interest payments on debts still held by the Welsh Water Authority (rec 17). The Government does not consider that all or part of the proper costs of capital expenditure of the Welsh Water Authority, from which its consumers receive benefit, should be borne in effect by customers of other water authorities who receive no benefit from the investment.

5.7 The Government is pleased to note in paragraph 76 (rec 15) that the Committee endorsed the Government's view and that of the Daniel Committee that writing off inherited debts would not be a particularly effective form of Exchequer assistance.

5.8 The Committee's proposal that the period for achieving a target of 1.25% should be extended in order to constrain charges (rec 16) is not acceptable to the Government. Charges in the Authority's area have already been relieved to the extent that targets up to and including 1983/84 have been lower than those for the 9 English regional water authorities and the average domestic charge for the Welsh authority's services is lower than that charged by some of the regional authorities. The Welsh Water Authority now funds over half of its capital expenditure through its own resources as a result of the financial target regime, thus reducing the need for external borrowing. There is no direct Welsh Office control over the level of capital expenditure by the Authority; only its external borrowing is directly controlled by the setting of an annual external financing limit (EFL). In practice the Authority's expenditure has not been held back by the EFLs set in 1981/82 and 1982/83 as the following table shows:—

	EFL set £ million	EFL used £ million
1981/82	29.00	24.50
1982/83	25.25	22.60

6. BULK SUPPLY AND ABSTRACTION CHARGES

Basis of bulk supply charges

6.1 The Committee stated in paragraph 79 "... much of the discontent about water charges in Wales seems to stem, directly or indirectly, from the terms under which supplies, particularly bulk supplies, are made available to other authorities.". It then examined (in paragraphs 79–89) various arguments over the pricing of bulk supplies and in particular the Elan Valley supply to the Severn–Trent Water Authority. It agreed with the principle that the price for bulk supplies be set by negotiation on the basis of security of supply at a reasonable cost (rec 18).

6.2 The Government is pleased to note the Committee's endorsement, in paragraph 83, of the pricing of bulk supplies by negotiation. The Government believes that the present statutory provision, allowing water undertakers to agree the terms and conditions relating to a supply of water in bulk is satisfactory and works well. The Government has welcomed the negotiated settlement between the Welsh Water Authority and the Severn-Trent Water Authority for supplies of water from the Elan Valley reservoirs. Clearly it is important that water resources be used to the best effect and to the benefit of all consumers and the Committee has recognised this in its comments in paragraph 83. Where agreement cannot be reached between undertakers, the Government's policy, reaffirmed during 1983, is to apply the principle of "no profit no loss" unless good reasons can be shown why it should not be applied or should only be applied with modification. The Government sees no need to give this principle statutory force as recommended by the Committee (rec 19).

6.3 The Government agrees with the Committee that where charges for bulk supplies are made by one authority to another, it is reasonable to calculate such charges on the basis of current cost accounting principles (rec 21), but does not consider that there is a need to devise any new basis for negotiating prices. Clearly this is a matter for agreement between the authorities concerned.

Releases from reservoirs as "bulk supplies"

6.4 The Government does not accept that there is a need to clarify the status of releases of water from regulating reservoirs nor that the element of abstraction by other water authorities dependent on releases from regulating reservoirs should be defined by statute as "bulk supplies" (rec 22). The Government agrees, however, with the Committee's recommendation that the Welsh Water Authority should consider the introduction of a charging scheme for abstractions which takes account of dependence on storage.

7. FINANCIAL MATTERS

Interpretation of financial information

7.1 The Committee was critical of the adequacy of the information that the Welsh Office requested from the Welsh Water Authority in its "October submission" (rec 25) and its use of that information (rec 23). The Government accepts that the flow of information between the Authority and the Welsh Office and the way that it is presented was capable of improvement. The information required to collate the historic cost accounts with the current cost accounting data has been revised and the 1982 "October submission" included the Authority's results on both an historic and current cost basis. However, the Government, when reaching decisions, is dependent on the accuracy of information supplied to it. An example of the difficulties encountered in this respect was the setting of and prediction of the outturn of the 1981/82 target for the Welsh Water Authority. The target was set in December 1980 and took into consideration the Authority's September forecast that a surplus would arise in 1980/81. However, in January 1981 the Welsh Office was told that the Authority had revised the outturn for 1980/81 to show a loss of £3.4m. In a

letter dated 25 February 1981 the Finance Director estimated the Authority's loss for 1981/82 at £3.5m. In the event the deficit for that year was £8.6m.

7.2 The Committee misinterpreted the Secretary of State's criticism of the Authority (rec 23). His comments did not relate to the Authority's cooperation with the Government—this has been good—but to the quality of information available which it supplied to the Government. Such criticisms seem amply justified by the examples cited above and in the light of the Committee's comments in paragraphs 135 and 136 of the report, where it recommended that the Authority review its methods of forecasting future demand and its financial and management information systems (recs 35 and 36). This the Authority is doing.

Target setting

7.3 The Government is pleased to note that in paragraph 118 the Committee endorsed its decision to set the 1982/83 financial target at such a level that the Authority should break even (rec 24). It is the Government's intention that, over time, the Authority should rebuild its reserves to a level that would relate to its needs and scale of operations, and it is pleased to see in paragraph 118 that the Committee believed this to be the correct approach.

7.4 The Committee went on to recommend that the Government should keep the financial targets of the Authority under review (rec 34). The Government regularly reviews the Authority's performance against its target and the adequacy of that target in the light of current conditions. Where the developing situation indicates the need for targets to be revised, that will be done. Thus, the target for 1983/84 was raised from 1.05% to 1.20% in order to strengthen the financial reserves of the Authority. Future target regimes will be based on the principles set out in Cmnd Paper 7131 (March 1978).

Financial target orders

7.5 The Government accepts the desirability of laying before Parliament at the earliest opportunity the Orders which set the financial targets for water authorities (rec 28). However, the timing of the laying of the Order is constrained by the need to set an appropriate target in the light of the latest information available.

Current cost accounting (CCA)

7.6 The Committee was critical of some of the uncertainties which arose because of the application of CCA to the water industry. In particular it highlighted the uncertainties of the physical state of the underground assets, the uncertainties in forecasting the movement in asset revaluation indices and hence the difficulty in establishing a proper current cost depreciation figure and recommended that the condition of underground assets should be examined (rec 26). The Government accepts the need for a better knowledge of the physical state of underground assets and is encouraging authorities to undertake the necessary work to establish this.

7.7 The application of CCA to the water industry has already been the subject of two independent reports which have endorsed the progress made so far. Improvements in areas such as asset revaluation are being introduced as better information becomes available. The Government will be paying close attention to the conclusions of the accountancy profession's present review of CCA and its implications for the water industry and therefore accepts the Committee's recommendation that the application of CCA to water authorities should be reviewed (rec 27).

Performance aims and efficiency savings

7.8 The Government is pleased to receive the Committee's endorsement of the principle of setting authorities' performance aims that relate costs to levels of service. It accepts that there is still some way to go in developing better performance measures, notes the recommendation that the necessary studies be put in hand to enable performance aims to be set on a more objective basis for 1985-86 (rec 29), and is keen to see progress made. The water industry has accepted an obligation to develop better performance measures over the next 3 years. Performance aims will be set within the existing framework for the 3 years up to 1986/87. In order to achieve their performance aims Authorities must continue to seek efficiency savings in the use of manpower, materials and other resources in order to reduce their operating costs as recommended by the Committee (rec 62).

External financing limit (EFL)

7.9 In considering the level of EFL to be provided to the Welsh Water Authority, the Government will continue to take into account the Authority's assessment of the capital expenditure required and its ability to generate the necessary resources through charges (rec 62). Any allocation of EFL to the Authority has to be in the context of the Government's overall economic strategy and the resources available (rec 62).

Financial duties

7.10 The Government does not believe there is a need to review the financial powers and duties of the water authorities at present (rec 30) and has no plans to do so. The particular question which the Committee raised, was whether an authority could budget for a deficit on historic cost account in successive years (section 29, Water Act 1973). This is unlikely to arise again with the setting of adequate financial targets.

8. SEWERAGE AGENCIES

Continuing role for local authorities

8.1 The Government agrees with the Committee's view that local authorities should continue to have a part to play in the provision of sewerage services (rec 45). Section 6 of the Water Act 1983 maintains the duty of water authorities to endeavour to make arrangements with district councils and other relevant

authorities for the discharge of their sewerage functions, while strengthening the provisions which enable water authorities to ensure that these arrangements are carried out efficiently.

Improvements to be made

8.2 The Government welcomes the recommendations addressed to the Welsh Water Authority on sewerage matters; that proper assessment of capital schemes should continue, but with the least bureaucracy possible (rec 46); that performance standards and costs should be set for agent authorities and that they are monitored (rec 47); and that if agents fail to measure up to the standards required the Government should be asked to terminate the relevant agency agreement if necessary (rec 48). The Committee is assured that the Government would not condone the continued use of an agent authority whose inefficiency was having to be subsidised by water authority customers through increased charges (rec 48).

9. GRANTS TO CONSUMERS

Provision of First-Time Services

9.1 The Government has noted the Committee's views on the provision of first-time water and sewerage services to properties in rural areas, where a local authority is not prepared to requisition and underwrite the cost of providing those services (recs 54 and 55). The Government accepts in principle that in cases where a group of consumers are prepared to meet the full cost of first-time water supply and sewerage schemes, grants under the Rural Water Supplies and Sewerage Acts 1944-71 should be available to them. However it does not accept that the existing legislation needs to be altered to allow this to happen. Under the present scheme it is possible for individuals to requisition first time water and sewerage services and for water authorities to receive grant aid in appropriate cases. What is required is for those who requisition the service to be able to satisfy the water authority that they can meet the associated financial obligations.

Repair Grants for Service Pipes

9.2 The Committee discussed the problem caused by both old and common supply and service pipes and recommended that the Government bring the replacement of the latter within the scope of repair grants (rec 53). Grant aid is already available for the replacement of inadequate service pipes in a wider range of circumstances than is suggested in the Committee's report. The renovation grant system is currently the subject of a general review.

10. LAND DRAINAGE MATTERS

A call-in of cases

10.1 The Committee recommended that where a local authority was minded to grant planning permission for a scheme to go ahead, to which the water

authority had objected on land drainage grounds, the Secretary of State should call in that application if the objections could not be resolved (rec 58). As the Committee recognises, its recommendation was based on evidence given before Welsh Office Circular 15/82 on liaison between planning authorities and water authorities was issued. That Circular was itself a response to the Welsh Water Authority's criticism, and it would seem reasonable to allow some time for assessment of how serious a problem remains. The Circular refers to the possibility of developers playing a part in meeting objections by the Water Authority either by agreeing to carry out the work the Authority considered necessary or by making contribution towards the cost of the work. This was not mentioned by the Committee. It is not inconceivable that the Secretary of State might decide to call in an application where it is known that the local authority is minded to grant permission against water authority advice. However, this would be an exceptional course where, for instance, matters of more than purely local interest were involved.

Contracting out of drainage work

10.2 The Government wholeheartedly endorses the Committee's recommendation that where drainage works can be carried out by others more cheaply than by the Authority itself while meeting the necessary standards, then the work should be contracted out. It also agrees that the Authority should review its land drainage workforce to ensure that land drainage work is carried out as efficiently and economically as possible (rec 57).

Responsibility and payment for land drainage

10.3 The Government has taken note that the Committee recommends a review of payments in lieu of drainage rates (rec 59); a review of the present administrative structure for land drainage (rec 60); and a review of responsibilities for the maintenance of watercourses (rec 61). All of these matters are under consideration by the Government as part of a review of the financial and administrative arrangements for land drainage. A consultation paper will be issued in due course.

11. RELATIONSHIP BETWEEN GOVERNMENT AND WELSH WATER AUTHORITY

Liaison between the Welsh Office and the Welsh Water Authority

11.1 The Government rejects the Committee's allegation that "There is evidence of a very clear lack of liaison between the Welsh Office and the Welsh Water Authority" (rec 31). Ministers regularly met the Chairman to discuss matters of common interest and concern. Apart from requests for and receipt of information by the Welsh Office, there were regular meetings between officials to discuss problems and exchange views. In addition there were meetings and exchanges of correspondence on specific points throughout the period. That pattern of consultation and liaison will continue. The specific

point noted by the Committee on estimates of industrial income is dealt with in Annex 1, (paragraph 130).

Control over Water Authority

11.2 As noted by the Committee it is the Government's policy to keep intervention in the affairs of public bodies to a minimum (rec 63). This has to be balanced, however, against the responsibilities laid on the Government by statute, the implementation of Government policy and the wider public interest. Within these criteria the Government believes its dealings with the Welsh Water Authority are effective and constructive.

Responsibilities of Water Authorities

11.3 In paragraph 214 of the report the Committee sets out 4 major areas of responsibility of the Welsh Water Authority and recommends that the Authority make clear its responsibilities to its customers (rec 64). The Government supports this proposal. However, it does not accept that "many of the major decisions crucial to the overall level of charges are now effectively in the hands of the Government". The main control exercised by Government affecting the level of charges is the setting of the financial target. The Committee itself recognised that an adequate level of target has to be set in order to ensure the financial health of the Authority. The effect of raising the target from 0.95% in 1982/83 (the level intended to enable the Welsh Water Authority to break even on historic cost account), to 1.20% in 1983/84 represents only about 2% of the total charges to consumers.

12. ADVICE TO MINISTERS

12.1 The Government rejects the Committee's criticisms of the adequacy of accounting expertise and quality of advice from Welsh Office officials to Ministers (recs 32 and 33), and is satisfied that the answers which the Secretary of State gave to the Committee were correct and that he was properly advised by his officials. The so-called variances between the evidence given by Ministers and the "facts" are denied. These matters are discussed further in Annex 1.

12.2 The Permanent Secretary reviews the Department's staffing, including numbers, grades and relevant experience/qualifications, on a regular and continuing basis. In the same way, reviews of the extent and adequacy of specialist advice within the Department are undertaken from time to time by central government departments and heads of profession. The Head of the Government Accounting Service, in conjunction with Welsh Office officials, undertook a review of the need for and location of accountants and persons with accountancy skills in the Department in 1981. One of the Finance Group accountants previously concerned with water authority affairs along with other responsibilities has been moved to strengthen the Water and Environmental Protection Division and hence the multi-disciplinary advice available to the Secretary of State.

13. EMPLOYMENT OF CONSULTANTS

Arthur Andersen Review

13.1 The Government notes, but cannot accept, the criticism contained in the Committee's statement "We regard the attempt by the Secretary of State to restrict our examination of Arthur Andersen and Co, as a serious interference in our affairs to which we object." (rec 38). The Government was not seeking to hamper the work of the Committee in any way. Indeed the Secretary of State offered to appear himself in order to answer questions on the Arthur Andersen review as he was the Principal in the matter, (letter dated 6 July 1982 Appendix 30 page 484), an offer which was rejected. The Government's position on the principle of the confidential adviser/client relationship has already been set out by the Secretary of State in his letter to the Chairman of the Committee of 19 May 1982, (Appendix 30, page 478).

Instructions to and Reports from Consultants

13.2 The Government accepts that it is desirable for written instructions to be given to consultants commissioned to undertake work on its behalf; indeed, that is the normal practice (rec. 39). It is also normal practice to require consultants to produce a written report of their work (rec 40). In the instance of the employment of Arthur Andersen, their terms of reference were agreed between the Secretary of State and Mr Ian Hay Davison, the senior partner, to be those set out in the Department of the Environment's letter of 5 February 1981.

Terms and conditions of employment of advisers

13.3 The Government reserves the right to decide when it requires the services of consultants or advisers, and the terms of reference and conditions under which they are appointed (rec 41).

RESPONSE TO CRITICISMS OF MINISTERS AND CIVIL SERVANTS**Paragraphs 18 and 19**

The Parliamentary Under-Secretary of State was criticised by the Committee for his allegation, in a speech made in 1980 to the Welsh Water Authority, of poor attendance by members in 1978/79. The figures, which the Committee did not publish, showed actual attendance levels of members at Authority and its committee meetings as follows:—

Secretary of State Appointees*	55.2%
County Council Appointees	41.3%
District Council Appointees	51.5%

* excludes the Chairman

These levels of attendance were unacceptably low and the Parliamentary Under-Secretary of State was right to draw members' attention to them. The Committee itself commented that it was "concerned at the generally relatively low overall pattern of attendances over the three (subsequent) years and express the strong hope that the record of members appointed to the new Authority will show an improvement, . . .".

Paragraph 73. Appendix 29 (P464)

The Committee expressed surprise that the Parliamentary Under-Secretary of State was unaware of a formal request made by the Authority to write-off its inherited debt. The Welsh Office did not consider that such a request had been made; hence its response to Q160. Subsequently, formal action was taken in correspondence and meetings in December 1981 and January 1982 which culminated in a request to the Welsh Water Authority on 18 January 1982 for a full Statement of Case. This was not submitted by the Authority. These facts were not brought out in the letter submitted to the Committee by the Chief Executive on 12 March 1982.

Paragraph 91. Appendix 29 (P 473)

Doubt has been cast on the accuracy of statements made by Welsh Office Ministers concerning bulk transfer charges. The statements quoted by the Secretary of State and Parliamentary Under-Secretary of State concerning an increase in income to the Welsh Water Authority on bulk transfer charges due to a changeover to calculations on a CCA basis were entirely correct. Even on the low target percentage of 0.30% obtaining in 1981/82 the figures quoted by the Committee show a rise of 16% in income due to the change. As the financial target rises, so does the percentage difference in income between calculations made on an historic cost and a current cost basis.

Paragraphs 113 and 114

The Committee mentioned a number of criticisms by the Secretary of State of the systems of financial control, capital expenditure funding and budgeting

cycles of the Welsh Water Authority. It reported that the Authority had responded strongly denying any weaknesses and failures within its system, but made no direct comment on these points. The absence of any adverse comments by the Committee carries the implication that the criticisms were not justified. The Government believes that the Secretary of State's criticisms were abundantly justified and that the variations between estimate and outturn figures for 1980/81 and 1981/82 are one example of the weaknesses that existed in the financial and management information systems. The new Authority has identified other weaknesses in these systems and is taking steps to remedy them.

The Government considers the Secretary of State was right to criticise the Authority's seeming confusion over whether it was setting its charges on an historic cost or a current cost basis. This view is borne out by the Director of Finance's comment in his letter of 3 November 1981, to which the Committee referred, where he said "Whether or not this really matters (deficit on historic cost basis) is not entirely clear; . . .". That the Director did not think it important, though he provided the Welsh Office with the information in his letter of 3 November, is evidenced by the fact that he did not provide those figures to his own Board for the meeting at which they reached their decisions on charges.

On the question of funding of capital works between revenue and borrowing, the Secretary of State commented in Q1415 that "I do not think that in my previous answer I was particularly critical (of the Authority) on this point." (Q1315) The plain facts were that in the past the Welsh Water Authority had borrowed money to undertake capital works in preference to raising finance through charges. This meant that as a result, it was second from bottom among the 10 water authorities in the extent to which it had financed capital from its own resources and thus paid proportionately higher interest charges than other authorities.

Paragraphs 115-116

The Committee criticised the Secretary of State's lack of knowledge of the expected financial outturn of the Welsh Water Authority for 1980/81 and the proposed deficit for 1981/82. When the Secretary of State set the financial target for 1981/82 in December 1980, the latest information from the Authority indicated a surplus for 1980/81. In January the Welsh Office was told that the revised outturn for 1980/81 showed a loss of over £3 million. It is accepted that at the time of the Authority agreeing reductions of £5 million in the budget for 1981/82 the full implications of the proposed planned deficit of £3½ million were not fully appreciated.

Paragraph 117

The Committee stated, "Whether the Secretary of State would have pressed the reductions if he had been fully aware of the historic cost implications of so doing is a hypothetical question, but we regard it as unfair for the Secretary of State subsequently to criticise the Authority for the cooperation so enthusiastically welcomed by Welsh Office Ministers in February 1981.". In Q1316 and 1317 the Secretary of State was not criticising the Authority in hindsight for agreeing to reduce the 1981/82 budget, as suggested by the

Committee. He was commenting on the fact that his suggestion to the Authority that it should seek reductions in the budget for 1981/82 would have been different if the Authority had been capable of providing more realistic estimates of income.

Paragraph 118

The Committee was incorrect when it said that the Secretary of State was wrong in suggesting in his evidence, that the Chairman agreed it would be an entirely unacceptable situation for the Authority to use up all its remaining reserves and move into overall deficit (Q1355). The Secretary of State, in his letter of 15 February 1982 to the Chairman of the Welsh Water Authority said "It seems to me that you and I are at one in thinking that it would be irresponsible and wholly unacceptable to budget for a deficit . . .". In his reply of 23 February, the Chairman agreed with the Secretary of State's point; "At the meeting of the Authority on 16 February, I explained the position and advised the Authority that it would be right for them not to budget for a deficit . . .". Clearly the Chairman agreed with the Secretary of State's comments in his letter of 15 February.

Paragraph 119

The Government accepts that it could have reacted sooner to the effect of setting a target of 0.54% but considers that the Committee should not have ignored the fact that, in the interval between the "October submission" and the first official indications from the Welsh Office that the planned deficit would not be accepted, Messrs Price Waterhouse and Co had been asked to examine the Authority's budget and report to the Welsh Office. In parallel with this review, legal advice was being sought on the interpretation of Section 29(1) of the Water Act 1973. The Secretary of State is sure that the Committee would not have expected him to make a snap judgment on the Welsh Water Authority's budget proposals without taking full account of Price Waterhouse's report and the legal advice. Once it was confirmed that the budget could not be brought into balance without a target increase and legal advice was received, immediate steps were taken to ensure that the Authority was aware of the situation. The Authority accepted the financial prudence of the proposed target increase, even if it did not agree with that legal interpretation.

Paragraph 120

The Committee suggested that the Welsh Office had little understanding of the relationship between historic cost and current cost accounting as evinced by its failure to request historic cost information in the "October submission". The Welsh Office was well aware of the inter-relationship between current cost and historic cost accounting principles, about which the Secretary of State commented in detail in his evidence (Q 1354). The form used at that time was common to all water authorities but, because of the generally better financial state of authorities in England, the requirements of Section 29(1) and the portrayal of results on a historic cost basis were less relevant and thus not included in the form. With the benefit of hindsight and in the light of the shortcomings in the Authority's systems it is now easy to see that it would

have been better if the form had asked for this information. The Director of Finance's letter of 3 November 1981 provided the required historic cost information to the Welsh Office though this was not provided to the Authority's board. An additional form was added to the 1982 "October submission" to include a direct historic cost comparison.

Paragraph 130

The Government disagrees with the Committee's assertion that "We find it extremely surprising that the concern at the Welsh Office (on declining industrial income) was not forthwith put to the Authority, . . .". The Authority was very well aware of the decline in industrial water usage and the then Chairman made a particular point of mentioning this in a meeting with Government ministers in October 1980. He said that the Authority was in the process of making estimates of the anticipated loss of industrial revenue. In view of these comments, Welsh Office officials did not consider it necessary to say anything further to the Authority. It was for the Authority to quantify the financial consequences of these reductions in use.

Paragraph 131

The Government deplores the Committee's criticism of the Principal Finance Officer of the Welsh Office. The statement quoted has been taken completely out of context and from statements made in an entirely separate enquiry; it does not indicate complacency, but is a statement of fact. The evidence clearly shows (HC 312, Questions 77 and 78) that the Principal Finance Officer went on to say that qualified accountants within the Finance Group were used in connection with the Welsh Water Authority's affairs, as they would be for any matter requiring such specialist expertise.

Paragraphs 130 and 132

The Committee criticised the Welsh Office for having inadequate accounting advice available to interpret information emanating from the Welsh Water Authority and alleged that it was thus unable to advise Ministers properly. The Government is satisfied that the Secretary of State has adequate expert financial advice available to him. This is provided by qualified staff and, where needed, advice from accountants outside the Department, eg Price Waterhouse & Co. One of the greatest difficulties the Secretary of State has faced with the Authority has not been the detail of the information supplied but its accuracy. The Committee implied that the Secretary of State for Wales' answer to question 1354 indicated a lack of understanding on his part of the interrelationship between current cost and historic cost accounting. The Government suggests that it was perhaps the Committee that was having problems with this subject.

Paragraph 133

The Government's introduction to this response sets out the reasons for believing that many of the conclusions of the Committee were incorrect and not justified by the facts and for this reason the Government rejects the sweeping condemnation of Welsh Office officials. That there may have been faults it

accepts; in any organisation there is room for improvement. But the Government considers it quite wrong that, with all the benefit of hindsight and the basis largely of the Authority's written evidence, which was not seen and therefore not commented upon by the Secretary of State, unjustified criticisms should have been made of Welsh Office staff. All the specific points used by the Committee to support its contention have already been dealt with in detail above other than that contained in the comment on Q202. The Committee's report shows that the Authority's response to Q202 on page 431 is at odds with its response on page 452(5) to the Secretary of State's reply to Q1414.

Paragraph 142

The Committee stated that "there were substantial differences of opinion over precisely what Arthur Andersen had said about certain matters.". There was no doubt in the Secretary of State for Wales' mind over what Arthur Andersen had said to him and that is borne out by the facts. In Q1310 the Secretary of State did not say that Arthur Andersen had told the Authority that it had consistently overestimated income and underestimated expenditure. This must have been plain to the Authority when outturn was compared with budgets. The statement was made by Arthur Andersen in the context of discussions with Ministers. In the case of Q1318 the Committee had itself accepted the evidence of Price Waterhouse in their report and recommended the Authority to take action to remedy its deficiencies.

**SUMMARY OF PRINCIPAL CONCLUSIONS AND
RECOMMENDATIONS**

- | | Paragraph in
Government
Response |
|--|--|
| 1. We recommend that the Secretary of State should make it his practice that five members of the Welsh Water Authority should be appointed by him after specific consultation with local authority interests. Of these, we recommend that two should be appointed after consultation with the county councils in Wales, two after consultations with the district councils in Wales and one after consultation with English local authorities, all or part of whose area is within the general area of the Welsh Water Authority, or have services provided by it. (Paragraph 24.) | 3.1 |
| 2. We recommend that the Secretary of State keeps in mind the desirability of reflecting the importance of conservation in his appointments to the Welsh Water Authority. (Paragraph 25.) | 3.2 |
| 3. We recommend that the delegation of authority to headquarters and divisional staff be reviewed by the new Welsh Water Authority, clarified where necessary and, where this is not already the case, set down in writing. In order to ensure that the delegation arrangements fully reflect changing circumstances, we further recommend that they be formally reviewed by the Authority regularly at annual intervals, and amended as necessary. (Paragraph 32.) | — |
| 4. We agree with Sir Robert Marshall that any eventual move towards universal metering of domestic water supplies requires considerable further study. (Paragraph 37.) | 4.2 |
| 5. We recommend that water authorities should examine carefully the allocation of costs to measured and unmeasured customers respectively, in order to ensure that there is no element of subsidy to the measured sector from the larger unmeasured sector. (Paragraph 38.) | 4.2 |
| 6. We recommend that the Welsh Water Authority devises an equitable basis for apportioning the costs of water losses and ensures that the measured sector is charged the appropriate share. As sewerage charges to measured consumers are now also partly based on the volume of water supplied, we recommend that a similar examination be made of the costs involved again to ensure that the measured sector is not subsidised by the unmeasured sector. (Paragraph 38.) | 4.2 |
| 7. We recommend that the Welsh Water Authority looks further at the various possibilities for the intra-regional equalisation of charges. (Paragraph 40.) | 4.2 |

8. We recommend that rebates in respect of water charges be introduced for disabled persons on a similar basis to Scotland, and that the cost be met by Exchequer grant to water authorities. We also recommend the introduction of a water rate rebate scheme for England and Wales with a similar basis of eligibility to the existing general rate rebate scheme giving similar levels of rebate. We further recommend that 90 per cent of the cost should be met by Exchequer grant and 10 per cent by the water authority. (Paragraph 43.) 4.3 & 4.5
9. We have examined three possible bases of "total equalisation" for domestic consumers; there are serious doubts about the acceptability of all three and the anomalies inherent in each might well preclude their general acceptance in the context of the retention of autonomous regional water authorities. (Paragraph 60 and 61.) 5.2
10. Total equalisation of charges, whatever form it took, would inevitably lead to some form of overall national authority, and in effect the Welsh Water Authority would become the Welsh Region of a National Water Board (paragraph 62). Mr Haydn Rees took the view that if a National Water Board was the only way of getting rid of the emotion, so be it. We agree with this assessment but consider that there are other ways in which the interests of Welsh Water Authority customers could better be served than by the centralising of the management of water services throughout England and Wales. (Paragraph 63.) 5.2
11. The aggregation of river basins into water authority areas is essentially a political judgement for which there is no overriding technical rationale in terms of the efficiency with which services can be provided. There are elements of chance in the relationship in the case of any particular authority between the costs of providing services and the charging base available and we can see no reason why, in the interests of equity in the development of a national policy for water, these should not be smoothed out. We therefore support the concept of a degree of equalisation between authorities to take account of such factors, but agree with the Secretary of State that the basis of any such scheme must not result in the less-efficient authorities having their inefficiencies subsidised to the detriment of the customers of more efficient authorities. (Paragraph 66.) 5.3 & 5.4
12. We recommend that the necessary studies be put in hand to establish, on the basis of defined common standards of service for all water authorities, the costs necessarily involved on a "best practice" basis and that a new scheme of partial equalisation be devised based on those costs, and introduced in the latter half of the decade, or earlier if possible. (Paragraph 69.) 5.3 & 5.4

13. We recommend that an interim scheme of partial equalisation be devised and introduced as quickly as possible, ideally for the year 1984-85, reflecting both the relative level of assets employed per unit of output in the provision of services by authorities and the relative level of unit operating costs. The level of assets should be determined on the basis employed for current cost accounting and revised annually and the level of unit operating costs derived from the level of performance aims set in order to eliminate as far as possible differences in the efficiency with which particular authorities provide services and also differences in average standards of service. (Paragraph 70.) 5.3 & 5.4
14. An Exchequer subsidy specifically to the Welsh Water Authority would be unlikely to be acceptable to the Government. (Paragraph 71.) 5.5
15. The Daniel Report concluded that writing off inherited debts would not be a particularly effective form of Exchequer assistance and we agree with this assessment. (Paragraph 76.) 5.7
16. If some of the existing debt of water authorities was taken over by the Government, it would be possible for the financial target of the Welsh Water Authority to be set at a lower level. Thus, the impact on charges of the move towards the financial target of 1.25 per cent by 1985-86 could be moderated as the period of adjustment could be further extended. We recommend that the Government looks forthwith at this possibility in the light of the effects that the continuing debt is having on inhibiting the reduction of the water rates in Wales. (Paragraph 77.) 5.8
17. If water authorities were relieved of part of all of the interest payments, they could fund a larger measure of their capital programme out of the reserves provided through their depreciation, reducing their dependence on loan finance, and thus remove the need for the present tight Government control over capital expenditure programmes. The Government would be able to reduce very substantially the external financing limits of the authorities in consequence. We recommend that the Government look further at this. (Paragraph 78.) 5.6
18. We agree with the principle, which is enshrined in the statutory provisions, that the pricing of bulk supplies of water should be by negotiation. (Paragraph 83.) A negotiated basis of supply, on terms that reflect the reasonable requirements of the recipient authorities as to security of supply and predictability of costs, would in our opinion do much to remove the resentment which crystallises around the present terms of supply. (Paragraph 84.) 6.1

19. The "no profit no loss" convention may inhibit rather than encourage inter-authority co-operation and thus the development of the most economic overall national policy for water in England and Wales. (Paragraph 87.) There can, of course, be no objection to bulk supplies being made on the basis of "no profit no loss" if both parties are content with those terms. However, wide discretion was given by Parliament to statutory water undertakings in fixing terms, and in the event of disagreement between them, to the Government, and this has in effect been restricted by the presumption implied by the "no profit no loss" convention, which does not hitherto appear to have been formally challenged. If the Government wishes to continue the convention, we recommend that it seek to give it statutory force. (Paragraph 88.) 6.2
20. Ministers should issue guidelines to all water authorities on their national water policy objectives and the factors that authorities should have in mind when assessing alternative water resource developments at the planning stage. We recommend that the preparation of such guidelines be put in hand now in order to provide a sounder basis for planning and promoting future water developments. (Paragraph 90.) 4.1
21. We recommend that, until there is a new basis of negotiated prices between authorities, the "no profit no loss" convention should, in the light of the introduction of current cost accounting in the water industry, henceforth be interpreted on the basis of "no current cost profit no current cost loss", thus maximising the return to the supplying authorities. (Paragraph 92.) 6.3
22. We recommend that legislation be introduced clarifying the status of releases of water from regulating reservoirs. We also recommend that the element of abstractions made by other water authorities that is dependent on releases from regulating reservoirs should be defined by statute as "bulk supplies" and that the terms for such supplies should be determined in accordance with our earlier recommendations. As an interim measure, we recommend that the Welsh Water Authority considers whether it would be beneficial to introduce a two tier abstraction scheme imposing higher charges on all abstractions reliant on storage as some other authorities do. (Paragraph 95.) 6.4
23. The Secretary of State either chose to ignore the historic cost consequences of the proposed reduction in charges for 1981-82, or else he was not made aware of them by his officials. We believe the latter explanation to be more likely. (Paragraph 116.) Whether the Secretary of State would have pressed the reductions in charges of the Welsh Water Authority for 1981-82 if he had been fully aware of the historic cost implications of so doing is a hypothetical question, but we regard it as unfair for the Secretary of State 7.1 & 7.2

subsequently to criticise the Authority for the co-operation so enthusiastically welcomed by Welsh Office Ministers in February 1981. (Paragraph 117.)

24. Despite the criticisms we make elsewhere in this Report of the efficiency of the Welsh Office in its relations with the Welsh Water Authority, we conclude that the Secretary of State was correct finally to set the financial target of the Authority at a level where it would break even on the historic cost basis in 1982-83. (Paragraph 118.) 7.3

25. We recommend that the annual autumn submission be expanded so as to include all data necessary to enable a thorough appraisal to be made by the Welsh Office of the implications of the figures drawn up on a current cost basis for the historic cost accounts of the Welsh Water Authority. (Paragraph 120.) 7.1

26. As depreciation is a factor directly taken into account in fixing charges, we recommend that uncertainty in the state of the underground assets of the Welsh Water Authority should be reduced as far as possible by increasing the level of resources devoted to identifying and determining the condition of the underground assets of the Authority. Such a programme would not only allow the appropriate depreciation provision to be more accurately calculated but would also provide an important and valuable input as regards the planning of the Authority on capital expenditure, both in terms of ranking priorities and negotiating with Government to secure approval of an appropriate size of programme. (Paragraph 123.) 7.6

27. We recommend that the Government review the basis of the application of current cost accounting to water authorities with a view to making it more effective as a financial discipline. (Paragraph 124.) 7.7

28. We recommend that all future orders setting financial targets for water authorities are laid before Parliament at least four weeks before the authorities are expected to set charges based on them. (Paragraph 126.) 7.5

29. We recommend that studies be carried out to attempt to establish relationships between the operating costs inherent in the efficient provision of particular levels of standards of service in order that performance aims can be more objectively based. We believe that more soundly based performance aims will be valuable both in facilitating the achievement of greater efficiency by water authorities and in improving public confidence that the authorities are efficient. We therefore recommend that the necessary studies be put in hand urgently so that a start can be made on setting 7.8

performance aims on a more objective basis for 1985-86 at the latest. (Paragraph 128.)

30. The legal arguments which have taken place about the financial powers and duties of the Welsh Water Authority suggest that it would be beneficial to all parties if these were clarified, particularly as regards the levels of surplus or deficit it may budget for in any year and given the introduction of the new current cost requirements. We recommend that the Government review the financial powers and duties of water authorities. (Paragraph 129.) 7.10
31. There is evidence of a very clear lack of liaison between the Welsh Office and the Welsh Water Authority. We find it extremely surprising that concern expressed by senior officials of the Welsh Office in October 1980 as to the Authority's estimates of industrial income were not put forthwith to the Authority. (Paragraph 130.) 11.1
32. The Government had recently announced plans to make better use of staff with accountancy skills in the Civil Service and plans to double over the next 10 years the number of professionally qualified accountants in the service. We welcome this move and recommend that the Head of the Government Accountancy Service reviews as a matter of urgency the accountancy expertise available in the Welsh Office with a view to strengthening it. (Paragraph 132.) 12.1 & 12.2
33. From the events of the last year, and the fact that a number of answers given by Welsh Office Ministers in evidence to us are at variance with the facts as they have subsequently emerged, we have considerable doubts as to the quality of advice given to Ministers by the relevant policy division or divisions. In view of these criticisms we recommend that the Permanent Secretary reviews urgently and thoroughly the procedures and staffing of the relevant divisions of the Welsh Office. (Paragraph 133.) 12.1 & 12.2
34. Although the Secretary of State has already notified the Authority of the financial targets he proposes to set for 1983-84 and 1984-85; we recommend that these be kept under review. (Paragraph 134.) 7.4
35. We recommend that the Authority review its methods of forecasting demand for its services, particularly in the measured sector. (Paragraph 135.) 7.2
36. We recommend that the members of the Welsh Water Authority review the systems for reporting financial and management information with a view to ensuring that they are effective at producing the information, both to them and to senior management, needed for running the Authority as efficiently as possible. (Paragraph 136.) 7.2

37. We recommend that the Authority review the basis of control of its capital programme to achieve greater flexibility to respond to changing circumstances. (Paragraph 136.) —
38. We regard the attempt by the Secretary of State to restrict our examination of Arthur Andersen and Co as a serious interference in our affairs to which we object. We do not accept that the Government should seek to hamper select committees in their work as they sought to do in this case and we ask the House to endorse this view. (Paragraph 148.) 13.1
39. We recommend that in all future cases where work is commissioned from outside consultants, written instructions should always be given by Departments. (Paragraph 154.)
40. We recommend that in all future cases where work is commissioned from outside consultants, some form of written report should also be required by Departments. (Paragraph 156.) 13.2
41. We have doubts as to whether the commissioning of the Arthur Andersen review was a cost-effective use of public funds on the part of the Welsh Office. We have asked the Comptroller and Auditor General to look into the matter and let us have his observations. We shall pass a copy to the Committee of Public Accounts in case there are aspects of the matter which they wish to pursue further. We are also taking up with the Liaison Committee the general question of whether the same or similar consideration should apply to select committees securing details of advice given to Ministers by outside consultants as now apply to advice given by civil servants. (Paragraph 157.) 13.3
42. We would like to see the Welsh Water Authority set out timetabled plans for identifying and implementing savings in the non-manpower costs co-ordinated with the plans to reduce manpower costs, in order that taken together the plans optimise total savings, but do not unreasonably prejudice standards of service. (Paragraph 161.) —
43. We recommend that the Authority give increased attention to leakage control and seeks as soon as possible to develop a strategy that optimises effort in this area against the reductions in capital and operating costs, or improvements obtained in the level of service. (Paragraph 162.) —
44. We recommend no change in the legislative provisions relating to public access to water authority and committee meetings. (Paragraph 166.) 3.3

	Paragraph
45. We agree with the Monopolies and Mergers Commission that there is a role for both district councils and the water authority in the provision of sewerage services. (Paragraph 176.) We do not therefore propose any general change in the present arrangements. (Paragraph 177.)	8.1
46. To assist sewerage agent authorities, we recommend that the Authority review its systems, in consultation with its agents, so as to ensure that only the minimum amount of material necessary for proper assessment of schemes has to be submitted by agent authorities and that clear and unambiguous instructions are given as to precisely what material should be submitted in support of schemes. If possible a standard basis and format should be laid down. (Paragraph 176.)	8.2
47. We recommend that the Authority gives a higher priority to defining performance standards and associated unit costs for its sewerage agents with a view to achieving both an optimum level of service for a given cost and common standards of operation by its agents throughout its area within the next three years, as well as to developing effective systems of quality control and financial audit. (Paragraph 178.)	8.2
48. If, however, when the Authority has implemented the recommendation in the previous paragraph, there remain agents with proven operational deficiencies or whose costs are demonstrably excessive for the service provided, we recommend that the Authority should in the interests of its customers as a whole, ask the Secretary of State to terminate the agreement if the agent is not prepared to relinquish it voluntarily. We also recommend that the provision in the Water Bill requiring the Secretary of State to have regard to the financial consequences to the parties of varying or ending sewerage agencies should not be used to require water authorities and their customers in effect to subsidise inefficient district councils. (Paragraph 179.)	8.2
49. We recommend that the Chief Executive, after appointment by the Authority, should hold ex officio membership of the Authority for the duration of his appointment and that there should be a statutory prohibition on the same person holding the posts of Chairman and Chief Executive simultaneously. (Paragraph 182.)	3.4
50. We recommend the remuneration of members on a similar basis to those serving on other public boards of a commercial character. (Paragraph 184.)	3.5
51. We recommend that the powers of the Commissioners for Local Administration to investigate allegations of maladministration in water authorities be retained unamended. (Paragraph 185.)	3.6

	Paragraph
52. We recommend that local authorities give greater publicity to the eligibility of the cost of replacing inadequate service pipes and mains supply pipes for improvement grants in certain circumstances in order to counteract the widespread (and mistaken) belief that water authorities are responsible for the maintenance and renewal of consumers' supply pipes. (Paragraph 187.)	—
53. We recommend that the Secretary of State prescribes suitable requirements to bring the replacement of inadequate service pipes within the scope of repairs grants. (Paragraph 188.)	9.2
54. We recommend amendments to the relevant legislation to provide for grants in certain circumstances to be payable to individuals and groups seeking a water supply on a similar basis to these payable to local authorities requisitioning first-time supplies. (Paragraph 190.)	9.1
55. We recommend that similar changes be introduced in the legislative provisions relating to first-time sewerage connections to existing properties and communities as we have proposed for first-time water supplies. (Paragraph 191.)	9.1
56. We recommend that the Head of Scientific Services shall have a right of direct access to the members of the Authority where necessary to offer expert scientific advice on matters before them. (Paragraph 192.)	—
57. We recommend that where internal drainage boards or private contractors can carry out land drainage works to the necessary standard more cheaply than the Authority itself the presumption should be that such works will be contracted out. We further recommend that the Authority review its land drainage workforce in order to ensure that land drainage work is carried out as efficiently and economically as possible. (Paragraph 197.)	10.2
58. We recommend that, where a local authority is minded to grant planning permission for a development and the water authority has drawn attention to reasons of land drainage which it considers militate against approval of the planning application and the objections of the water authority are not met to its satisfaction, the Secretary of State should "call in" the application and take the decision himself. (Paragraph 199.)	10.1
59. We recommend that the basis of agreements for payments by district councils in lieu of drainage rates be reviewed in order to ensure that there is no financial disincentive to local authorities entering into, or continuing, an agreement. (Paragraph 201.)	10.3

Paragraph

60. We recommend that the Regional Land Drainage Committee examines carefully the advantages or otherwise for land drainage administration and financing of either abolishing local land drainage committees completely or continuing them on the basis of the Authority's multi-purpose divisions or combinations of them with a view to ensuring the most effective administration of land drainage in the area of the Welsh Water Authority. (Paragraph 205.) 10.3
61. We recommend that powers and duties of water authorities, local authorities and riparian owners as regards the maintenance of watercourses be reviewed and that if necessary a revised pattern be enacted. In the meantime, we recommend that water authorities and local authorities investigate the steps that can be taken to improve co-ordination where necessary, and to improve public awareness as to where the obligations and powers to carry out works on particular watercourses rest. (Paragraph 207.) 10.3
62. We recommend that the Authority examines its forward capital expenditure programmes with a view to ensuring their expansion to a level more closely commensurate with the identified needs. Inevitably, increasing capital expenditure will increase charges as some at least of the money will have to be provided direct from charges but we hope to see this effect partially offset by the effect of improved efficiency in operating costs. We further recommend that the Government takes account of the need for increased capital expenditure in the size of the programme approved, and in the EFL ceiling approved. (Paragraph 212.) 7.8 & 7.9
63. We recommend that the Government should seek to reduce its intervention in the affairs of water authorities, in accordance with its declared general policy in respect of the operations of public bodies, and also seek to ensure that when it does need to intervene it is capable of doing so in an effective, well-informed and constructive way. (Paragraph 213.) 11.2
64. Many major decisions crucial to the overall level of charges are now effectively in the hands of Government, a fact little appreciated by the customers of water authorities. We recommend that the Welsh Water Authority seeks to make clear to its customers precisely what its responsibilities are to counteract widespread ignorance that exists in this respect. (Paragraph 214.) 11.3

Supporting objectives for the Welsh Water Authority (see paragraph 4.1 for the main objectives)

1. to promote research and technical improvements necessary to meet these objectives;
2. to promote the training and manpower development needed to meet these objectives and in determining pay and conditions of service to have regard to their effects on charges, the need to recruit, retain and motivate staff, improvements in manpower utilisation and other relevant factors;
3. to achieve effective consultation with users and others affected by the Authority's activities about their needs and to deal with any problems as promptly, effectively and sympathetically as possible;
4. to survey and record as far as practicable all the Authority's fixed assets, dispose of those assets which are no longer required to achieve the Authority's objectives and maintain in a sound and safe condition those assets which are essential for the carrying out of the Authority's functions;
5. to pursue export markets for the Authority's skills on a commercial basis either directly or in support of the private sector;
6. to see the extension of suitable opportunities for private sector participation in the Authority's activities.

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