



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



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

