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MINISTERIAL COMMITTEE ON ECONOMIC STRATEGY

THE WATER INDUSTRY: STRUCTURAL CHANGE

Memorandum by the Secretary of State for the Environment

BACKGROUND

1. The Water Act 1973 created 10 regional water authorities, in place of over 1400 separate authorities in England and Wales, to provide unified management of the whole water cycle on a river catchment basis. The water authorities are thus responsible for sewerage, sewage treatment, land drainage, recreation and amenity, as well as water supply. The 28 statutory water companies are responsible, on behalf of the water authorities, only for water supply within their own areas. The National Water Council was set up under the same Act with an advisory, co-ordinating and common service role.
2. The 10 water authorities employ about 62,000 staff in all and the NWC just under 400. Capital expenditure will be about £770M at outturn prices in 1981-82 and revenue expenditure about £1860M. The record since 1973/74 has been one of steadily increasing manpower and other operating costs but a dramatic reduction in capital expenditure from £1196M to £571M at 1980 Survey prices.
3. The introduction of direct billing in the last few years has made consumers aware, for the first time since reorganisation, of the full cost of their water services. The average increase in domestic charges over the period has not been out of line with the increase in the RPI; indeed since 1975/76 it has been lower. But of course this must be seen in the context of rising revenue expenditure and falling capital.
4. Our objective since taking office has been to impose stricter financial disciplines on the industry (on the same basis as for nationalised industries) and to improve public accountability so far as practicable within the existing legislation. By the recent use of financial consultants we have reduced the average increase in charges proposed for 1981/82 from about 19% to 13%. I intend to make an early start on a similar exercise aimed at keeping increases as low as possible for 1982/83. We have also exerted pressure on the authorities to reduce manpower, with the result that, against the previous trend, numbers have fallen in the past 12 months and further reductions are in the pipeline. Water industry manpower figures are now being published quarterly.

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5. I have been considering the scope for legislative changes at some slimming down of the organisational and management structure of the water industry with a view to greater efficiency and economy of operation.

#### National Water Council

6. The main functions of the NWC are:-

- (i) to advise Ministers (including advice on matters relating to the "national policy" for water)
- (ii) to advise water authorities on matters of common interest, and to promote and assist the efficient performance of their functions
- (iii) to negotiate pay and conditions for water industry employees
- (iv) to carry out certain executive functions including national training and a scheme for testing and approving water fittings (both extending to Scotland and Northern Ireland), administering the superannuation scheme and acting as water authorities' agents for foreign borrowing.
- (v) In addition, the NWC have set up a small International Advice Service to promote and co-ordinate overseas consultancy work by water authorities.

7. I consider that all these functions, to the extent that they require central co-ordination or supervision within the water industry could be performed as effectively, and more economically, by a water authorities' chairmen's group which the legislation would require the water authorities to set up for the purpose. The Council has not been a means of improving the efficiency of water authorities; rather the reverse; its bureaucratic tendencies have increasingly attracted criticism from the water authority chairmen who would not be sorry to see it go. It performs no useful role in the allocation of resources for investment and subsequent monitoring, and it has set a poor example in restraining staff numbers.

8. I believe too that pay negotiations would be better conducted by a chairmen's group directly representative of the employers. Alternatively, abolition of the NWC would open the way for pay negotiations to be conducted on a regional basis if there were thought to be advantages in this and if the trade unions were prepared to cooperate. Suitable arrangements would have to be made for the discharge of the NWC's other executive-type functions, and my aim here would be to devolve them so far as possible.

9. I attach importance to a more vigorous and co-ordinated effort by the water industry in export promotion; and I propose that provision should be made for this by giving the water authorities and water companies the specific powers which they at present lack including the power to form a company for the purpose. (Colleagues recently approved proposals on these lines by the water industry, to add to the current Water Bill, but they had to be shelved when they were ruled to be outside the scope of that Bill).

10. Abolition of the NWC, even if the executive functions were maintained at their present level, should involve a saving of about £1M on the Council's 1979-80 expenditure of £5M. I believe this to be a conservative estimate, and that a more direct, unfettered relationship between Ministers and the water authorities should have beneficial results in terms of efficiency as well as economy.

#### Regional Water Authorities

11. The 1973 Act requires water authorities to have a majority of their members nominated by local authorities. This provision replaced the original proposal for separate consumer bodies, following representations by local authority associations. In consequence the membership of water authorities currently ranges from 16 to 62.

12. In management terms, there is a strong case for abolishing the local authority membership and moving to smaller, executive-type boards wholly appointed by Ministers. I believe that most of the water authority chairmen would welcome this. However, local authorities have been amongst the most vocal of the critics of water authorities' lack of accountability and they would be likely to react strongly against the abolition or even a reduction of local authority membership as a step in the wrong direction. On the other hand, to increase that membership would make the water authorities even more unwieldy; and I see no merit in the alternative of directly elected water authorities.

13. Legislation to abolish local authority membership would therefore be controversial and time-consuming; and there could be no guarantee that smaller management boards would be more responsive to the consumer interest. At the least, there would be very strong pressures to substitute a system of statutory consumer councils for the water industry; and, in my view, this would mean a council - in effect, a new quango - for each water authority area. A national consumer council would not be seen as appropriate to the regional character and varying circumstances of water authorities nor as sufficiently representative of the local authority interest.

14. The Committee may wish to consider whether we should go down this road. My own view, however, which I have reached with reluctance, is that the disadvantages are overriding. I have been partly confirmed in this by the success which we have so far had in persuading the water authorities to go along with our present policies.

#### Conclusions

15. I propose that I should take an early opportunity to announce an intention to abolish the National Water Council. The announcement would foreshadow legislation as soon as practicable on the lines indicated in paragraphs 7 and 9 above and promise consultations with the water industry and other interests concerned on detailed proposals

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for the future handling of the NWC's functions. I would, of course, formulate these proposals in agreement with the Secretary of State for Wales, the Minister of Agriculture and other colleagues directly concerned.

MH

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