CONFIDENTIAL

Prime Minister

To note that Mr Heseltine and Mr Edwards have agreed that local authority membership on water authorities should be abolished. But this will need legislation.

11 May 1981

Prime Minister

WATER INDUSTRY STRUCTURE

On 2 April, E Committee asked Nicholas Edwards and I to consider reducing or abolishing local authority membership on water authorities, taking account of consumer arrangements.

We agree on the main issue, though we have not yet settled the best way of looking after the consumer interest.

The Main Issue: Local Authority Membership

We get many constituency complaints about water authorities - their management, their apparent lack of accountability and their charges. We took firm action to keep their charges down this year, but we will have to keep up the pressure for cost-savings and greater efficiency. The hybrid constitution of the RWAs would be a handicap.

I am fortified in this view by the Monopolies and Mergers Commission Report, to be published about the end of the month, on the Severn-Trent Water Authority. The Commission estimates that the large membership of the Authority imposes extra administrative costs of £1 million a year. It recommends a more streamlined management structure, which would produce further (though unquantifiable) benefits.

Severn-Trent WA have 48 members. Thames WA has 62. This position goes back to the Water Act, 1973 which requires the English Water Authorities to have a majority of members appointed by local authorities. As a result:

- at board level, Water Authorities are unwieldy and unbusinesslike;
- there is an expensive administrative overburden (if the costs at Severn-Trent are reflected across all Water Authorities they would amount to about £6m annually);
- lines of accountability are blurred; to make Water Authorities more efficient, they should be accountable to Ministers and Parliament, like nationalised industries.

At the Brighton Conference in October, Tom King said that the local authority membership was clearly not working as it should. I am now persuaded that it should be abolished, and Nicholas Edwards agrees.

The Consumer Interest

Nicholas Edwards and I have exchanged ideas about the best way to look after the consumer interest. He and Tom King are discussing this in a few days' time and we will report our conclusions to colleagues after that.

Timing

But I want to give you and our colleagues on E Committee this report on our main conclusion now for two reasons:-

1. to abolish local authority membership of Water Authorities and make new arrangements for the consumer interest would require legislation, and my proposed Public Bodies Management Bill would be the vehicle (we are to discuss next year's legislative programme in Cabinet this week); and

2. the time to announce our intentions would be when the MMC Report is published (probably at the end of May).

I am aiming to reach agreement with colleagues on the main issue and (particularly involving John Biffen) on the consumer interest before then.

I am copying this letter to members of E Committee, to Nicholas Edwards, Francis Pym, Michael Jopling and to Sir Robert Armstrong.

MH

MH

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

Coal Gov
Mr. A. Duguid
J. Vereker
A. Walters

CONFIDENTIAL

From the Secretary of State

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

29 May 1981

Dear Michael,

Reply

WATER INDUSTRY STRUCTURE

In your minute of 11 May to the Prime Minister you raised the question of having to find alternative ways of safe-guarding the consumer interest when local authority membership of the Water Authorities ceases. Michael Jopling has since commented in his letter of 14 May that we could be in difficulty if we do not firmly announce those arrangements when the restructuring is announced.

I understand you hope to make an early announcement if you secure a legislation slot in the next Session. Ordinarily I would agree that such an announcement should deal definitively with both issues. But being quite firm then about new water consumer arrangements would prejudice the general review we still have in hand of the Nationalised Industries Consumer Councils. One of the options we recently agreed to consult publicly on was the creation of a "poly-NICC" covering energy and, possibly, water. Moreover if you opted for a particular solution on water before a wider consultation document was issued there might well be intense and unnecessary speculation that the Government proposed to take that same course in respect of the other main services, gas and electricity.

I have not yet brought forward further proposals on the general NICC review since it was decided that room for a Bill on the NICCs could

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From the Secretary of State

not be found in the next Session. But I intend to do so very shortly, proposing much the same sort of consultative approach as outlined in my letter of 20 March to Geoffrey Howe.

It ought to be possible to deal with both the purely mechanical problem of any differences in timing and that of reconciling your wish to settle the consumer issue on water quickly and the much more tentative approach on consumer protection agreed with regard to the other industries. I feel sure, for example, that backbenchers and the public at large would be satisfied - indeed perhaps would be happier - with options on which interested bodies can express their views before the Government finally makes up their mind.

I am copying this letter to the Prime Minister and to the other recipients of your minute.

Yours

John Biffen

JOHN BIFFEN

29 MAY 1981

CONFIDENTIAL

MFJ

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cc CDLO DM
CWO LPO
WO DOI
MOD HMT
CO FCO
CS, HMT HO
DN Mr Ingham
DOT
MAFF

10 DOWNING STREET

From the Private Secretary

15 May 1981

CF Lobbe

Dear David.

Water Industry Structure

The Prime Minister has read your Secretary of State's minute of 11 May and the Secretary of State for Wales' minute of 12 May on the above subject. She has noted that they have agreed that local authority membership on water authorities should be abolished, but that implementation of this measure will depend upon whether and when the proposed Public Bodies Management Bill can be fitted into the legislative programme. She has also noted discussions on how the consumer interest can be accommodated are continuing.

I am sending a copy of this letter to the Private Secretaries to members of E committee and to John Craig (Welsh Office), David Heyhoe (Chancellor of the Duchy of Lancaster's office), Murdo Maclean (Chief Whip's Office) and David Wright (Cabinet Office).

Yours ever.

Tim Lankester.

D.A. Edmonds, Esq.,
Department of the Environment.

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12 Downing Street,
Whitehall,
London, S.W.1

With the Compliments

of the

Chief Whip

FROM: THE RT HON MICHAEL JOPLING MP

Local Gov

Government Chief Whip

12 Downing Street, London SW1

14 May 1981

Dear Michael

WATER INDUSTRY STRUCTURE

I have seen your note to the Prime Minister of 11 May concerning the reduction in Local Authority representation on Water Authorities. I want to send a note of caution that we could have serious trouble from Local Authorities and our own backbenchers if we make an announcement about the abolition of Local Authority representation without having a clearly defined description of the alternative consumer body at the same time. I am copying this letter to the recipients of yours.

Yours

Michael

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

2 RSL

CONFIDENTIAL

PRIME MINISTER

WATER INDUSTRY STRUCTURE

I should like to indicate my strong support for the proposals put forward by Michael Heseltine in his minute of ~~11~~ TPM May.

I have for some time had the view that the Welsh Water Authority should be streamlined and I have examined the possibility of doing this without primary legislation. In the case of the Welsh Water Authority alone, it is possible to secure some changes - though not all the desirable changes - without primary legislation; but I would prefer that England and Wales keep in step and I support Michael Heseltine's proposal to use the Public Bodies Management Bill as the vehicle for legislation. It would obviously not be possible for us to announce our proposals for changes both at National Water Council and Regional Water Authority levels unless there is the firm prospect of legislation in 1981/82 and I therefore support Michael's proposals.

/ I am copying this minute to members of E Committee, to Michael Heseltine, Francis Pym, Michael Jopling and to Sir Robert Armstrong.

RNE
Approved by the Secretary of State
and signed in his absence

12 May 1981

Local Gov't

Ref. A04599

PRIME MINISTER

The Water Industry: Structural Change

(E(81) 37)

BACKGROUND

Flag A — The Secretary of State for the Environment proposes, in E(81) 37, legislative changes to the organisation of the water industry.

2. He recommends that the National Water Council (NWC) should be abolished. At present the NWC has an advisory, co-ordinating and common service role - its main functions are summarised in paragraph 6 of the paper. The Secretary of State proposes that its functions should be taken over by a formal group of the Chairmen of the 10 regional water authorities (9 in England and 1 in Wales). He further proposes that the water authorities should be given the powers to form a company for export promotion (ie of consultancy services). The case for this change is that the NWC is not thought to be performing any useful role at present, and that the revised arrangements could save, on a conservative estimate, around £1 million a year.

3. The change would not have any direct implication for pay negotiations, but the Secretary of State argues - in his paragraph 8 - that negotiations would be better conducted by a Chairmen's group directly representative of the employers, and that, if they so wished, the way would be open for negotiations to be conducted on a regional basis.

4. The Secretary of State for the Environment further recommends that there should be no change in the requirements of the 1973 Act for the water authorities to have a majority of their members nominated by local authorities - his paragraphs 11-14. He comes to their conclusion reluctantly - his preference would appear to be for abolishing the local authority membership and moving to smaller, executive-type boards wholly appointed by Ministers - but fears a strong local authority reaction against losing their powers to nominate members, and consequent pressure to substitute statutory consumer councils. For the reasons

Flag B — set out in Mr Wyn Roberts' letter to you of 31 March, the Secretary of State for Wales questions this conclusion and would wish to give further thought to the case for changing the membership arrangements for the Welsh Regional Board.

5. If his proposals are approved, the Secretary of State for the Environment wishes to announce soon the intention to abolish the NWC subject to 'legislation as soon as practicable'. He would wish to include the necessary provisions in a Public Bodies Management Bill which he has proposed for the 1981-82 Session. QL Committee have reached the view, however, that there should be only one Department of the Environment Bill next Session and it is likely that, at their meeting next week, a majority will want this to be a Housing Bill. It would, therefore, seem prudent for the Secretary of State for the Environment to defer any announcement of his intentions for the water industry until it has been decided when the necessary legislation can be introduced. If it cannot be introduced in the next Session, it is open to question whether it is sensible to say anything publicly at all at this stage.

HANDLING

6. After the Secretary of State for the Environment has introduced his paper you might invite Mr Wyn Roberts (who is representing the Secretary of State for Wales) to say to what extent the proposals would be acceptable in Wales. The Chancellor of the Exchequer may wish to comment on whether he agrees that the changes would be helpful in promoting efficiency and the Secretary of State for Trade on any implications for consumers. The arrangements in Scotland are different - the Regional and Islands Councils have responsibility for water - but the Secretary of State for Scotland may well have views on the proposals and on any indirect implications they might have for Scotland.

7. The main questions before the Committee seem to be:-

(i) Should the NWC be abolished and a Committee of Chairmen of the water authorities set up?

(ii) Should the arrangements for appointing the members of the Regional Water Authorities stand?
If it were thought appropriate, could different arrangements in Wales be defended?

(iii) If it is agreed in principle that changes should be made, when should these be announced?

Flag C — As the Chancellor of the Duchy of Lancaster points out in his letter of 31 March to you, there is a strong case for deferring any announcement until Cabinet has considered QL's proposals for the 1981-82 Legislative Programme and, if the water legislation cannot be accommodated then, it is for consideration whether the announcement of intention should be deferred.

(iv) Are there any other points to be made on the arrangements for the water industry? eg should more be done to urge the Chairmen to work for regional variations in pay?

CONCLUSIONS

8. In the light of the discussion you will wish to record conclusions on:-

(i) Whether, in principle, the National Water Council should be abolished and replaced by a Chairmen's Group on the lines recommended in E(81) 37.

(ii) Whether the arrangements for nominating members of the Regional Water Authorities should stand, and whether the arrangements should be the same in Wales and in England.

(iii) Noting that QL Committee will be reaching decision shortly on its recommendations to Cabinet on which one of the Department of Environment's proposed Bills should be included in the 1981-82 Session.

(iv) Whether any announcement of changes in the water industry should be deferred until QL has reached decisions on the legislation and on whether, if there proves to be no suitable legislative vehicle in 1981-82, any announcement should be deferred until legislation is firmly in sight.

ROBERT ARMSTRONG

(approved by Sir R. Armstrong & signed on his behalf)

1 April 1981

C. 2pps

PRIVY COUNCIL OFFICE
WHITEHALL, LONDON SW1A 2AT

Chancellor of the Duchy of Lancaster

1 April
~~31 March~~ 1981

R

Dear Prime Minister,

E COMMITTEE: THE WATER INDUSTRY

I shall not be attending tomorrow's meeting of E Committee which is to consider Michael Heseltine's paper on the possible abolition of the National Water Council, but I think that I should record my concern at the suggestion in the final paragraph of the paper that there should be an early announcement of the intention to abolish the NWC. Although QL is still considering the recommendations which it will put to Cabinet about next Session's legislative programme, it seems unlikely that there will be room for the proposed Water Bill. If colleagues accept this view, it could be at least two years before legislation to abolish the NWC was passed, and in these circumstances it would surely be premature to make any announcement now about the Council's future.

My recommendation, therefore, is that no announcement should be made unless and until Cabinet decide that the proposed Water Bill should be included in next Session's legislative programme.

I am copying this letter to other members of E Committee, and to Sir Robert Armstrong.

Yours ever

Francis

FRANCIS PYM

The Rt Hon Margaret Thatcher, MP
Prime Minister
10 Downing Street
LONDON

CONFIDENTIAL

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From The Parliamentary Under-Secretary

31 March 1981

Dear Prime Minister,

27387. attached.

Michael Heseltine has circulated to E Committee a paper (E(81)37) about the Water Industry. I am writing to say that I have discussed this paper with Nicholas Edwards, and we are not convinced (at least as far as the Welsh Water Authority is concerned) by the paper's arguments against removing the local authority members from the water authorities. These members are very numerous and constitute a majority on the Welsh Water Authority; they import local government attitudes and methods which are not always suited to the operation of what is in effect a large industrial undertaking. We would therefore like to give further thought to ways of improving the structure of the WWA, and may suggest the transfer of local authority members from Authority to Divisional level. If we decide in favour of changes we will circulate our proposals to colleagues.

We have no objection to Michael Heseltine's proposals for abolishing the National Water Council, provided that the successor statutory body is constituted in such a way as to avoid its being dominated by particular regional interests. We are doubtful about the idea of separate regional pay negotiations, because of the risks of "leap-frogging" and of the unions following a divide and rule policy.

These are the points which I intend to make at Thursday's E Committee meeting.

I am sending copies of this letter to Michael Heseltine and other members of E Committee, and to Sir Robert Armstrong.

Yours ever
Wyn

WYN ROBERTS

Rt Hon Margaret Thatcher MP
The Prime Minister
10 Downing Street
London SW 1