



Prime Minister (4)

MUS 20/14

J.C. J.V.

CABINET OFFICE
Central Policy Review Staff

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

From: John Sparrow

CONFIDENTIAL

Qa 05895

20 April 1982

Dear Minister of State,

Relations with Nationalised Industries
Follow-up to the CPRS Report: BWB and the Water Industry

I have seen your letter about draft objectives for the water industry. I have some general points that Ministers may wish to take into account in E(NI) and a few detailed comments on the draft you circulated.

My main concern is that Ministers should be clear about what their long term objectives are for the water industry as a whole. What are their aims, for example, for the structure of the industry, pay and manpower, finance? General questions that need to be considered in this context are:

(i) Long-term Planning and Co-ordination between Regions

Long-term plans to meet future demands will be essential, and should be covered in each Authority's Corporate Plan. There is also a need to consider the future development of water resources over England and Wales as a whole. Whether or not the National Water Council is abolished, the responsibility presumably falls to the Department of the Environment who should consider the Water Authorities' Corporate Plans together as well as individually. For example, where it becomes clear that national needs could best be met by a substantial transfer of water resources from one region to another, the objectives for individual Authorities may need to be changed.

(ii) Standards of Service

At present, standards of service in terms of water supply, river pollution and sewage treatment are largely determined by Regional Water Authorities themselves with broad statutory backing.

The Rt Hon Tom King MP
Minister of State
Department of the Environment

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Enforcement is also left to the local authorities either directly or through local government representatives representing consumer and local interests. Do Ministers consider it appropriate that the establishment and enforcement of standards of service should be devolved in this way? Is there a case for more involvement by Central Government in standard setting while leaving responsibility for enforcement to authorities themselves with a regular audit?

(iii) Pay

The proposed abolition of the National Water Council will change the Water Industry's arrangements for pay bargaining. Will this lead to decentralised pay bargaining? Is decentralised bargaining preferable to the present centralised structure? (The Water Industry is one of the industries included in the CPRS State Monopoly Study.)

(iv) Charging

Industrial users are metered for water, domestic consumers are mainly charged via a proxy - the rating system. Although the facility for metering now exists, the present arrangements are likely to continue into the foreseeable future. Should a move be made towards metering? if not, how should the balance between charges for domestic and industrial consumers be struck?

Once Ministers have decided on what they want from the water industry, it will be easier to judge whether these draft objectives are right, and what specific targets they wish to negotiate with the Authorities. As background to the discussion of objectives for the water industry at E(NI), I think it would be helpful if your Department would circulate a short note on these broader issues.

Subject to the need to consider objectives in the context of the industry as a whole, I have only a few detailed comments to make on the draft attached to your letter. You rightly point out that these objectives will have to be made more specific to apply to each individual water authority. This draft is clearly too vague to be an effective set of objectives for a single authority, but it provides a useful framework within which to develop proper objectives. The objectives should ultimately be clearer about:

- (a) in objective (i), what standard of service should be provided

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and what levels and rates of increase of costs and tariffs would be acceptable;

(b) in objectives (ii) and (iii), what the "generally acceptable standards" are and how quickly they are to be achieved;

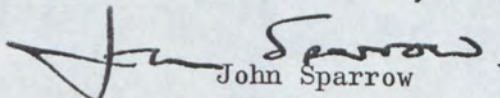
(c) in objective (iv), the need for consultation with the Department of the Environment (probably in discussions about the Corporate Plan) about the resources that will be available; and

(d) in objective (v), again, what the authority is expected to achieve and how quickly, specifying any medium or long-term targets.

As far as handling is concerned, I suggest that the water industry objectives could best be handled by a meeting of Ministers with the Chancellor in the chair, as recommended in E(NI)(82)10 (paragraph 10). The aim should be for Ministers to discuss objectives for nationalised industries collectively, to establish their own objectives before agreeing with Chairmen on the objectives that should be set for the industry. Any discussion of this or a subsequent draft with the Authorities at this stage should therefore be on the basis that this is a provisional discussion draft, not yet agreed by Ministers at E(NI).

I am sending copies of this letter to the Prime Minister, other members of E(NI), Secretary of State for Wales, Minister of State, MAFF, (Mr Buchanan-Smith) and to Sir Robert Armstrong.

Yours sincerely,


John Sparrow



DEPARTMENT OF THE ENVIRONMENT
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MINISTER FOR LOCAL GOVERNMENT AND ENVIRONMENTAL SERVICES

My Ref: K/PSO/32131/82

10 May 1982

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MW 11/5

Dan Nich,

Thank you for your letter of 28 April.

I would of course have no objection to your being represented by an observer when I meet water authority Chairmen to discuss objectives. I have not yet sent Chairmen the draft objectives but hope to do so very shortly. I will let you know as soon as a date to discuss them has been fixed.

On the procedure for circulating your draft objectives, this is for others to comment on but I believe that for the most part it should be possible to deal with the water industry by correspondence.

I am sending copies of this letter to the Prime Minister, members of E(NI), Alick Buchanan-Smith, Sir Robert Armstrong, and to John Sparrow.

TOM KING

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



Oddi wrth Ysgrifennydd Gwladol Cymru

The Rt Hon Nicholas Edwards MP

From The Secretary of State for Wales

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WELSH OFFICE
GWYDYR HOUSE
WHITEHALL LONDON SW1A 2ER
Tel. 01-233 3000 (Switchboard)
01-233 6106 (Direct Line)

28th April 1982

Dear Minister

Thank you for sending me a copy of your recent minute to the Prime Minister about follow-up action on the CPRS report on the Nationalised Industries as it affects the British Waterways Board and the water industry in England. I have also seen Geoffrey Howe's and John Sparrow's letters of 20 April to you.

I propose to take similar action to yours in respect of the Welsh Water Authority. As you know, this Authority is now differently constituted from the English authorities: in particular only four of its thirteen members are local authority representatives. The objectives I intend to formulate for the Welsh authority will be broadly on the same lines as those you envisage for the English authorities, but in view of the special problems of the Welsh authority I will have to lay special stress on financial objectives. I take Geoffrey Howe's point that we shall need to agree more precise individual objectives with the individual authorities and I certainly have this in mind in the case of the Welsh authority.

So that we can keep in touch with your thinking in England, I would like to send an observer from the Welsh Office to the meeting you propose to hold with your Chairmen in May. Perhaps you would confirm that this is acceptable to you.

I should also like to be brought into the E(NI) consideration of the application of the policy to the water industry. Following the preliminary discussions I will circulate a separate paper on the Welsh authority, as Geoffrey Howe has suggested.

I am sending copies of this letter to the Prime Minister, members of E(NI), Alick Buchanan-Smith, Sir Robert Armstrong and to John Sparrow.

Yours sincerely

Carys Evans

Approved by the Secretary of State
and signed in his absence

The Rt Hon Tom King MP
Minister of State for Local Government
and Environmental Services
Department of the Environment
2 Marsham Street



29 APR 1982



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

PRIME MINISTER

LEGISLATIVE PROGRAMME 1982-83

I have seen the Home Secretary's memorandum C(82)10, which we are to discuss in Cabinet on Thursday (22 April).

2. QL Committee has agreed that we must have a Water Bill in the next Session, but has concluded that it should be confined to raising the borrowing limits of the water authorities. I had hoped that it would be possible to find time for a wider Bill, as proposed by the Secretary of State for the Environment, and I hope that we can consider this further in Cabinet.

3. As you know, I attach particular importance to abolishing the National Water Council. Colleagues will remember that the council has been appallingly inept in managing pay settlements for the water workers. It has long been our intention to legislate the NWC out of existence. I think the time has come to will the means as well as the end.

4. I am sending copies of this minute to the other members of the Cabinet, and to Sir Robert Armstrong.

A handwritten signature in dark ink, appearing to be 'G.H.'.

(G.H.)

20 April 1982



Prime Minister

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MLS 21/4

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

20 April 1982

The Rt. Hon. Tom King MP
Minister of State for the Environment

RELATIONS WITH NATIONALISED INDUSTRIES: FOLLOW UP TO CPRS
REPORT OBJECTIVES FOR THE WATER AUTHORITIES

I have seen a copy of your recent (undated) letter to the Prime Minister seeking agreement to circulate draft objectives to the Chairmen of the water authorities.

As you know, the normal procedure is that colleagues should discuss objectives for the industries collectively before anything is said to the Chairmen. I think that is a generally sensible approach which allows us to agree among ourselves what our overall strategy for an industry should be, even if progress cannot be made on all aspects immediately.

There are obvious difficulties in drawing up a set of objectives which apply equally to all water authorities and which will be public. I am sure you will do your best to agree something far more specific with each of them individually. Even so, I have two worries. The Chairmen of other industries may not understand why your draft objectives are fairly general compared to those they will receive in due course from their sponsor Departments. This may make it harder to get agreement to tight objectives for those industries. And the individual objectives agreed with each authority in this way may not add up to a sensible strategy for the industry as a whole.

Before you see the Chairmen, therefore, I think it would be useful if you could prepare a supplementary note for the members of E(NI) setting out more specifically what you think we should be aiming to achieve in the water industry in key areas such as manpower numbers, pay and productivity, level of charges, general financing policy etc, and setting out draft objectives under the sort of heading mentioned in the CPRS paper E(NI)(82)11, which we are due to discuss on 21 April.

/You mention



.....
You mention the structure of the industry, and the future of the NWC. As you will have seen from the note I am sending the Prime Minister today, I attach considerable importance to the abolition of the NWC. I hope we can find legislative time to implement that and also abolish the local authority membership of the Authorities. It would be helpful to have a progress report on your consultations about the future structure of the Authorities.

Once we have considered these questions, we can decide whether the draft objectives you have circulated are indeed the most that can be given to the Authorities at this time. Perhaps Nicholas Edwards could also consider whether there should be a separate paper on the Welsh Authority where there seem to be a number of more acute problems.

In the meantime, you could send out the draft objectives as a first shot for preliminary discussions with the industry. However, you would need to make clear in any letter you sent that a different procedure was being followed to that for nationalised industries because of the different circumstances of the water industry, and you would be seeking to agree very much more precise individual objectives with each of the authorities. Without this, I think you risk making the task of other Sponsor Ministers much more difficult.

On BWB, you have seen Leon Brittan's letter of 1 April to Michael Heseltine in which he suggests that the Inbucon Report should provide the basis for a radical look at the Board and our objectives for it.

I am copying this to members of E(NI), Nicholas Edwards, Alick Buchanan-Smith, Sir Robert Armstrong and John Sparrow.

GEOFFREY HOWE

A handwritten signature in dark ink, appearing to be 'John Sparrow', written over a horizontal line.



Prime Minister (2)

cc. J.V.

2 MARSHAM STREET
LONDON SW1P 3EB

ms 23/3

My ref:

Your ref:

22 March 1982

MS

Robin Ibbot

You may wish to note that my timetable for applying the CPRS recommendations on relationships with nationalised industries to the British Waterways Board is largely determined by the study currently under way by management consultants into the Board's affairs.

I expect to have the consultants' report by mid-April. It is bound to cover the issues raised in the CPRS report and, although we have already worked up an outline for draft objectives and a business plan, I shall not be putting any detailed proposals to the Board's chairman, Sir Frank Price, at this stage. However, as a first step Giles Shaw has asked him for his Board's own views on the CPRS recommendations.

I hope to have reached agreement with the Board on an outline plan and to be well on the way to settling performance indicators and efficiency review systems by the end of June.

I am copying this letter to members of E(NI), Sir Robert Armstrong and Robin Ibbot.

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MICHAEL HESELTINE