

CONFIDENTIAL

DEPARTMENT OF TRADE

1 VICTORIA STREET LONDON SW1H 0ET

Telephone 01-215 7877



*From the Secretary of State*

CONFIDENTIAL

The Rt Hon Tom King MP  
Secretary of State for the Environment  
2 Marsham Street  
London  
SW1P 3EB

Prime Minister (2)

ms 25/2

25<sup>th</sup> February 1983

*Please pursue vigorously*

*Dear Sir,*

WATER STRIKE : WATER BILL : WATER RATES

The Water Bill is still in Committee in the Lords.

Is not this the ideal opportunity for capping the Water Rates?

The Water Authorities are the worst example of an irresponsible, unelected bureaucracy with taxing powers we have. They have no lobby to support them and none of the arguments that persuaded us not to cap the Local Authority rates apply.

It only needs a simple, two line, sledgehammer amendment.

There is ample precedent. The water rates were subject to the Price Control; and as the Rev Roland Hill said "Why should the devil have all the good tunes?"

I am sending copies to Cabinet colleagues.

*Yours,*  
*Arthur*  
LORD COCKFIELD

CONFIDENTIAL

26 FEB 1954

12 1 2 3  
4 5 6 7 8 9



Prime Minister<sup>2</sup> 2 PPS  
Ms 13/4

DJH



2 MARSHAM STREET  
LONDON SW1P 3EB

My ref: K/PSO/11547/83

Your ref:

12 April 1983

*2. Ate*

*mt*

*Request*

Thank you for your letter of 10 March about water charges.

The fact is that we are vigorously pursuing the strategy which was endorsed by E(NI) for improving the efficiency of the water authorities. E(NI) will be reviewing what has been achieved and what more might be done in September.

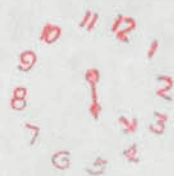
I am copying to the recipients of yours.

*2*  
*7*  
*Ka*

TOM KING

The Lord Cockfield

2 APR 1983







*From the Secretary of State*

B/MIND  
B/S  
MR GRAY  
MR DUTKE  
MR BAKER

The Rt Hon Tom King MP  
Secretary of State for the Environment  
2 Marsham Street  
London  
SW1P 3EB

10 March 1983

Dear Tom,

Thank you for your letter of 2 March.

Relating charges to cost is the perfect formula for encouraging inflation. The higher the costs the higher the charges. Where - as with the Water Authorities - they have powers of taxation, without representation, the system is doubly pernicious. We do not allow Government Departments to have the money they want to meet their costs. You simply get your cash limit and have to accommodate your costs within it. I can see no justification at all for water rates in London going up by 6.1% when we are expecting people to accept wage increases of 4% or less. The inhabitants of Northumbria won't be too pleased with an increase of 10% either.


The Local Authority rates have been a source of great political grief to us. We have tried time and time again to take effective action against excessive increases but our success has been limited because of the power of the Local Authority lobbies. The Water Authorities are much worse than the Local Authorities and they can't even be thrown out at an Election. At the same time they are incredibly vulnerable - particularly at the moment when they are extremely unpopular with the public at large.



*From the Secretary of State*

I was not suggesting we introduced a price control. I cited the price control mainly to illustrate the point that the water rates have never been regarded as sacrosanct in the way that the local rates have been. My specific suggestion was that they should be capped, in the way that Leon Brittan had suggested that the local rates be capped. A year or two of nil increases would work wonders.

I am sending copies of this to the recipients of your letter.

  
Yours,  
Arthur  
LORD COCKFIELD



local Govt.

JD

file

cc Ho	LPSO	LPO
Leo	CSO	DOTrans
CO	JHS	MOD
DOT	MAFF	NIO
CAZ	SO	BES
J/M	WO	FO
D/N	J/Ind	HMT

CONFIDENTIAL



10 DOWNING STREET Lc JV

From the Private Secretary

7 March, 1983.

Dear David,

Water Bill: Water Rates

Your Secretary of State sent the Prime Minister a copy of his letter of 2 March to the Trade Secretary.

The Prime Minister has commented that the 5% increase in water rates which water authorities have budgeted is too high. She has further commented:

"We shall not get inflation down at that rate."

I am sending copies of this letter to the Private Secretaries to Members of the Cabinet and to Richard Hatfield (Cabinet Office).

Yours sincerely,

Michael Scholar

David Edmonds, Esq.,  
Department of the Environment.

CONFIDENTIAL

dg



CONFIDENTIAL



*Prime Minister* (2)

cc J.V.  
2 MARSHAM STREET  
LONDON SW1P 3EB  
01-212 3434

*Mrs 2/3*

My ref:

Your ref: 2<sup>nd</sup> March 1983

*5% is too high  
we should put inflation  
down at that rate  
not*

*Dear Arthur,*

WATER BILL: WATER RATES

Thank you for your letter of 25 February suggesting that we might now "cap" the water rates through an amendment to the present Water Bill. I have also seen the letter from the Prime Minister's Private Secretary of 28 February.

But I should say that I am not in favour of legislation introducing price control in the water industry. It is basically unnecessary as the existing situation for the industry is that Section 30 of the Water Act 1973 provides that charges must be related to cost. There are no subsidies to water authorities. Each water authority already has a financial target.

Our approach has therefore been to work on the cost side, with a direct impact on prices. The evidence suggests that we have made major advances in the last 3½ years. Our aim has been to tackle charges by reducing costs and improving efficiency. Since we were elected in 1979 we have twice employed consultants to review the budget of all the water authorities, reducing their budgetted operating costs for 1981/2 and 1982/3 by £17m and £15m respectively. In this year's discussions of charges and budgets for 1983/4 Giles Shaw and I have followed up the specific practical and physical recommendations in the consultants' reports. On two occasions now we have referred water authorities to the Monopolies and Mergers Commission, and as your Department knows we have followed up with all the water authorities the Commission's main recommendations on management control and capital investment planning. I should be interested to know if you disagree with any of these recommendations.

We are abolishing inter-authority cross-subsidies by repealing the Water Charges Equalisation Act 1977; we have maintained a continuous pressure on manpower numbers, and the regional water authority headcount has fallen by 6.5% since March 1979; in the industry overall (including the water companies) in 1979 there were 75,507 employees.

By December 1982 this figure had been reduced to 70,485; we have introduced performance aims for water authorities' operating costs, and those for 1983/4 are at a lower level, in real terms, than in any year since 1979/80.

For 1983/4, the authorities have budgetted increases in main charges to meet their financial targets. The increase in charges for each



Local Govt: water rates 2/87

authority are as follows:

North West	3.5%	Thames	6.1%
Severn Trent	4.9%	Anglian	0
Wessex	3.4%	Yorkshire	5.3%
South West	4.8%	Northumbrian	10.0%
Southern	4.6%		

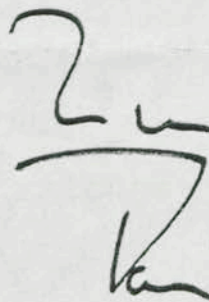
These increases will not be adjusted in the light of the recent wage settlement. The performance aims will still hold and the increased costs will be found through savings in manpower or other operating costs.

It is noticeable that last year when the wage increase was 8.8%, the actual increase on the outturn pay bill was 5.7%.

The average increase in prices in 1983/4 will be around 5%. This price increase comes at a time when in many regions demand from industry for water has declined sharply. The financial targets are also gradually being raised so as to reduce external financing requirements and this has been one element in the increase in charges.

In conclusion, I should say that I am not yet satisfied that water authorities are in a fully efficient shape. The pressure will continue but statutory price control is surely not the right answer. My understanding is that it is our general policy to rely so far as possible on the price mechanism - which is fundamentally weakened by price controls - and the adoption by Government of price limitation powers inevitably leads either to subsidies to the authority, if not by injections of cash, then by relaxing the financial target. All future price rises become the fault of Government.

I am copying this to the Prime Minister, Cabinet colleagues and to Sir Robert Armstrong.



TOM KING



Local Govt

CONFIDENTIAL

DA



FILE

10 DOWNING STREET

From the Private Secretary

28 February 1983

Dear David,

Water Strike : Water Bill : Water Rates

The Secretary of State for Trade has sent the Prime Minister a copy of his letter to your Secretary of State of 25 February, in which he suggested capping the Water Rates.

The Prime Minister is much attracted to this proposal, and would be grateful if your Secretary of State would pursue it vigorously.

I am sending copies of this letter to the Private Secretaries to the Members of Cabinet and to Richard Hatfield (Cabinet Office).

Yours sincerely,

Michael Scholar

David Edmonds, Esq.,  
Department of the Environment.

CONFIDENTIAL

RM