

CHAPTER 3

Corporate strategy

Introduction

3.1. In this chapter we consider the North Board's approach to the development of its corporate strategy and aims in the medium to longer term. Short-term planning is considered in Chapter 8. The chapter ends with a brief consideration of the performance measures in use by the North Board to monitor achievement against plan.

The Corporate Plan

3.2. The North Board's first formal Corporate Plan was produced in 1979. No formal Corporate Planning Committee or planning section existed at that time and contributions were submitted by the various Chief Officers, co-ordinated by the Secretary to form a draft plan and then discussed by the Executive. The agreed plan was then submitted to the Board for final approval. In subsequent years a similar process was followed although with gradual modification. The timing over the years has been rather erratic with the 1979 plan being approved in April which is the beginning of the financial year; those for 1980 and 1981 in December of each year; that for 1982 in October. No plan was prepared in 1983 and the 1984 plan was dated May. The 1985 plan was considered by the Board in March.

3.3. In each case the plan covered a five-year forward period but, until 1985, did not include any specific consideration of strategic options which were dealt with in a separate document submitted to the Secretary of State. Each plan was submitted to and discussed with the Scottish Office. In 1984 the Scottish Office indicated that they were not concerned with the Corporate Plans as such, but rather with the strategic options open to the Board over the next five to ten years. The 1985 Corporate Plan reflected this requirement and included an assessment of strategic options.

3.4. The North Board told us that the Corporate Plan was central to its medium-term (five years) planning process. The plan shows in summary form the various resources necessary to ensure that the requirements for electricity supplies and related activities can be met for the period of the plan and reconciled with the performance aims and targets set by the Government (see Chapter 5). In its present format the plan opens with a review of the business environment covering the economy in general, the expected position in relation to fuels and electricity consumption and the impact of Government legislation and control. This review is followed by a statement of the North Board's overall objectives for the period and an outline of plans for particular aspects of the business. In the 1985 Corporate Plan these aspects were:

- (a) Asset refurbishment
- (b) Generation
- (c) Transmission
- (d) Distribution
- (e) Operation
- (f) Research and development
- (g) Environmental policy
- (h) Appliance sales and servicing
- (i) Energy marketing
- (j) Tariffs and pricing policy
- (k) Business efficiency
- (l) Information technology
- (m) Manpower
- (n) Finance

The plan closes with a review of strategic options.

3.5. Underpinning the Corporate Plan is the Investment and Financing Review (IFR) which is the principal management document concerned with the preparation of the plan. The North Board described the IFR as a summation of expenditure proposals from various levels of management in Head Office and the Areas. These proposals are drawn together and reconciled with financial limits. The North Board said that the two documents were complementary, the Corporate Plan providing the longer-term planning background to the detailed financial requirements set out in the IFR.

3.6. The IFR is compiled and submitted to the Industry Department for Scotland (IDS) in the spring in each year after approval by the Board. It consists of formal documents with a supporting commentary on the Board's plans and supplementary financial information. A financial model is maintained by the North Board using a terminal linked to a computer bureau.

3.7. Preparation of the IFR requires energy sales forecasts (see Chapter 7) and a generation programme to satisfy the system requirements to meet the sales. This generation programme has to be agreed by both the North and South Boards. Detailed proposals for long-term investment in fixed assets are prepared together with a controllable revenue expenditure budget for the year. The expenditure budget is projected for latter years and takes account of known or planned variations in work levels. This requires assumptions in respect of inflation, interest rates, tariff policy and other factors to be made. It also involves liaison with the South Board to determine generation and interchange costs so that capital charges can be calculated and revenue accounts prepared.

3.8. The final stage in the preparation of the IFR is the drawing up of the five-year financing statement. If subsequent review reveals inconsistencies, for example a potential breach of external financing limits or non-achievement of financial targets, then necessary adjustments to the pricing statement are

made. Following submission to IDS, discussions are held jointly with the South Board, IDS and the Treasury during the spring and early summer. In August IDS calls for a review of the figures in the IFR and further discussions take place on any changes required in the light of Government objectives. The North Board told us that this stage usually resulted in a cut-back in financial allocation for the following year.

3.9. The preparation of the Corporate Plan covers in detail a five-year period. Some of the projects included in the Corporate Plan, for example the distribution system refurbishment programme (see Chapter 9), extend over much longer timescales. We were told that the North Board's plans tended to be evolutionary and to change throughout the year as various projects matured and circumstances altered. We were also told that as the Corporate Plan was prepared over a relatively short timescale, usually November to February, it was only a 'snapshot' of matters as they were viewed by the Board at the time.

3.10. Under the current and recently introduced procedure responsibility for the compilation of all drafts of the Corporate Plan now rests with the System Planning Engineer (SPE) reporting to the Board Secretary and under the guidance of the Corporate Plan Steering Group (CPSG). The members of the CPSG are the Secretary, Deputy Chief Commercial Officer, Assistant Chief Financial Officer and the SPE. The procedure starts in November when the SPE prepares an outline of the plan for the approval of the CPSG. Over the next four to eight weeks the SPE draws up a first draft of the plan based on the approved outline. Much of the material covering engineering plans, commercial and financial matters and also strategies is readily available to the SPE as part of his normal planning duties. Other material is obtained from discussions with Chief Officers and from written submissions including Board papers authorising projects, Area Medium Term Plans and research and development plans.

3.11. Successive drafts of the plan are presented to the CPSG for approval. Those Chief Officers not directly represented on the CPSG also receive copies and are asked to comment on matters within their particular areas of responsibility. The final draft after approval by the CPSG is submitted to the Executive for approval before submission to the Board. Following approval by the Board the Corporate Plan is circulated both within the North Board and to external bodies including the Scottish Office.

Generation and transmission

3.12. The Scottish generation system is planned jointly by the North and South Boards. Forecasts are considered by the Joint Planning Committee of the two Boards and are used for forward generation planning as well as for determining fuel and operating costs. These costs are, in due course, incorporated into the IFR and Corporate Plan. Forecasts are also made for transmission and distribution network planning.

Area plans

3.13. The Corporate Plan and IFR are drawn upon by each of the North Board's four Areas which prepare medium-term plans annually on a rolling basis. These medium term plans identify the main objectives and requirements over a whole range of the Areas' responsibilities, but concentrate on those topics likely to need most attention from management. The Area plans are submitted to Head Office in August. In September the Executive review with each Area management their past performance, plans and future issues.

3.14. Each Area also prepares an Area Operating Plan (AOP) for the year ahead. The medium-term plan is essentially a management document dealing in broad terms with overall targets and objectives. The AOP is primarily a working document which sets detailed targets and work. It is prepared in April and submitted to functional Chief Officers for approval. The approved plans for each Area are issued in May or June. Under revised arrangements results against targets set in the previous year's annual operating plans will be reviewed annually in June.

3.15. Although differing somewhat in format and style each AOP covers broadly the same aspects. Following an introduction referring to the Board's overall objectives, they set out detailed targets for the year ahead in respect of sales and service, engineering, accounting and staff.

3.16. The North Board has told us that it recognises that there is a need to keep Head Office informed on a regular basis of any situation which indicates that plans, both in the short and longer term, are not likely to be met. Each Area Manager has therefore been requested to submit, on a quarterly basis, a report identifying cases where Head Office can assist in overcoming the difficulties or where overall strategy is affected. These reports will be considered at the quarterly meetings held between the Executive and Area managers.

Performance indicators

3.17. The North Board monitors most of its activities. Appendix 3.1 lists the main performance indicators in use. They are similar to those used regularly by the English and Welsh boards. Nevertheless we found that while some managers, particularly in the generation, commercial and finance functions, receive regular and consistent reports containing appropriate performance indicators, others did not (see Chapter 6).

3.18. We noted that a performance indicator showing overall technical efficiency in the production of hydro-electricity was not yet available. The North Board told us that it plans to develop the techniques necessary to produce such an indicator.

Conclusions

3.19. The North Board has been developing a corporate planning procedure since 1979. Both the methodology used in the planning process and the quality of the Corporate Plan document have improved over successive years. Nevertheless we consider that substantial scope for improvement remains, both in the co-ordination of the central and local level planning process and in the information base used. Clear targets should also be set.

3.20. The North Board told us that its plans tended to be evolutionary in nature, changing throughout the year. In our judgement such an approach entails the danger of undervaluing the long-term purpose of the Corporate Plan which covers a five-year period.

3.21. During the planning process extensive consultation takes place in Head Office, but for Areas and other formations reliance is generally placed on material drawn from written submissions supported by some informal discussions. In our view, given the autonomy of the Areas, Area Managers should be involved formally in preparing the Corporate Plan.

3.22. While Area performance against Area Plan is discussed annually with the Executive, there is no formal procedure for monitoring progress towards achievement of the Corporate Plan. We suggest that a review procedure should be developed to ensure that the activities of the Areas and other formations are consistent with the Board's policies.

3.23. Although we have noted that most activities are being monitored, we suggest that a new initiative be undertaken to provide the Board and the Executive with a system designed to improve central control over Areas and Generation Groups. Such a system would also provide information on which to improve further the planning process.