

CHAPTER 14

Summary of conclusions

Our full conclusions are set out at the ends of the chapters to which they refer. Here we summarise the main points for action emerging from them. The references are to the relevant paragraphs in the preceding chapters.

		<i>Paragraph Number</i>
1	Substantial scope for improvement remains in the co-ordination of the central and local level planning process, in the information base used and in the setting of clear targets. Given the degree of autonomy of the Areas, Area Managers should be involved formally in preparation of the Corporate Plan.	3.19, 3.21
2	There is no formal procedure for monitoring progress towards achievement of the Corporate Plan. A review procedure should be developed to ensure that the activities of the Areas and other formations are consistent with the Board's policies and a new initiative should be undertaken to provide the Board and the Executive with a system designed to improve central control.	3.22, 3.23
3	Board members should be able to take a more active role in setting strategy and the Board should take the lead in pressing for efficiency improvements and cost reductions.	4.39
4	The Board should undertake periodic reviews to ensure that the Head Office organisation remains appropriate in changing conditions.	4.42
5	The reorganisation of the generation function goes as far as is reasonable in present circumstances, but the position should be kept under review.	4.43
6	Given a territory the size of that covered by the North Board, considerable delegation to local managers is the only effective way of managing. However, such delegation requires the existence of adequate and uniform monitoring procedures so that the Board can be satisfied that its aims and objectives are being met and in the most cost-effective way. We are not convinced that this is at present the case.	4.44
7	Calculations supplied by the North Board indicated a reduction in controllable distribution and other costs of 9.8 per cent in real terms in 1984-85. The North Board's calculations in 1982-83 and 1983-84 include annual superannuation fund deficiency payments of £2.7 million. No such payment was required from 1984-85 onwards. The North Board should exclude this large deficiency payment from the 1982-83 and the 1983-84 figures before comparing the 1984-85 costs with those of 1982-83 and 1983-84.	5.41

- 8 The North Board's distribution and other costs for the five years 1979-80 to 1983-84 against the budgets showed consistent over-spending on some activities and consistent under-spending on other activities. **The North Board should include a more realistic contingency provision in its distribution budgets while budgets for other activities should be made more stringent.** 5.43
- 9 The introduction of slippage allowances from 1982-83 and the small variance from budget in 1983-84 indicate improvements in the North Board's capital budgeting procedures and performance against such budgets. **These improvements should be maintained.** 5.44
- 10 Over the five years 1979-80 to 1983-84 the North Board's costs per customer of meter-reading, billing and collection increased faster than the average for those of the Area Boards in England and Wales. Measures introduced recently or in course of implementation are expected to show considerable cost reductions. **The Board should continue to seek opportunities for cost reduction in these activities while preserving appropriate standards of service.** 5.46
- 11 The North Board's percentage of electricity sales representing year-end debtors fell by less than the average for the Area Boards in England and Wales. There has also been a considerable increase in the total of debts aged three months and over and pre-payment debts over the past six years. **The Board should review its policy towards debtors, its present collection arrangements and the resources devoted to this activity.** 5.48
- 12 The Board has not set the challenging cost control targets called for under the objectives set for the Scottish Electricity Boards by the Secretary of State for Scotland in 1983. **The Board should charge the Executive with the task of achieving a specified overall level of cost reduction over a stated number of years and require the production of a programme to achieve this purpose, with targets set for achievement by specific dates. The overall cost reduction target should be more demanding than the present performance aims. The Board itself should monitor progress against the programme and ensure that the pressure to reduce costs is maintained into the future.** 5.50
- 13 **All reports, other than those of the data logging or listing type, should include comparisons with appropriate targets and the Board should move towards an exception reporting system.** 6.60
- 14 Notwithstanding the general volume of reporting, in some areas (for example that of personnel matters) there is little in the way of formal reporting and information dissemination systems. **This should be rectified to ensure consistency of treatment.** 6.61

- 15 The limited resources available for management services (see Chapter 10) contribute to the lack of information about manpower requirements throughout the North Board. This, coupled with the lack of integrity of the NJIC productivity measurement system, undermines the base for much of the costing information and gives rise to inadequate information being available for medium-term planning of manpower requirements. **The North Board should give urgent attention to rectifying these deficiencies.** 6.63
- 16 The North Board is moving towards an integrated physical progress and financial monitoring system. **The North Board should examine the potential of the GEM and HYDROGEM systems for medium-term planning and monitoring, and the development of similar systems for distribution.** 6.64
- 17 **Arrangements should be made so that line managers are more explicitly directed to examine with computer services staff the contribution the application of computers can make to the efficiency and running of their departments. The organisational arrangements for seeking, and monitoring progress of, cost reductions should incorporate computer development.** 6.66
- 18 Examination of feasibility and second stage reports confirmed the need for the standards manual to provide guidance on conducting such studies and drawing up such reports. **The North Board should complete these guidelines as soon as possible. Account should be taken, in the assessment of costs and benefits, of the cost of the computer capacity to be used.** 6.70
- 19 **The North Board should take the opportunity which the present circumstances of excess capacity in the Scottish system provide to review its medium and long-term forecasting methodology.** 7.54
- 20 The North Board's forecasts are based on a consensus of views on the various factors affecting electricity sales. **It should introduce a procedure for recording these views and for explaining differences in growth rates between comparable forecasts.** 7.55, 7.56
- 21 **The North Board's diversity of approach to forecasting needs careful direction and co-ordination. Overall responsibility for the development and implementation should be given to one department.** 7.58
- 22 **The North Board should provide an investment appraisal manual setting out guidelines and procedures.** 7.59
- 23 **There should be clear guidelines for distinguishing between essential and optional investment and their application should be closely monitored.** 7.60

		<i>Paragraph Number</i>
24	The costs and benefits of alternative options should be clearly presented for decision-making purposes.	7.61
25	If there are potential cost savings from grouping projects the appraisal should examine the option of undertaking a single project and then consider the extra costs and benefits of undertaking additional projects.	7.62
26	A standard approach to assessing reinforcement should be introduced and applied as soon as possible.	7.63
27	In addition to ensuring a careful, well documented basis for the main assumptions underlying an investment proposal the North Board should incorporate sensitivity testing in all future appraisals of major investments.	7.64
28	In the application of the probability approach to sensitivity testing the effects of altering outcome and probability assumptions should be demonstrated and the robustness of the appraisal probed for all key variables.	7.65
29	An investigation of sensitivity to timing should be formally incorporated into appraisals.	7.66
30	The North Board should keep an open mind with regard to the merits of the full scenario approach to sensitivity testing.	7.67
31	There should be an investigation of timing and a systematic approach to assigning priorities to all essential projects at both Board and Area level.	7.68
32	In determining priorities between optional investments greater attention should be paid to an initial ranking of projects on the criterion of net present value per unit of capital expenditure.	7.69
33	The North Board should carry out regular post-investment appraisal.	7.70
34	The North Board has disregarded the higher than average maintenance costs associated with remote connections and the costs of future replacement. In future these costs should be taken into consideration.	7.71
35	The North Board should ascertain the degree of compliance with its instructions and determine whether improved internal control procedures would be found beneficial.	8.70
36	The North Board is determined to use new technology in the control of transmission circuits in order to improve system security. It should increase its research resources in order to secure some early advantages.	8.74

		<i>Paragraph Number</i>
37	The North Board's distribution system is more exposed to the effects of weather than that of other Electricity Boards. This must be a contributory factor to the poor reliability in 1983-84 and in the previous five years. However, the North Board should examine its control links with the Areas to ensure that all resources are being effectively used to meet reliability targets.	8.76
38	Because of the limited number of items purchased centrally through bulk purchase arrangements, the North Board may not be obtaining its stores and equipment at the lowest prices. It should continue to monitor major purchasing deals and as appropriate to make joint purchases with the South Board.	8.78
39	The North Board is now planning to increase the effectiveness and control of its stock by introducing an on-line materials management computer system. The North Board should ensure the adequate staffing of this project which, compared with other Boards, is overdue in order to avoid any slippage in the agreed completion date of 1988. It should also undertake a stock rationalisation exercise before the introduction of the new computer system.	8.79
40	There is a potential for increasing the efficiency of the maintenance activity. Variation in work practices between Areas should be examined in order to establish the most appropriate and cost effective practice in allocating resources to maintenance. More definitive annual plans should be prepared and stronger central control should be exercised.	8.83
41	With respect to vehicle utilisation stronger central monitoring of local area procedures should be undertaken to ensure that the benefits identified by the North Board's Working Party on Transport are being fully achieved.	8.84
42	The North Board should produce a comprehensive procedures manual to cover the requirements of the full range of projects, beginning with the production of engineering estimates and ending with post-project audit. For all projects, a standard computer-based management system should be used which covers the needs of both engineers and accountants.	8.86
43	The North Board did not anticipate the need for a planned programme of replacement of distribution equipment. Recognition of the maturity of the North Board's system and the increasing emphasis on replacement should be given top priority in the Corporate Plan.	9.18

		<i>Paragraph Number</i>
44	Resources allocated to the refurbishment programme may be insufficient to prevent the standard of service from declining further for a number of years. Allocation of the refurbishment budget between Areas appears to be on an ad hoc basis. The North Board should re-assess the adequacy of its response to the need for the replacement of ageing distribution equipment and use its priority assessment and monitoring procedures to ensure that refurbishment expenditure is devoted to areas of greatest need.	9.19, 9.20
45	The North Board should identify the full cost to it of the joint negotiating and consultative machinery, and should review the effectiveness of the machinery from time to time in relation to its cost.	10.48
46	The North Board should introduce a manpower planning system which identifies optimum manning levels.	10.49
47	A full part should be played across the North Board's activities by the management services function. The present unit should be expanded and its place in the organisation structure re-examined with a view to improving its effectiveness.	10.50
48	The North Board should introduce overtime budgets to improve its control on overtime working.	10.54
49	The North Board's policy is to devolve personnel management to line managers. Senior line managers should meet collectively with central personnel management at least once a year to discuss common problems, current issues and developments in the personnel field.	10.56
50	The North Board's informal arrangements, based on personal contact and relationships should be supplemented by appropriate reports and statistics to enable central personnel to identify, and where necessary investigate, apparent differences between Areas and groups.	10.57
51	Appliance sales and servicing activities should earn an adequate rate of return in their own right. The North Board regards 5 per cent per annum on a CCA basis averaged over four years as a minimum return for the two activities combined. It should formally adopt this as the minimum return for these activities. It should further show turnover, profit and capital employed figures for the two activities combined, on a CCA basis, in its annual report and accounts.	12.25, 12.26

- 52 The North Board has so far relied on an accounting cost approach for setting tariffs. **This approach does not reflect the costs of supply at the margin and is likely to prejudice efficient allocation of resources.** The North Board has said that its strategy is to frame tariffs on principles reflecting the marginal cost of supply. **In developing its methodology it should consult other organisations with interests in the subject and should take note of the particular problems referred to in our report on the Central Electricity Generating Board.¹** 13.43, 13.44
- 53 In developing its tariff policy the North Board should focus particularly on:
- (a) the calculation of costs of increments in output which might be stimulated by changes in tariffs;
 - (b) the modification of existing tariffs the better to reflect costs at the margin while continuing to meet financial constraints; and
 - (c) the design and promotion of new tariffs to encourage additional sales that are expected to be profitable. 13.46
- 54 The North Board expects excess capacity to obtain for at least 20 years ahead. **The correct balance has not been struck between using tariffs to encourage full use of available capacity and providing signals for the future. The North Board should give priority to reducing prices at the margin while continuing to meet its financial obligations.** 13.47
- 55 **Given the level of spare generating capacity and the relatively flat marginal cost curve over the output range from peak to trough, the North Board should reconsider the justification for the existing winter surcharges to maximum demand customers.** 13.48
- 56 The North Board has introduced evening, weekend and teleswitch tariffs. **It should vigorously promote all such ideas for expanding the profitable use of existing capacity.** 13.49
- 57 **The North Board should consider advising customers individually whenever there is a tariff change of any sort affecting them.** 13.50

¹Central Electricity Generating Board, HC 315, 20 May 1981, paragraph 4.66.

H HOLMAN HUNT (*Chairman*)

C C BAILLIEU

M B BUNTING

H L G GIBSON

G D GWILT

S C LITTLECHILD

N E D BURTON (*Secretary*)

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