

CHAPTER 13

Summary of conclusions

In this chapter we summarise the main points on which we have recommended or suggested action should be taken. Our full conclusions and the reasons for them are set out at the ends of the chapters to which they refer, and a further indication of the relative weight which we attach to them is given in our general assessment at Chapter 1.

		<i>Paragraph Number</i>
1	The effectiveness of the Board's present senior management structure is more than usually dependent upon the calibre of key personnel. It will be necessary to exercise particular care in selecting replacements when the need arises.	3.21
2	The Corporate Plan should set targets which are more precise and more readily monitored and which are linked to performance aims.	3.23
3	A rearrangement of responsibilities between the Chief Engineer, Generation Design and Construction, and the Chief Engineer, Planning and Services, should be considered.	3.22
4	The Board should be required to demonstrate that its performance aims are demanding, taking account of benefits from past investment and from technological progress, and of comparisons with what is being achieved by other organisations.	4.17
5	The performance aims, in the form of cost-reduction targets, should be integrated with the Board's budgetary system and should exert a tightening influence upon it.	4.19
6	A single performance aim should be applied to the integrated Scottish generating system. For these other activities, the two Scottish Boards should have separate performance aims.	4.20
7	Performance aims should continue to be set for periods of at least three years.	4.24
8	In view of the volatility of fuel prices and of their strong influence on generating costs, a deflator may be used to adjust the Board's fuel costs to base year prices. It should be based upon an index of external fuel prices and not upon an index of prices paid by the Board. Further adjustments to the Board's costs for the purpose of performance aims should be avoided.	4.22, 4.23
9	The Board should also continue to seek improvements in the efficiency of the various aspects of its business, using the measures of efficiency set out in its published performance indicators.	4.25-4.27
10	The two Scottish Boards should from time to time do joint audits of the efficiency and costs of their generation, transmission and distribution activities.	5.77
11	The South Board should state and explain in its published accounts the benefits which it gets from the trading of electricity with the CEGB.	5.78
12	The South Board should expedite measures to reduce its meter-reading, billing and collection costs and its levels of outstanding debt.	5.85-5.87

		<i>Paragraph Number</i>
13	Good progress has been made in devising improved working methods and introducing new technology, and in identifying consequent reductions in manpower needs. Further action is now needed to realise the substantial cost savings which have been identified.	6.61, 6.62
14	Reviews of manpower requirements in selected departments and activities should be extended. They should be planned on a systematic and more frequent basis, giving attention to the balance of grades within departments.	6.63
15	The Chief Personnel Officer's responsibilities should be extended to require him to satisfy the Board that appropriate action is taken to correct divergences from manpower budgets and to correct adverse overtime trends. He should report directly to the Deputy Chairman on these matters.	6.64
16	There is some scope for better implementation of the Board's policy of filling vacancies by redeployment rather than by recruitment.	6.65
17	Consideration should be given to periodic reviews of the cost and effectiveness of the Board's collective machinery, to earlier soundings of the views of trade union representatives, to widening the scope of the Staff Development Scheme, and to more training of employees in techniques for improving efficiency. Continued attention should be given to consistency in the development and implementation of personnel policies.	6.66
18	Full realisation of the economic benefits of the joint generating arrangements will require continued close co-ordination of the generating activities of the two Scottish Boards.	7.31
19	It is important that the planned refurbishment of the North Board's pumped storage equipment be completed in time to secure its adequate availability when the Torness nuclear power station comes into operation.	7.32
20	Priority should continue to be given to availability rather than thermal efficiency in the management of the Board's nuclear power stations.	7.36
21	The Quality Assurance programme, which the Board has started to implement, should be extended to cover all its activities.	7.37
22	We support the Board's action in setting differential quality of service targets while seeking to raise the quality of service to remote areas.	7.39
23	Further attention should be given to the consistency of investment appraisal methods. Sensitivity analysis should be used for all appraisals, common acceptance criteria should be adopted, and distinctions between optional and essential projects should be clearly defined.	8.24-8.25
24	Evaluations of replacement programmes for distribution assets should include detailed expenditure plans for each area based upon locally identified needs, together with assessments of cost savings and benefits to consumers.	8.26
25	The 5 per cent discount rate criterion sets a minimum level of benefit to be sought from capital expenditure and should not be reduced.	8.27
26	The use of post-investment appraisals should be extended.	8.28

		<i>Paragraph Number</i>
27	There should be an annual review of the costs and benefits of retaining surplus generating capacity.	8.30
28	Opportunities for improving fuel price forecasting should be further explored.	8.31
29	The Board's arrangements for the purchase of fuel should have the objective of meeting its requirements at minimum cost, taking account of its commercial interest in the continued availability of indigenous fuel.	9.54
30	On the expiry of the present agreement with the NCB, the price of coal to the Board should be brought more closely into line with the long-term costs of obtaining coal from non-NCB sources.	9.57
31	The Board should be prepared to increase its purchases of coal from Scottish private sector sources and to offer longer-term contracts for that purpose.	9.58
32	In the short term, import-related pricing of NCB coal should be applied to at least 1 million tonnes of second tranche coal. The feasibility of importing larger quantities in the longer term should be investigated as a basis for discussions with the NCB on the future price of coal.	9.59, 9.60, 9.61
33	The Board should continue to take full advantage of the fall in oil prices to obtain better terms from the NCB or to substitute oil-fired generation for coal-fired generation.	9.62
34	Further attention should be given to the savings obtainable by transporting more coal by road. Any new agreement with British Rail should seek to re-establish the Board's ability to minimise its transport costs.	9.63
35	Present arrangements for the trading of electricity between the Scottish and CEBG systems are based on a comparison of the marginal costs of the two systems. We consider that this method offers the best prospect for the efficient use of generating resources.	10.49
36	To reduce the risk that trade may result from spurious cost differences, the South Board and the CEBG should make a detailed comparison of their costing methods and assumptions.	10.50
37	The South Board and the CEBG should aim to resolve as quickly as possible the problems identified in recent trials using the CEBG's GOAL program.	10.51, 10.52
38	Expected savings from electricity trading should be costed on the basis of the probability of generation from plant in the operational margin.	10.52
39	There should be regular retrospective analyses to compare actual trading with the possibilities which had been available.	10.54
40	The South Board and the CEBG should co-operate in the production of a trading manual.	10.55
41	The Board should develop a framework of tariff-setting which is more closely linked to estimates of marginal costs.	11.37-11.42
42	We note that some of the Board's tariffs for the supply of additional units of electricity are well in excess of system marginal costs. We identify a number of ways in which the Board should restructure its tariffs in the interests of achieving better use of its capacity to the mutual benefit of it and its customers.	11.43-11.49

		<i>Paragraph Number</i>
43	Since it is not essential for the Board to be involved in appliance sales and contracting, in maintaining these activities it should ensure that they each provide a commercial return.	12.25
44	We recommend a minimum rate of return on assets of 5 per cent on a CCA basis for each of these activities. Performance against this criterion should be reported in the annual accounts.	12.26
45	Priority should be given to further reductions in delivery costs, and franchise arrangements should be further developed.	12.27
46	There should be a review of ways of providing customer service without the use of shops, and the results should be used to assess the true contribution of shops to the Board's profitability.	12.28
47	The Board should seriously consider withdrawing from appliance sales if it becomes apparent that they are unlikely to achieve a 5 per cent CCA return on assets by 1988-89.	12.29

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