

17 Summary of recommendations

In this chapter we summarise our recommendations. Bold type indicates our key recommendations.

<i>Recommendation no</i>		<i>Paragraph no</i>
	Structure and organisation	
1.	In three years or so, after completion of the review of nuclear power which the Government has announced it intends to carry out in 1994, AEA should initiate a further strategic review to assess the position and future development. At that stage, depending on the prevailing circumstances, consideration should be given to a range of possibilities including: <ul style="list-style-type: none">- separation of AEA into two businesses, nuclear and non-nuclear;- separation of some of the existing businesses;- creating a separate organisation to take over the nuclear-related plant, buildings and locations no longer required for AEA's continuing activities together with the associated decommissioning and radioactive waste treatment and disposal programme; and- continuing as at present for a further period.	2.61
	Planning	
2.	The Department of Energy (DEn) should ensure that the next AEA Corporate Plan includes specific, quantified, medium-term goals for AEA's efficiency and quality of service performance, together with dated short-term targets related to these goals.	3.62
3.	When the Board members' bonus scheme is revised for 1993/94, any payments under the scheme should be conditional on a minimum standard of progress being made towards achieving each of the main targets in the AEA Corporate Plan. Payments should, however, be triggered only by the achievement or overachievement of the target level of performance for each factor. Further, each Board member's participation in the bonus payments should be conditional on the achievement of individual targets within his specific area of responsibility.	3.64
4.	In the next planning cycle separate product-group plans including a market appraisal, competitor analysis, marketing strategy and production/service delivery strategy should be developed for each product group (see also recommendation 46).	3.66

5. (a) In preparing its next business plan each AEA business should carry out a strategic review of the options available to it; and 3.68
- (b) as part of these strategic reviews each business should classify its product groups with a view both to taking prompt action to improve its business focus and to identifying any constraints impeding progress. Possible categories could, for example, include:
- (i) core product areas with attractive margins to be retained for cash generation;
 - (ii) peripheral but profitable product areas to be hived off or form the basis of joint ventures;
 - (iii) low-volume product areas with limited growth potential to be closed or sold, for instance to their management teams;
 - (iv) loss-making or low-margin product areas with no potential to be closed; and
 - (v) low-volume product areas with growth potential and attractive prospective margins to be invested in as likely emerging businesses.
6. In its next Medium Term Corporate Plan (MTCP) (or in associated documents) AEA should assess the adequacy of the action it has taken to rectify the management weaknesses identified in its 1991 to 1995 Corporate Plan, particularly in the areas of poor project management and limited business skills, and should outline appropriate further plans to close any remaining gaps in its management skills. 3.71
7. In its next MTCP AEA should identify the threats which could expose it to serious financial problems, and should develop outline contingency plans accordingly, so far as is practicable. 3.73
8. AEA should not hesitate to approach DEn to promote any specific ideas for participating in joint ventures or alliances. 3.78

Financial framework and control

9. The return on capital employed target set by DEn should recognise wider strategic objectives including a more explicit regard for the profit levels necessary to make AEA self-funding. 4.75
10. AEA should, with effect from budget 1992/93, review the process it adopts for phasing the operating budgets to ensure that they more closely reflect the expected out-turn during the year. 4.76
11. The present budgeting system should be extended to incorporate an integrated phased balance sheet and funds flow statement, to be implemented for 1993/94, and reports to all appropriate levels of management should include the phased budget and variances from actuals. 4.77
12. **By September 1992 a set of target criteria for working capital items should be established, such as work-in-progress days, debtor days** 4.79

and targets for invoice production and despatch. These criteria should be used in conjunction with an enhanced reporting system to all appropriate levels of management, providing period-by-period actual levels against the standard criteria, so as to trigger and direct corrective management action.

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| 13. | Management should implement the standardisation of the site services departmental accounting procedures by April 1993. | 4.80 |
| 14. | AEA should, by September 1992, review its procedures for monitoring and adjusting standard pay band rates to ensure that the rates properly reflect actual payroll costs. | 4.81 |
| 15. | As from April 1992 the Executive Director Finance should attend Audit Committee meetings as an observer and only by invitation. | 4.82 |
| 16. | With immediate effect, audit reports and responses should be given more prominence by putting before the Audit Committee an executive summary of each report requiring a response, together with the response and response time. | 4.83 |

Management and financial information systems

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| 17. | AEA should bring the locally-based information technology (IT) units at all sites within the proposed corporate IT service in 1992; should ensure that the business-based IT units are functionally accountable to the corporate IT service and issued with appropriate guidelines and standards to guarantee consistency and compatibility in management information systems (MIS); and should strengthen the role of the users of its management information systems at the corporate level by developing a system of user groups for each of the main management information systems to complement the overall co-ordinating role of the IT Steering Group. | 5.59 |
| 18. | AEA should, by July 1992, review the possible methods of making more cost-effective use of its mainframe computers, including the possibility of using facilities management contracts for under-utilised CRAY-2, IBM and ICL computers and of closing or disposing of uneconomic capacity. | 5.61 |
| 19. | <p>AEA should:</p> <p><i>(a)</i> commit additional resources to updating or replacing the remaining management information systems which are incompatible with the financial information system (FIS), with the objective of ensuring that all of AEA's main systems are fully compatible by October 1993; and</p> <p><i>(b)</i> ensure that sufficient capacity on its digital network is reserved for management information users to guarantee them a rapid response when FIS comes into operation.</p> | 5.63 |

20. By December 1992, AEA should produce a specification for a corporate data model which will accommodate all future business systems development and ensure that all future systems have access to the same data. 5.65
21. **(a) AEA should urgently prepare draft formats for the post-FIS regular written management reports for both the Board and individual businesses, incorporating data generated both by FIS and by the other existing systems which will continue; and** 5.67
- (b) these draft formats should be submitted to the appropriate users, including top management, for their approval by March 1992 and should:**
- (i) be concise and well focused on an action-orientated presentation of the key items of performance data;**
 - (ii) be produced within a time-scale which enables corrective action to be taken effectively;**
 - (iii) be produced without excessive use of manual analysis and transcription;**
 - (iv) incorporate where appropriate the best practice within the existing report formats;**
 - (v) achieve a high standard of presentation by making effective use of graphical presentation and exception reporting; and**
 - (vi) include a mandatory range of product profitability reports, to be presented monthly to product-group management and quarterly to business Boards of Management.**

Use of physical assets

22. **(a)** In moving to a corporate estates organisation, AEA should take the opportunity to develop further the corporate co-ordination of its estates management activities; and 6.37
- (b)** the corporate Director of Estates should have responsibilities which include the requirement to make regular reviews in consultation with the businesses of the potential for sites rationalisation and to produce a co-ordinated, rolling plan of property release for disposal and development into the future.
23. The responsibilities of the corporate Director of Estates should include the encouragement of 'best practice' across sites and the comparison of costs between sites and with local market prices. 6.39
24. AEA investment guidelines should be strictly followed in relation to estates projects and these guidelines should be revised in line with recommendation 36. 6.41

25. AEA should revalue its land and buildings at least once in every five years. We understand that it is the intention of AEA to revalue all its properties in 1992, and consideration should be given to revaluing its property assets on a rolling basis thereafter. 6.43

26. AEA should from April 1993 charge internal rents on the same basis as it would charge external tenants (that is market rates). 6.45

27. By April 1993 AEA should develop reports that enable each business and each site to demonstrate whether its major non-property assets are earning an appropriate return on their value. 6.47

Industrial relations, pay and employment policies

28. AEA management and trade unions should jointly review the current consultation and bargaining machinery with the objective of implementing, by the end of 1993, improved and simplified arrangements more suited to the commercial aspirations of AEA. 7.53

29. (a) AEA management and trade unions should negotiate to review the current pay structure, with the objective of breaking the Civil Service link for non-industrial employees during 1993 and thereafter establishing a unified pay structure, to include both non-industrial and industrial employees; and 7.55

(b) annual performance appraisals and the award of performance pay should be based as far as possible upon the achievement of quantifiable objectives such as financial targets, and completing projects to time, cost and specification, etc (see also recommendation 31).

30. Within the six months following the introduction of the new corporate personnel service in April 1992, the numbers of personnel and training staff should be reviewed. 7.57

Efficient use of manpower

31. (a) As far as possible, quantifiable and challenging objectives should be set for all non-industrial staff (see recommendation 29); 8.44

(b) AEA management and unions should jointly review the operation of all bonus and productivity schemes for industrial employees, with the objective of replacing such schemes by bringing industrial workers into the existing appraisal scheme, with quantifiable objectives and performance pay as part of a unified pay structure (see also recommendation 29); and

(c) AEA should continue to adjust workforce numbers in order to reduce costs and achieve a close manpower match with business needs.

Restructuring programme

32. **Before June 1992 costed options should be prepared for the £80 million which AEA says is not yet committed under the restructuring programme to establish that future spend is directed in the most profitable way.** 9.36
33. At the time the Government looks again at AEA (see recommendation 1) the possibility should be considered of a financial reconstruction, with existing restructuring-related borrowing being wholly or partly written off. Meanwhile any additional restructuring driven by Government decision regarding AEA's nuclear activities should be grant-funded in order to avoid any further distortion of AEA's financial structure. 9.38

Investment

34. AEA should in future give greater emphasis and management commitment to achieving the annual targets set within its capital investment programme agreed with DEn. 11.47
35. AEA should, by June 1992, introduce more tightly specified guidelines, including guidance on the need to evaluate a full range of options associated with a particular project, for the authorisation of Pre-Tender Sanctionable Expenditure (PTSE) and pre-PTSE expenditure; and in due course these guidelines should be incorporated into an updated Financial Manual (see recommendation 36). 11.51
36. **AEA should fully update its Financial Manual and other internal guidelines on investment appraisal by September 1992 in order to:** 11.56
- (a) give greater emphasis to identifying and evaluating the full range of feasible options available;**
 - (b) introduce a more standardised format for the presentation of investment cases by the businesses to ensure that investment priorities can be determined more effectively;**
 - (c) standardise the appraisal methods and criteria used for evaluating the costs and benefits of infrastructure projects and revenue schemes, having due regard to the views of external customers; and**
 - (d) include all the following for projects over £1 million and those considered most appropriate for smaller projects:**
 - (i) sensitivity analysis for all benefits claimed for revenue and infrastructure projects; and for net income flows under commercial investment projects;**
 - (ii) sensitivity analysis of all costs based on the estimated reliability of the cost data;**
 - (iii) sensitivity analysis on the main underlying assumptions used, particularly those relating to expectations of major revenue contributions by public sector organisations and large private sector customers; and**

(iv) sensitivity analysis of a combination of factors, especially where such factors are likely to vary together, including where possible the probability of such variations.

37. Henceforth a financial 'risk analysis' of safety features should be considered, taking into account the views of appropriate external customers: 11.60
- (a) on all projects over £1 million where radiation safety is a relevant but subsidiary consideration; and
- (b) on smaller projects where safety improvements are the main objective.
38. The existing Post-Project Evaluation (PPE) format should be revised by June 1992 to focus more directly on the soundness of the original appraisal; and at the same time, PPE procedures should be 'relaunched' and applied to all projects over £1 million and to smaller schemes where appropriate. 11.64
39. AEA should introduce by September 1993 appropriate measures to remedy 'technical bias' at all stages of the appraisal procedure, from the guidelines issued through to the criteria applied by the authorising committees. 11.67
40. More widely, AEA should introduce by September 1993 whatever additional procedures are necessary to ensure that the recommendations we have made on investment procedures are carried out in full. 11.68

Project management

41. **AEA should issue and implement its Requirements and Guidelines document, as planned, by April 1992.** 12.35
42. From September 1992, with respect to new capital expenditure projects of more than £3 million (the level above which separate sanction is needed from DEN) the project manager should be independent of the client's representative and should have the technical expertise and experience necessary for the successful management of capital expenditure projects. 12.37
43. By July 1992, AEA should review the available project management software systems and the number of similar packages in use should be reduced except where systems are specifically required by customers. 12.40

Marketing

44. Henceforth AEA should improve its market intelligence, particularly as regards market share analysis by product and service, and undertake more 'bench-marking' against its main competitors. 13.34
45. In the course of developing its market intelligence, AEA should place necessary emphasis on reviewing the sales growth targets of its businesses to ensure that they are sufficiently ambitious and sustainable to meet the objectives of the AEA Corporate Plan. 13.37

46. AEA should: 13.40
- (a) improve the quality of its business and marketing plans in the next planning cycle by including more quantification of markets and sales objectives; and
 - (b) introduce common format marketing control systems based on the Business Development Information System and FIS.
47. During the next planning cycle AEA should apply 'best practice' marketing structures more uniformly across its businesses. 13.42
48. **Henceforth AEA should:** 13.45
- (a) **increase the level of training, for example by secondment to other comparable organisations, and thereby improve the level of marketing expertise of its technical staff, particularly those employed in marketing functions; and**
 - (b) **recruit more trained and experienced marketing staff from outside AEA.**
49. Over the next year AEA should review its overall marketing spend and the cost-effectiveness of its marketing strategies, and should introduce procedures for evaluating the cost-effectiveness of its marketing. 13.49
- Pricing**
50. **Henceforth AEA should:** 14.44
- (a) **wherever possible, use 'fixed pricing' in its work for existing *per diem* customers and also for work currently done on a cost-plus basis;**
 - (b) **where the use of *per diem* charges remains the best practicable system of pricing, consider the possibility of specifying clearly defined and time-limited 'milestones' and 'blocks of work' as a major feature of the pricing arrangements; and**
 - (c) **when setting the level of *per diem* rates applying to non-competitive work, offer major customers reasonable cost-transparency, by for example providing a breakdown of costs, particularly regarding the level and constituent elements of overhead costs.**
51. AEA should introduce by April 1993 a new system of arm's-length inter-business charging, whereby profit and other charges (eg for Corporate Investment in Research and Exploitation) are included in the price for such work. This may require some additional ground-rules or 'rules of thumb' about acceptable profit margins to be introduced in order to avoid undue complexity and the development of inter-business disputes. 14.48

Safety

52. In making regular reviews of the cost and effectiveness of its safety arrangements AEA should compare them with safety performance in the United Kingdom and elsewhere. 15.60

Quality of goods and services

53. By July 1992, AEA should develop training and other programmes to build on and extend the culture change achieved through its 'Focus on the 90s' exercise and these programmes should pay particular attention to the areas of weakness identified in the post-job process review of 'Focus on the 90s'. 16.41
54. (a) By June 1992 AEA should propose a wide range of internal quality of service targets to be used by all businesses preferably including measures of: 16.43
- (i) customer satisfaction;
 - (ii) response times to customer contacts;
 - (iii) the level of customer liaison contacts;
 - (iv) customer complaints;
 - (v) staff attitudes;
 - (vi) contract administration delays; and
 - (vii) disputed invoices;
- (b) each year AEA should select from amongst these measures a small number where improvement is most needed, and set itself and publish quality of service improvement goals for these priority measures; and
- (c) performance against these goals should be regularly monitored.
55. AEA should take steps to ensure that for all future contracts: 16.46
- (a) contract milestones are specified at the earliest possible stage in contract negotiations;
 - (b) milestones are more adequately specified in terms of their feasibility and precisely defined content;
 - (c) intermediate milestones are introduced wherever the phasing of the work allows;
 - (d) performance against all contract milestones is systematically monitored throughout the financial year, and summary statistics are reported to each Business Review Meeting in standard format; and

- (e) any milestones delayed by more than three months should be reported to the AEM following the Business Review Meeting.
56. By April 1993, AEA should develop systems to estimate the cost of quality failures and should monitor the trends in the cost of quality performance of each business. 16.48
57. In revising its quality assurance (QA) systems to meet the needs of its new organisation by April 1992, AEA should pay particular attention to those aspects of QA which ensure both that the agreed customer specification is met and that the customer is fully consulted about any changes in specification. 16.50
58. (a) AEA should ensure that, by June 1992, all businesses develop methods of monitoring customer satisfaction including systematically issuing post-contract completion questionnaires to all substantial customers; 16.53
- (b) such questionnaires should cover customer satisfaction with a wide range of aspects of AEA's performance, including the areas identified as weaknesses in our survey, and should be accompanied by personal interviews in the case of the larger contracts;
- (c) the response to these questionnaires should be reported quarterly to each business Board of Management and trends should be monitored by management at all levels; and
- (d) a summary of customer complaints should also be reported to the business Boards of Management.

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29 January 1992