


Prime Minister

Mr Ibbs may refer
to his at E(N1) on
Monday (see para 10):
Qa 05707 MCS 30/10


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BFF
cf A. Dignid (2)

Prime Minister

*Suggest you endorse proposal at para
MCS 27/10 to discuss
this issue?*

To: PRIME MINISTER
From: J R IBBS

26 October 1981

Nationalised Industry Efficiency - Use of
Management Consultants

1. At E(81)29th Meeting I was invited to report progress in the use being made of the consultants, Maynard and Barry, in investigations of nationalised industries' efficiency.
2. The then Secretary of State for Employment (Mr Prior) first raised the possibility of efficiency audits by Maynard and Barry in a letter to the Chancellor dated 19 November 1980. In this, he reported on the success claimed by Maynard and Barry's parent company (Theodore Barry and Associates) for its system of management audits on public sector organisation which it pioneered in the United States. Mr Prior suggested that there might be advantage in officials contacting the United Kingdom offshoot to explore whether there was anything to be learnt from the American experience.
3. Accordingly CPRS and Treasury representatives met with Maynard and Barry and were favourably impressed. Theodore Barry and Associates has extensive experience of management audits of US public utilities and claims to have identified cost savings averaging $6\frac{1}{4}$ per cent of utility turnover (range 4 - 17 per cent); in some cases identified cost savings were subsequently audited by third parties to confirm their achievement. The CPRS was particularly impressed by the end result of the audit, an implementation plan for cost savings endorsed by the management. That is to say, the audit produced a firmly agreed prescription with quantified targets, where possible, in addition to a diagnosis. This Theodore Barry achieved through establishing a sympathetic, rather than adversarial, working relationship with the utility. Moreover, follow-up audits to verify that the improvements had actually been achieved were becoming increasingly common in the US; these the utilities now positively welcomed since it allowed management achievement to be publicly recognised.

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The meeting led the CPRS to the view that there would be considerable merit in trying out a different approach to efficiency audits along the lines proposed by Maynard and Barry to complement the MMC: such an experiment would risk very little and might indicate how the general system of efficiency auditing might be improved.

4. The Scottish Electricity Boards presented an ideal opportunity for such an experiment. In the light of the comprehensive inquiry by the MMC on the CEGB, clearly the Scottish Board required examination; the style and results of an audit by consultants would be directly comparable with the MMC report.

5. However, progress has been slow. The Secretary of State for Trade was clearly concerned at the policy implications of the engagement of consultants and in particular that their use could undermine the role of the MMC. A paper 'Improving the Scrutiny of Nationalised Industry Efficiency' prepared by the Official Committee on Nationalised Industry Policy (NIP) is scheduled for discussion at the forthcoming meeting of E(NI) Committee. This proposes improvements in the whole system of efficiency audits, including the possible use of management consultants. On management consultants, the paper recommends that whilst their use should be encouraged, they should be used pragmatically, leaving the MMC as the primary instrument.

6. The current position with regard to the two Scottish Boards is that they have recently agreed to be studied by management consultants. Terms of reference are almost settled and it is hoped that the preliminary study will begin before the end of the year.

7. However, it is by no means certain that Maynard and Barry will be the consultants engaged by either of the two Boards. The Government has no statutory powers to initiate efficiency audits other than by the MMC. In general, a joint appointment by the Department and a Board by mutual agreement would seem to be the best way of circumventing this problem. However, in this particular instance the industry itself will be responsible for the appointment of consultants, though it is expected that the Secretary of State for Scotland will be associated with the study by means of a joint public announcement. Although Maynard and Barry are on the short-list, the Scottish Office say they cannot control which firm will be engaged.

No stat. powers to initiate efficiency audits.

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8. Even if Maynard and Barry were to be engaged, appointment by the Boards themselves also raises the question of Scottish Office access to the findings. Although the Scottish Office have agreed with the Boards that they should receive a copy of the reports and be able to discuss the findings with the consultants, the primary loyalty of the consultants will be to their clients, the Electricity Boards. This could restrict information flow. As Mr Prior's original letter emphasised, Theodore Barry himself puts down at least part of his success in the US to the fact that he has always insisted that his firm's clients should be the public enterprise and its controlling authority. Re-opening the question of single or joint appointment would however run the risk of further delays when progress already has been painfully slow.

Conclusion

9. Two obvious points strike one about this account on progress on commissioning Maynard and Barry:

(i) the length of time it has taken, almost a year, to arrive at a position where it is still not clear whether they will be commissioned or not;

(ii) although there are no statutory powers, surely it will be possible informally to lean on one of the Boards to appoint Maynard and Barry?

10. Consideration at E(NI) of NIP's recommendations for improving the scrutiny of nationalised industry efficiency will provide an opportunity for Ministers collectively to discuss how effective use of these consultants may be achieved.

11. I am sending copies of this minute to the members of E(NI), the Secretary of State for Northern Ireland and to Sir Robert Armstrong.



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A. Duguid



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Prime Minister

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Prime Minister

NATIONALISED INDUSTRY EFFICIENCY: USE OF MANAGEMENT CONSULTANTS

1. I have seen Mr Ibbs' minute to you of 26 October about the proposal to use the US consultants, Maynard and Barry, in investigations of the efficiency of nationalised industries. The issue of whether this particular firm should be employed to carry out an efficiency audit of a nationalised industry seems to have become focussed exclusively on the two Scottish Electricity Boards; but Mr Ibbs' interpretation of how we have reached this position differs in some important respects from my own.

2. Following the MMC examination of CEGB, consideration was given in Ministerial correspondence to the possibility of an efficiency audit being conducted by commercial consultants; and my officials put it to the two Scottish Boards that they should consider this. This suggestion coincided with thinking at the two Boards and they have therefore welcomed it.

3. Mr Ibbs says that it has taken almost a year to arrive at a position where it is still not clear whether Maynard and Barry will be commissioned or not. In fact, however, we have reached no collective view on how far sponsoring Departments should be involved in a matter of this kind. The Chancellor of the Exchequer's ad hoc approach is clear from his letter of 5 November. So far as I am aware the Secretary of State for Trade still feels - and I agree with him - that we need to establish some ground rules.

4. Taking the Chancellor's and Mr Ibbs' latest proposals together, the proposition seems to be that I should tell the two Scottish Boards that:

- (a) the studies they are planning to commission themselves are now to be commissioned by me and them jointly;
- (b) I will choose the consultants;
- (c) the Boards will pay the whole costs.

This would certainly be a departure from the normal way in which Ministers deal with nationalised industries, and it goes much further

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than the Chancellor suggested in his letter of 20 May. My officials have had detailed discussions with the Boards; and in addition to discussing terms of reference etc, they have drawn the attention of the Boards to Maynard and Barry both in meetings and letters. The work of this firm in the United States has been particularly mentioned. The firm have themselves been in close contact with the Boards who are now carefully evaluating what Maynard and Barry can offer. The Boards are also looking at proposals from a number of well known UK consultants.

5. It would not be easy to explain to the Boards why, against the background of some months of discussion, I am now in favour of a joint study and that they should abandon their evaluation in order to employ Maynard and Barry regardless of their conclusions on the other consultants. If I am to take this line, it seems to me essential that I must offer to pay at least half the cost of the study. In that event Treasury would have to be prepared to provide additional finance since I have no provision in the relevant programmes to cover what would be a very expensive exercise. Even if extra money were provided, I have no power to force a consultants' study on the Boards or to insist that they employ Maynard and Barry; and if they dig in their heels, our only recourse will be to the MMC.

A.Y.

G.Y.

Scottish Office
17 November 1981