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CONFIDENTIAL

5 March 1986

The Rt Hon Nigel Lawson MP
Chancellor of the Exchequer
HM Treasury
Parliament Street
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Nigel

NBN

EWBANK REPORT : FOLLOW-UP ACTION

In the exchange of correspondence resting with your letter of 19 July to Norman Tebbit sponsor departments were asked to make year-end progress reports on follow-up action. The main areas concerned were project management (particularly in the coal, water, airports and electricity sectors) and procurement issues.

... I attach a note on BSC and the Post Office, the two nationalised industries concerned sponsored by DTI.

I have also seen the reports submitted by Peter Walker, Nicholas Ridley and Kenneth Baker. These show that in some areas useful, if fairly limited, progress has been made. It is for example, encouraging that DOE will be examining with the water authorities and plant manufacturers various means (for example integrated packages, repair and maintenance work, development of innovative products) by which the authorities could help the manufacturers to improve their capability and thus, their export performance. Similarly, although it is not covered in the reports, the current proposal for a lignite-fuelled power station in Northern Ireland to be built and operated by a private sector company is an important development which could create a useful precedent for future CEGB orders. It is also worth mentioning plans for a seminar to be organised jointly by the British Consultants Bureau and Nationalised Industries Overseas Group : this will concentrate on the scope for increased co-operation on overseas work.

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But the progress reports also suggest that in some areas there is still room for improvement. For example, on NCB procurement, more could be done to order larger integrated equipment packages from UK manufacturers, thereby building up their expertise and making them more effective overseas. Procurement is not mentioned at all in the reports on the CAA and LRT.

My contacts with industry leave me in no doubt about the importance that companies continue to attach to progress in this area. I therefore suggest that sponsor departments should be asked to submit further reports by, say the end of September, and that meanwhile my officials should meet yours in the near future to consider whether there are sectors which would seem to justify closer examination.

I am sending copies of this letter to the Prime Minister, the Secretaries of State for Energy, Defence, Scotland, the Environment, Social Services, Transport, Northern Ireland and to Sir Robert Armstrong.

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rsj,*

PAUL CHANNON

Paul

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EWBANK REPORT: FOLLOW-UP ACTION

BRITISH STEEL CORPORATION

General

BSC's policy and practices are generally in line with the Ewbank Report's recommendations and BSC has a good record in collaborating with the private sector on overseas projects and in procurement issues.

Project Management in the UK

As shown by information provided for the Steering Group's report, BSC has a good record of employing and collaborating with private sector consultants and contractors on domestic projects. One recent example which illustrates the measure of collaboration with UK consultants and manufacturers was BSC's substantial participation in partnership with construction and engineering companies in the Euroroute proposal for the Fixed Channel Link. Although this proposal was not successful, BSC's participation demonstrated their willingness and ability to collaborate with the private sector.

Procurement

BSC have supported the public purchasing initiative and this is reflected in their procurement policies. The operation of enlightened purchasing practices and issues arising have been the subject of ad hoc discussions between the Corporation and DTI while BSC's corporate planning cycle has been disrupted during the last two years. The most recent discussions concerned BSC's computer strategy. Now that the planning cycle will return to normal, procurement issues are expected to be an agenda item during the next round of regular discussions in April/May of this year.

Overseas Work

BSC (Overseas Services) are consultants who often act as sub-contractors to UK plant suppliers as well as in the role of independent consultants to overseas clients. The Corporation has wide experience of collaboration with private sector manufacturers and consultants. Since the Steering Group's report was prepared, BSC has concluded a major agreement with Davy McKee to provide services under a contract for a new blast furnace for Posco, the South Korean State Steel Company. Negotiations are underway for a second blast furnace. In addition, BSC signed a contract in June for a project engineering consultancy in Malaysia in association with McLellan and Partners, and bids for other contracts have been submitted with other UK consultants.

THE POST OFFICE

Project Management

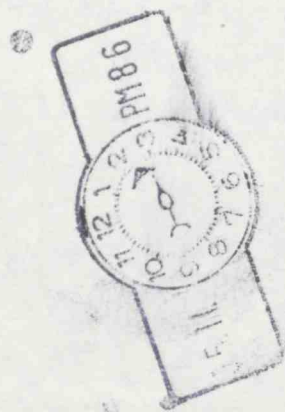
The Post Office accepted recommendations 4 and 5 of the Ewbank Report and uses private sector project management firms for domestic building and mechanisation schemes.

Procurement

A Postal Equipment Group (PEG) has been set up, and comprises representatives of the Post Office, the Postal Equipment Trade Association (PETA) and the DTI. The Group provides a forum at which the Post Office and its suppliers can exchange information about product requirements. The Post Office can draw the attention of suppliers to its future needs, while the suppliers can draw the attention of the Post Office to the products they have or are developing. The Group enables both sides to take account of the likely requirements of other postal administrations with a view to ensuring that products developed for the British Post Office are, where possible, suitable for export.

The PEG held its inaugural meeting in February 1985 and has now met 3 times. It is intended that it will continue to meet at least twice a year. During its first year the PEG has discussed a range of subjects including future Post Office investment and product development, product requirements and potential on overseas projects, intellectual property rights, and potential export markets, including China and Korea.

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PT 10





NEW ST. ANDREW'S HOUSE
ST. JAMES CENTRE
EDINBURGH EH1 3SX

The Rt Hon Nigel Lawson MP
Chancellor of the Exchequer
HM Treasury
Treasury Chambers
Parliament Street
London
SW1P 3AG

17 January 1986

Dear Nigel,

THE EWBANK REPORT

In your letter of 19 July you invited colleagues responsible for nationalised industries to circulate end-year progress reports on the industries' response to the joint Government/NICG Steering Group Report on Ewbank.

On domestic project management, the system operated by the Scottish Electricity Boards, whereby work is undertaken in-house only if there are clear technical or economic advantages in so doing, is already in line with the general thrust of Ewbank. The SSEB believe that the balance they have achieved between themselves and the private sector on recent major construction projects - such as Torness - is about right and gives considerable scope for the private sector, including the NNC, to develop skills which could help them to secure overseas work. They believe they are now close to the optimum and doubt whether any attempt to increase private sector participation further would either improve their own operations or enhance the prospects for export orders. The North Board are providing a good shop window for UK companies by means of their wind generation project on Orkney and the bulk of rural development work goes to private contractors. They also intend to engage private contractors to install the proposed link to the Western Isles.

On procurement, both Boards accept the need to avoid over-specifying technical requirements for new plant and feel they have a good record of co-operation with domestic manufacturers. They will continue to bear closely in mind the requirements of export markets in setting standards for plant and equipment.

I should also report that the Board are enthusiastic about the prospects of increased collaboration with private consultants on overseas work, either directly or through British Electricity International (BEI) and this was borne out in recent bids for work in Saudi Arabia and Bangladesh. There is a feeling, however, that UK consultants and contractors could do more to make the relationship work and that they are rather hesitant

about joining forces with the electricity supply industry in overseas markets.

There is no obvious scope for an overseas involvement by the Scottish Transport Group on their bus or ferry operations. As a major purchaser of buses, the Group is closely involved however with UK vehicle manufacturers in the development of improved performance and design for new buses. Their efforts in this area could well result in British products having an increased attraction in export markets. For the limited capital projects they undertake, the Group make full use of private sector contractors for both design and construction.

I am copying this letter to the Prime Minister, Peter Walker, George Younger, Kenneth Baker, Norman Fowler, Nicholas Ridley and Sir Robert Armstrong.

Yours ever,
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about 100,000 acres with the standard crop of wheat in 1955-56.
There is an urgent need for an increased investment in the Southern
Transport Group in their bus of heavy equipment. As a result of this
of these, the Group is closely involved in the development of the
infrastructure in the development of heavy road performance and design for
new buses. Their efforts in this area could well result in British
products being an increased amount in export markets. For the
limited capital resources they have, the Group make full use of private
sector resources for both design and construction.

I am copying this letter to the Prime Minister, Peter Walker,
George Younger, Kenneth Baker, Norman Fowler, Nicholas Ridley and
the Report Committee.



01 211 6402

CCBA
NBM

The Rt Hon Nigel Lawson MP
Chancellor of the Exchequer
Treasury Chambers
Parliament Street
LONDON
SW1P 3AG

9 January 1986

David

THE EWBANK REPORT

In your letter of 7 May and 19 July to Norman Tebbit you requested a report by the end of the year on the follow-up to the Ewbank Report; in particular on coal and electricity generation.

Reports on coal and electricity supply are attached. We have not covered the activities of the British Gas Corporation in view of the imminence of privatisation.

I am sending copies of this letter to the Prime Minister, Michael Heseltine, George Younger, Kenneth Baker, Norman Fowler and Leon Brittan.

[Handwritten signature]

PETER WALKER

EWBANK AND THE NATIONAL COAL BOARD : SUMMARY OF POSITION

The National Coal Board services British Coal International, which provides a regular forum for representatives of most major mining and other coal-related UK trade associations, the Board and members of DTI and D Energy; the Board's staff have continual contact outside these meetings with the industries and Government.

BCI has responded to the Ewbank Report with a vote of confidence in the Board's relations with the private sector, particularly over project management: The Group intends to review activities from time to time in the light of Ewbank.

There is, however, no room for complacency and in the New Year a working party of DTI, D Energy and Board officials will meet to review all areas highlighted by Ewbank - overseas activities, project management and procurement - to consider what steps may be taken to improve matters overall.

NCB's overseas consultancy activities are carried out through British Mining Consultants Ltd (BMC) - a company owned 50% by NCB (through NCB (Ancillaries) Ltd) and 50% by Inter-Continental Fuels Ltd (itself indirectly 25% NCB owned - the other shareholders being RTZ, the Australian coal mining company Austen and Butta Ltd and (indirectly) the British holding company AAH Ltd.) Following DTI and D Energy criticism of BMC's existing structure and management, the NCB Chairman is personally reviewing these with a view to producing a more commercial organisation. This Report is expected shortly. The NCB are also conscious of the need to improve the continuity of staff in overseas postings and are looking into the possibilities.



EWBANK REPORT: ELECTRICITY SUPPLY INDUSTRY (ENGLAND AND WALES)

This note reports on progress in the ESI (E&W) on opportunities for greater private sector involvement in project management, and on the procurement issues discussed in Annex F to the Steering Group's Report of April 1985.

1. Project Management

The ESI's response to the Ewbank Report explained at some length the history of project management for major power station projects over the last twenty years or so. The only major power station currently planned is the proposed PWR nuclear plant at Sizewell B. The project management arrangements for Sizewell B should be seen against the historical background and against the innovative nature of the project for the UK. The CEGB, as client for Sizewell B with responsibility for the plant safety and expenditure, has assumed the lead position in the management of the project by setting up the Project Management Board (PMB). The National Nuclear Corporation (NNC) are participants in the project both at Board level and by supplying about half the staff for the project management team. This arrangement gives a clear direct line of responsibility for the project to CEGB Board level. At the same time, the CEGB is concerned to promote the transfer of PWR technology to UK industry and to secure the maximum level of design and manufacture by UK manufacturers, including project management within their contractual areas.

An earlier initiative to bring together the three major manufacturing companies to establish a joint company for the production of the Nuclear Steam Supply System (NSSS) did not progress. Under an alternative strategy contracts have been placed with Westinghouse for the Primary Circuit, , but Westinghouse are subcontracting most of the hardware for the reactor pressure vessel and all the work on its erection to UK companies. A Joint Company of Westinghouse and NNC has been proposed to supply the auxiliary systems to complete the NSSS, with the requirement that all manufacturing work must be undertaken by UK industry. The new company would project manage the scope of work within the Primary Circuit and the Auxiliary Systems contracts. This new joint venture company would be established at Booths Hall, Knutsford, alongside NNC and the PMB. In this way, maximum benefit would be derived from Westinghouse's worldwide PWR experience, while securing as much work as possible for British manufacturers and contractors, and assisting in the transfer of technology to them. These developments should enable British manufacturers and contractors to compete in worldwide PWR opportunities as they arise.



The delay in a decision on Sizewell B means that any follow-on stations are likely to be similarly delayed; and the Hinkley Point C project is now unlikely to start before 1989. The establishment of the new joint company would enable a British-led organisation to quote for the supply and project management of a complete NSSS or nuclear island for follow on plants at a firm price.

2. Procurement Issues

As in the case of project management, the ESI's initial response to the Ewbank Report explained the industry's procurement practices and the way these are designed to be helpful to UK suppliers. Annex F to the Steering Group Report suggests that procurement matters should be brought forward regularly in the discussions between the NIs and their sponsoring Departments. Besides those meetings specifically concerned with procurement questions (which will normally be led by DTI but with a Department of Energy presence) opportunities to discuss procurement arise:

- at the annual meetings held by the Department with each of the Area Electricity Boards and with the CEGB to discuss their Capital Investment Programmes;
- through an arrangement under which the CEGB informs government of any impending purchasing decision where there is a possibility of a significant contract going overseas.

These monitoring arrangements will continue in 1986.

The CEGB has recently reviewed its purchasing policy and its relations with its suppliers. A note by the Board on this review is annexed.

In addition, the CEGB is developing a programme of work to reduce the cost of UK power stations both by means of better performance by contractors and by means open to the Board as client. Aspects of this which are relevant to the follow-up to Ewbank are:

(a) Standardisation and replication

In principle, this enables investment in design and development and manufacturing facilities to be spread over a number of units as well as giving advantages in the procurement of plant. Construction time savings should follow.



- increased preparedness to host development projects, whilst requiring the sponsor company or the Government to share risks and costs;
 - joint action with contractors to identify "strategic sub-contractors" and to ensure that such sub-contractors are similarly encouraged to be managerially, technically and commercially competitive;
 - helping British suppliers to meet technical standards, e.g. by assistance with installing proper QA systems.
- (b) providing financial support to British suppliers, where appropriate, for specific development projects.
- (c) The CEGB will continue to support British suppliers where it may properly do so, ~~and~~ except where the commercial or technical risks of doing so may actually prejudice the Board's activities
- (d) On repair and maintenance work, the CEGB is seeking to negotiate trading agreements with either the original suppliers, or on a competitive basis, giving companies more opportunity to plan ahead in their activities. Such agreements would be subject to review of costs, profit recovery and productivity, leading to real terms cost reductions.



ANNEX

Procurement (note by CEGB)

The CEGB pursues a "buy British" policy, but plant costs quoted by British suppliers are often not competitive with world prices. The CEGB has been concerned about the prices of equipment and services within the home market, as this affects the ultimate cost of electricity to the consumer. The Board must also be concerned about the international competitiveness of British suppliers as this will determine the long-term viability of those suppliers. It is the CEGB's policy, therefore, to secure world prices in contracts with home suppliers. From time to time, the CEGB has been criticised for the influence it is said to exert upon British contractors in terms of over-elaborate plant specifications and interference in the contractors' internal management. It needs to be remembered, however, that the home market for new domestic power stations has been at a very low level in the last 10 years, with Drax extension, Heysham II and Torness the only orders. The value of CEGB orders to the main suppliers has often been only a few per cent of the order book. Any influence that the CEGB may have had has declined dramatically as British companies have been forced more and more to look to overseas countries for business.

The CEGB has been examining its relations with British manufacturers against this background and is seeking to establish working arrangements based upon the following principles which it has discussed with the relevant trade associations:

(a) The CEGB will seek to improve the competitive position of British industry by:-

- basing its own plant specifications, to the largest possible extent, on established international or British standards;
- maximising the flow of information to plant suppliers about experience of operating plant and the results of relevant CEGB research, and about the CEGB's forward requirements both for new plant and for repair and maintenance;
- imposing clear contractual obligations on plant suppliers that minimise CEGB intervention;



(b) Specifications

CEGB technical specifications are to be examined once again to seek possible simplifications and to consider whether CEGB gets value from the "lifetime" cost approach. At the same time, the commercial/project management sections of specifications will be reviewed to cut down the content.

(c) Contract strategy

Contract strategies will be examined in order to make most efficient use of manufacturers' design and engineering resources. Where possible, larger packages with fewer interfaces will be considered.

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PT 10





2 MARSHAM STREET
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My ref:

Your ref:

30 December 1985

NRBM
Dear Chancellor of the Exchequer

EWBANK REPORT: WATER AUTHORITIES

In your letter of 19 July to Norman Tebbit about action to follow up the Ewbank Report, you agreed that sponsoring Ministers for nationalised industries should report progress by the end of the year.

In respect of water authorities, two lines of action have been identified:

- i) that consultation should be held with water authorities about the possibility of their placing more work with consulting engineers; and
- ii) that regular discussions should be held with water authorities to review their procurement activities.

On the first line of action, I have obtained returns for 1984/5 from both the Association of Consulting Engineers and the Water Authorities Association of the value of design and supervision work undertaken, on the one hand in-house by water authorities, and on the other by consulting engineers.

Consulting engineers undertook 23% of the value of work sponsored directly by water authorities; this is a substantial volume (£200 million) when it is borne in mind that independent studies have shown generally that it is more cost effective for water authorities to undertake much of their design work and supervision in-house. However, I would like to see an increase in the amount of work going to consulting engineers, if at all practicable, and I shall ensure that this is fully explored with the water authorities when their annual corporate plans are reviewed in the spring.

The returns also showed that only 8% (£29 million) of the work handled by local authorities as sewerage agents for the water authorities was undertaken by consulting engineers. There is certainly scope for improvement here, and I shall consider with water authorities how it would be possible to transfer more work to consultants. The future of sewerage agencies is of course under consideration as part of the privatisation exercise, and the performance of local authorities in this respect is one of the factors we must take into account.

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Turning to water authority procurement, discussion with plant manufacturers has suggested that their export performance could be expected to improve if there were a greater number of package deals, if they were allowed to undertake repair and maintenance work, and if they received greater assistance from water authorities with the development of innovative products. Early in the New Year, we shall be examining these matters jointly with the water authorities and plant manufacturers; and the subject will be followed up when water authority corporate plans are reviewed.

A copy of this letter goes to the Prime Minister, to the Secretaries of State for Trade and Industry, Energy, Defence, Scottish Office, Social Services, and Transport, and to Sir Robert Armstrong.

Yours sincerely

for AH Davis

KENNETH BAKER

Approved by the Secretary of
State and signed in his absence

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