



SECRETARY OF STATE FOR ENERGY
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Prime Minister (2)

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Rt Hon Leon Brittan QC MP
Chief Secretary
HM Treasury
Parliament Street
London SW1

5 April 1982

Leon Brittan

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BGC CONSULTANCY STUDY

I have now secured BGC's agreement to a jointly-commissioned study of BGC's organisation and efficiency by management consultants. A copy of the draft terms of reference which I have provisionally agreed with British Gas is annexed to this letter; the precise terms of reference can only be finally settled in discussions involving the consultants themselves, when they have been selected. I believe that the draft terms of reference meet all the points raised by Robin Ibbs in his letter of 26 February, and by your officials.

I propose to announce the study by written answer on Wednesday, 7 April. I attach importance to an early announcement in order to stem any uninformed speculation, which could be counterproductive in terms of the Corporation's relationships with the Unions. The announcement, which I shall need to clear with the Corporation, would not set out the draft terms of reference, since, as I have said, these could be subject to revision later, but would describe in general terms the broad thrust of the study.

I am copying this letter to the Prime Minister, other members of E(NI), John Sparrow and Sir Robert Armstrong.

Ym m
Nigel

NIGEL LAWSON

DRAFT TERMS OF REFERENCE

Taking account of the Corporation's statutory obligations, the objective of the study will be to :-

1. Investigate whether in carrying out its business the Corporation could, without detriment to a satisfactory standard of service, economically improve its efficiency so as to be able to reduce its costs or mitigate the effect of any increases in its costs with particular reference to :

- (i) its internal cost control and project control systems;
- (ii) its management control systems;
- (iii) its control of working capital.

2. Investigate whether the management, financial controls and methods of operating are :

- (i) most likely to provide the maximum opportunity for ensuring the optimum return from and use of the resources employed (in particular capital, manpower, land, energy); and
- (ii) sufficiently flexible and robust to cope with change.

3. To make recommendations as to where and how improvements should be made.

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Prime Minister (2)

CABINET OFFICE
Central Policy Review Staff

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70 Whitehall, London SW1A 2AS Telephone 01-233 7765

From: John Sparrow

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CONFIDENTIAL

7 April 1982

Dear Nigel,

BGC Consultancy Study

I have seen your letter of 5 April ^{- TPM} to the Chief Secretary setting out draft terms of reference for the proposed BGC Consultancy Study.

Although the points made by Robin Ibbs in his letter of 26 February on efficiency objectives are fully covered in the draft, I note that there is no longer any mention of 'organisation and structure'. I understand that there may be difficulties in getting BGC to accept a specific reference to these issues but I would like to be sure that the second part of the terms of reference can be interpreted sufficiently widely to enable the Consultants to consider these areas.

I am sending a copy of this letter to the Prime Minister, members of E(NI), and to Sir Robert Armstrong.

Yours sincerely,

John Sparrow

The Rt Hon Nigel Lawson MP
Department of Energy
THAMES HOUSE SOUTH
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Prime Minister (4) /k SV

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Treasury Chambers, Parliament Street, SW1P 3AG

Rt Hon Nigel Lawson MP
Secretary of State
Department of Energy
Thames House South
Millbank
London SW1P 4QJ

7 April 1982

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BGC CONSULTANCY STUDY

- TPM

Thank you for your letter of 5 April about the jointly commissioned study of BGC's organisation and efficiency by management consultants.

The terms of reference cover the ground admirably except that I was surprised to see no reference to the Corporation's "organisation and structure", which you indicated in your minute of 19 February to the Prime Minister would be an important element in the study. This point could easily be met by amending the second term so that it read:-

"Investigate whether the management, financial controls, organisation and structure, and methods of operating are..."

Could I therefore suggest that the terms of reference should be amended in this way. If you cannot persuade BGC to accept this amendment, perhaps you could confirm that the consultants will nevertheless be examining the Corporation's "organisation and structure", for example to consider, among other matters, the case for the adoption of a profit centre approach to financial management and control.

I am copying this letter to the Prime Minister, other members of E(NI), John Sparrow and Sir Robert Armstrong.

[Handwritten signature]

LEON BRITTAN

7 APR 1982

