

SECTION 8

GENERAL ISSUES

8.1 FINANCE

8.1.1. The funding arrangements for The Service are out of line with modern practice in several respects. It is difficult to justify the requirement that IPs deposit assets in the ISA now that the profession is regulated and bonded. The fee structure was compiled many years before the introduction of cost based accounts and is out of line with current Treasury Guidance on Fees and Charges. Because some activities do not generate income, income is not matched to the cost of activities. Fees recovered on one activity are used to offset the cost of other activities where fees are not set sufficiently high to recover costs or where insolvent estates do not have sufficient assets to fully discharge the fees charged. The Service is on gross running cost control despite its activities generating a surplus of some £10m pa. Outsiders say they find it difficult to understand why The Service is squeezed when funds exist to fund it adequately.

Current Financial Regime

8.1.2 The Service is funded from the main DTI Running Cost and Programme votes. It operates within Gross Running cost control and its financial framework is based on the containment of those costs consistent with fulfilling its statutory responsibilities, value for money, and all relevant targets.

8.1.3. A complex scale of fees and charges apply to compulsory bankruptcies and company liquidations and interest is earned on the investment of monies paid into the Insolvency Service Account. Under Government Accounting Rules fees for work done may be appropriated in aid to the Department's vote, but interest from The Investment Account must (by statute) be paid to the Consolidated Fund. All significant activities of The Service are derived from The Insolvency Act 1986 and the Company Directors Disqualification Act 1986 and are considered for segmental purposes to be one single class of business.

8.1.4. The Service charges fees against insolvent estates, and pays to the Consolidated Fund interest from its investment account (which holds cash assets of bankrupts and insolvent companies). Fees are 'banded' as a percentage of the value of an insolvent estate. Fee income is paid to the Department appropriated in aid against the Department's running costs. Excess fee income over and above the agreed appropriation is received by Treasury as a Consolidated Fund Extra Receipt (CFER) unplanned surplus. Fees and interest both generate significant income.

8.1.5. In 1883 the idea of requiring IPs (then called trustees) to pay their realisations on estates into a government controlled fund (the ISA) was a regulatory one designed to stop fraudulent trustees, of whom, in the third quarter of the last century there were many misappropriating the funds under their control. The cost of running the supervisory regime would be met from the appropriation of the interest earned by the funds deposited. In this way the cost of protecting assets belonging to creditors would fall on those creditors.

8.1.6. Since then there have been piecemeal attempts to identify points at which the flow of funds into insolvent estates could be intercepted by the levying of a charge by reference to some service provided to or benefit conferred on an insolvent estate in particular or insolvent estates in general. There has been no systematic attempt to ensure that the cost of the provision of the service or benefit was equal to and fully recovered by the fee charged. A particular difficulty in raising fees and charges in the insolvency context is the ability to

collect them. By their very nature the customers for many of the services relating to these fees and charges (the insolvent estates) have no or insufficient assets to ensure that the fees and charges are fully recovered. And any revision of fees and charges within the current framework simply to ensure compliance with fees and charges guidance would further increase the surpluses generated for government through the ISA and interest on investment.

8.1.7. Costs and income for 1999/2000 were as follows:

1999/2000 £k	Cost	Income	Surplus/(deficit)
Administration including approx £2m public interest cases	35,333	14,956	(20,377)
Investigation and enforcement	OR cases 16,666 IP cases 16,030 38,252 Prosecutions 5556)	4,695	(33,557)
Banking	1,202	1,141	(61)
IP regulation	1,070	315	(755)
Policy	882		(882)
Total	76,739	21,107	(55,632)
Other mainly SOS fee (£21,700k)	3,773	24,234	20,461
Total	80,512	45,341	(35,171)
Interest on ISA			43,400
Surplus			8,229

8.1.8 The administration fee is currently £320 in bankruptcies and £640 in company liquidations. It is secured in part by the deposit the petitioner is required to pay to the court - in bankruptcies £250 for a debtor or £300 for a creditor; in company liquidations £500. The average cost of case administration is £1100 for bankruptcy and £1400 for company liquidation. For comparison, an individual applying for a County Court Administration order does not have to pay a deposit nor lose their house. If the order is granted the Court deducts a fee of 5% from payments made by the debtor.

8.1.9 Given the background we decided to start from first principles and consider how The Service might be funded if it were being set up today. The objective is to find a system which is fair to stakeholders; in line with current financial practice; and gives The Service flexibility to manage its business efficiently and effectively.

Beneficiaries from Services

8.1.10 We started by considering where costs of the various functions might be attributed according to who benefits from the service:-

OR functions	Creditor may get some return Debtor gets out of debt and can start again If in business, potential general benefit of starting another business in terms of wealth and job creation.
Investigation and enforcement	Creditors get the satisfaction that misconduct is punished. General public protected to the extent that perpetrators and others are deterred in future.

Banking/ accounting arrangements	Users – from estate assets.
IP regulation	IPs are enabled to practice.
Policy	Contributes to DTI objectives. Some elements might be held to benefit debtors, creditors and/or IPs directly and be chargeable to them through fees.

8.1.11. For the purpose of this analysis we assume that in future the full costs of IP regulation will be recovered; and that the operation of any banking or accounting arrangements that may be put in place can also cover costs. (Some banking and investment function will be needed for OR cases and costs would need to be included in the costs of administration if a central banking function for IPs is not provided). This leaves essentially the costs of policy (£882k), administration (£35m) and investigation/enforcement (£38m). Of the latter, £14m falls to DTI's programme budget on the grounds that the extra STAs were recruited to enable The Service to devote more resource to enforcement in response to the NAO report.

Case Administration

8.1.12. In principle The Service provides a service for which the main beneficiaries could be charged but the assets in most cases are not sufficient to cover costs. Some element of cross subsidiary is inevitable if the level of fees were set to recover costs across all cases or a substantial deficit if fees relate to the actual costs of administering each case.

8.1.13. We understand from CABs and others that many consumer debtors cannot afford the deposit and hence are deterred from petitioning. Raising the deposit would choke off some demand but would leave more debtors unable to discharge their bankruptcy. Conversely lowering or abolishing it altogether would increase the caseload substantially.

8.1.14 To the extent that the administration of insolvent estates by ORs is in the interests of the creditors, it could be argued that they should bear the costs of invoking either bankruptcy or company liquidation proceedings. In compulsory liquidations where the petition to wind up the company is presented by the company itself, i.e. the company acting by its directors (which The Service estimate happens in some 5% of cases), the cost of having a winding up order made against a company (and thereafter the OR dealing with the liquidation) is likely to be considerably less than that of an IP handling a creditors voluntary liquidation, despite having to pay a deposit of £500 and petition fees to the Court. In such circumstances the taxpayer or other creditors are effectively subsidising the directors of the company who may have considerable personal wealth.

8.1.15 The Inland Revenue and Customs and Excise present more creditors' petitions both against limited companies and individuals than any other creditor. A large number of petitions are withdrawn following either payment in full or the reaching of some agreement between the debtor individual or company and the Crown department for payment over time. If the recommendations in the report on the Review of Company Rescue and Business Reconstruction Mechanisms are accepted, there could be a significant reduction in the number of petitions presented by Crown departments. If Crown preferential status were to be given up at some stage in the future there might be less incentive for Crown departments to petition for formal insolvencies. (The Service's view is that a more commercial approach on the part of the revenue departments to CVAs would affect principally numbers of voluntary

liquidations rather than compulsory liquidations; and doubling the number (500) of CVAs would constitute a success.)

8.1.16 Recommendations made elsewhere in this report (e.g. investigating the scope for charging scale fees in cases where IPs are appointed from the rota; raising the limit on "no asset" cases) are also relevant to the extent that they could reduce the net costs of administration and hence the size of the deficit by enabling more estates to contribute towards fees.

Enforcement

8.1.17 Disqualification is not a function under the Insolvency Act so primary legislation would be needed to use fees from insolvent estates to fund it. We understand that EU Tax Directives prevents increasing the fee for company registration to cover disqualification and prosecution in corporate insolvency. Seeking to recover costs from directors disqualified or people convicted of an offence would not cover all costs since there are no assets in many cases. Investigation by the OR might be charged to estates to the extent that the costs of IPs preparing reports will be covered in their costs. However, ORs investigate while IPs are simply required to report so the DU have to carry out deeper investigations into IPs reports that indicate misconduct.

8.1.18 The general view of those we consulted is that investigation and enforcement, together with the costs of cases where the OR acts as provisional liquidator in cases wound up in the public interest on the petition of the SOS, are undertaken in the public interest or for the public good and as such should be funded from general taxation. It is not, for example, expected that the police should take a share of property recovered after burglaries, nor retain any "interest" earned on it, to cover the costs of prosecuting offenders. Householders who can afford to do so take out insurance on property as do larger companies against bad debts. But the less well off, like small companies, have little option but to take the risk.

8.1.19 Creditors told us that as well as getting the highest return possible, they want to know how fees are made up (those of IPs as well as government) and to see misconduct punished. SMEs in particular recognised that insolvency was often simply a matter of bad luck and that if a company continues to trade in one way or another the continuing business is likely to be more valuable to them. There was a strong feeling that those who had been unlucky enough to lend to a company which became insolvent should not have to pay for the punishment of the guilty.

8.1.20 These considerations point in the direction of funding investigation and enforcement from general taxation. The disqualification and/or prosecution of offenders also has a more general deterrent effect in discouraging others to offend which is clearly a wider benefit. However, we recognise that this would leave a substantial deficit to be funded and therefore suggest that consideration be given to seeking a contribution towards the costs of enforcement from insolvent estates. Where the main beneficiaries are other government departments' enforcement programmes, they might be asked to contribute to costs. Some contribution might be sought from directors in cases of fraud or misconduct but the a pilot scheme to seek compensation from disqualified directors who appear to have personal wealth is only just starting and it is not clear to what extent The Service's costs might be recovered. The present pilot is directed at recovering money for distribution to creditors. Consideration should be given to whether it could be extended to cover the costs of disqualification

proceedings. If our recommendation on the use of agents to investigate cases of misconduct reported by IPs is taken up, consideration could be given to DTI continuing to fund the work from its programme budget which appears to offer greater flexibility. This might be classified as income in certain circumstances.

Options for Future funding regime

8.1.21 Starting with a blank sheet, options for charging include:

1. Seek to recover actual costs in each case	Substantial deficit will remain as not all cases have sufficient assets.
2. Increase deposit to level of average costs £1100 individual;£1400 company	Likely to put bankruptcy out of the reach of individuals; should be viewed in the context of the current review being undertaken by LCD and The Service. Substantial deficit.
3. Increase deposit for company winding up	Worth doing and would reduce the deficit. Arguable that process is considerably cheaper than voluntary winding up and directors should be charged the full cost.
4. Set fee (effectively a levy on estates that were able to bear the costs) to be paid to The Service to cover estimated costs for year, taking account of previous year's surplus/deficits	Could an element of cross subsidy be justified as contributing to the costs of providing OR services as a whole? Unlikely to be possible as 80% of cases do not cover initial fee. Of the remaining 20% only 5-6% have substantial assets. IPOs contribute to recovery. Current fee level plus SOS fee (at least 15% of assets and this includes voluntary liquidations) barely covers costs of administration. Cost of managing and monitoring payments by IPs. Costs to IPs of maintaining client accounts would come from assets - comparison with costs of ISA.
5. Provide central banking function. Set fee to cover estimated costs for year, taking account of previous year's surplus/deficits and estimated interest including that on investments	Could element of cross subsidy be justified as contributing to the costs of providing OR services as a whole? Given complaints about the requirement to pay into ISA, would pooling be acceptable? Costs? Invite tenders from banks to manage on behalf of The Service/DTI? Interest would have to accrue to account otherwise costs of enforcement could not be covered.

8.1.22. In practice the first 3 options would leave substantial deficits, even more so if the costs of investigation and enforcement were included. Option 4 could be complex to administer, would involve collection of a variable fee not directly related to the service provided and at current fee levels would be unlikely to cover the costs of examination let alone enforcement. All IPs believed that they could get a better return for the creditors though they recognised that there would have to be restrictions on how the funds were invested i.e. in client accounts with a recognised bank with interest accruing to the clients (as happens now in receiverships and in private sector cases in Scotland).

8.1.23. Option 5, a pooling arrangement for creditors funds and their investment on behalf of clients, might offer the prospect of a better return to creditors than if IPs made their own arrangements for clients accounts and could contribute towards the costs of enforcement from the interest earned on the account. The fee on funds invested (variable from year to year) and related to the projected yield of the fund, could produce enough money to cover any deficit from the levy of other fees and charges. It would also be possible to ensure that 'structural surpluses' were not allowed to happen effectively by accident.

8.1.24 Those we consulted were well aware that surpluses were generated and that there was no direct link between the funding of The Service and the income and interest derived from the banking arrangements. They would be more likely to accept a pooling arrangement if it were operated by The Service (or DTI); the income from fees and interest clearly linked to the funding of The Service; and the arrangements brought into line with modern banking.

8.1.25. More work is needed to see whether a scheme on the lines of option 5 could be designed within the rules. The interest from the current arrangements over and above that which is paid to creditors is classified as windfall and hence has to be paid to the Consolidated Fund. Interested parties would also have to be consulted about the extent to which creditors might be expected to contribute towards the cost of enforcement with the remainder coming from a combination of DTI's running cost and programme budgets, depending on the type of work.

8.1.26. We also need to consider the range of insolvent estates to be included in options 4 and 5. At present the banking arrangement extends to voluntary winding up which contributes a substantial amount of the investment. Estate balances at 31 March 2000 were:

Bankruptcy	102.2m
Compulsory liquidations	274.7m
Voluntary liquidations	498.4m

Loss of this would substantially increase the deficit on fees and undermine the extent to which a pooling arrangement would generate funds.

8.1.27. This arrangement could also cover policy work though we would argue that much of this relates to DTI wider interests (e.g. the enterprise agenda; the framework for international trade) and should be paid for by DTI. There are precedents for including costs of policy development in charges for services where beneficiaries are clearly identified e.g. allocation of the radio spectrum. Insolvency is not wholly in this category.

Conclusion

Our initial conclusion is that there are several grounds for the abolition of the current banking arrangements. We stop short of making this a formal recommendation as we have not been able to complete our work on alternative regimes in this first stage of the QR.

8.1.28. It is however difficult to see how a charging regime could be devised which enables The Service to cover costs completely. While there are arguments for seeking a contribution to the costs of enforcement from insolvent estates, it would not be appropriate to seek to recover the full amount. Unfortunately the information needed to calculate the funding gap in the various cases outlined above is not yet available. **In Stage 2 we intend to investigate the options further in particular:**

- **Estimate the effects on income of options 1-3 above together with potential savings from other changes suggested elsewhere in this report if accepted.**
- **Consult further on the extent to which creditors, including Inland Revenue and Customs and Excise under their enforcement procedures, or insurers might contribute towards the costs of enforcement.**
- **Estimate what contribution might be recovered from action taken against directors who are disqualified.**
- **Discuss further with The Service, DTI and Treasury whether an acceptable scheme can be designed for pooling funds from insolvent estates.**

In the light of this information we would aim to decide whether a pooling arrangement is feasible; whether sufficient income could be generated to justify a net running cost regime; or whether a gross running cost regime is the only option.

8.2 IT

Insolvency Service IT Systems

8.2.1 The Service has recently moved over to the DTI's ELGAR system which is a networked system of Microsoft products including WORD, EXCEL, and MS OUTLOOK. The Service also has an Intranet which is used for communicating personnel, technical and other general information, a connection to the Government Secure Intranet and a web site which is used for promulgating information about The Service and its activities.

8.2.2 In addition to the ELGAR system The Service has 4 bespoke IT systems.

These are:

- LOLA - an accounting package which is used for maintaining the financial details related to the Official Receiver's administration of liquidations and bankruptcies.
- LOIS - a case management system which is used for tracking cases administered by Official Receivers and recording information relevant to the progress of the cases.
- BANCS - an accounting package which is used to keep the information on transactions between the Insolvency Services Account (ISA) and the Insolvency Practitioners who have deposited funds in the ISA.
- The Central Index - an index of basic information about all insolvencies. It is used to provide internal information within The Service and as the basis of the public registry of information.

8.2.3 A review of IT strategy was undertaken in 1998 by consultants from CCTA and their recommendations were endorsed by The Service's IT Steering Group, Directing Board and Agency Steering Board. These covered 4 work packages under 4 headings:

- Business Initiatives (BWP).
- Information Systems Initiatives (ISWP).
- Information Technology Infrastructure Development (ITWP).
- Procurement.

The packages were grouped into 8 streams. The estimated initial cost was £8.9m with annual cost of £1.7m and benefits of £12m. The work was to take place over 3 years but a substantial cut in The Service's running cost budget for 2000/2001 forced The Service to put further implementation on hold. Allowing for work done up to that point, some £5.25m remains to be done.

8.2.4 This strategy has been overtaken to some extent by the adoption of ELGAR and the Modernising Government agenda and The Service is in the process of updating it.

PKF's Terms of Reference

8.2.5 We commissioned Pannell Kerr Forster (PKF), who are also advising two other QRs being undertaken for DTI's Competition and Markets Group, to answer the following questions:

- Are The Service's current IT strategy, organisation, systems and equipment including the effectiveness of controls on IT spend appropriate and effective?
- What are The Service's plans for future use of new technology?
- How could The Service make better use of new technology to improve the delivery of its services and functions, including how to maximise the value from IT and meet the Government's modernising targets?

Taking account of issues such as:

- Changes in the business information industry in recent years and likely future developments.
- Developments in e-commerce and the "Modernising Government" agenda, particularly the target of 100% of Government services should be available electronically by 2005.
- Opportunities for interfaces between The Service and other bodies to make economies of scale, share knowledge and learn from best practice.
- How new technology could best serve business and customer needs and how to maximise the value from it.
- Potential costs.
- And to assess the effectiveness of controls on IT spending (direct manpower/consultants/capital spend).

8.2.6 PKF's summary and conclusions are at Annex 8.1

Views of consultees

8.2.7 The Guidance envisages the review of IT being undertaken in Stage 2. In view of the funding problems and the many comments made to us about the urgent need to replace the existing business systems (LOIS, LOLA and BANCS), we commissioned PKF part-way through Stage 1 so that their report would be available at the same time as our Stage 1 report and could be taken into account in Stage 2. We have the option to ask them to look into some issues in greater depth in Stage 2, for example into some of the specific suggestions made to us. These are at Annex 8.2.

PKF's conclusions

8.2.8 PKF confirm that The current IT strategy is still relevant and appropriate but that it will need to be revised to conform to the Modernising Government Agenda and to reflect the progress already made implementing Elgar. The estimates of costs and benefits need to be updated. PKF believe the total may be as much as £16m, significantly more than the £8.9m originally envisaged, when the priorities of the Modernising Government Agenda and other systems such as Document Imaging and Management are taken into account. The core older systems (LOIS, LOLA, and, depending on decisions on the future of the ISA, BANCS) must be replaced over the next 3 years. The full benefit of Elgar will not be realised until this is done, as Elgar is an enabling step for their redevelopment and implementation.

8.2.9 We need to discuss the report with The Service and PKF. **The key issue for Stage 2 is to define the priorities and establish how the essential work can be funded so that The Service can meet its targets for 2000/1 to 2002/2003 and those set in "Modernising Government".**

PKF's Conclusions

3.13 Answers to the key questions set out in the terms of reference are given below.

Are The Service's current IT Strategy, organisation, systems and equipment including the effectiveness of controls on IT spend appropriate and effective?

3.14 IT Strategy:

- The current IT strategy is still relevant and appropriate. However it will need to be revised to conform to the Modernising Government Agenda and to reflect the progress already made implementing Elgar.
- Estimates of costs and benefits set out in the existing Strategy should be reworked. The strategy suggests that the total investment needed is around £8 million. We believe the total may be significantly more than this when the priorities of the Modernising Government Agenda and other systems such as Document Imaging and Management are taken into account.
- The strategy is not being effectively deployed. Work packages scheduled for deployment after the implementation of Elgar have been deferred for funding reasons.

3.15 Organisation:

- Compared to other organisations such as the Patent Office and Companies House, the Insolvency Service has a lower ratio of IT staff per user. This is partially offset by the fact that the Elgar contract outsources desk-top computing provision and support.
- We believe that the IT organisation is trying to do too much with its current headcount. As a result, users are dissatisfied with some aspects of the service they receive. This is one reason why, in many cases, users have developed their own local systems. We suggest that the IT department agrees and documents its services with users in the form of a Service Level Agreement and that the services offered be limited to those that can be delivered well with the available resource.
- Users feel that the IT department is not proactive enough in planning and liaising with key user groups. The creation of the Service Level Agreements, and the involvement of users in setting up and monitoring them will help to communicate and agree with users the services to be delivered.

- The IT department must develop stronger contract management skills to prepare it to control suppliers selected to implement elements of the strategic plan. The IT department's role will become more focused on contract management as the systems it currently support are replaced.

3.16 Systems:

- The core older systems (LOIS, LOLA, BANCS) will need to be replaced in the next 3 years. Package software should be investigated where possible over custom development. The full benefit of Elgar will not be realised until these systems are replaced, as Elgar is an enabling step for their redevelopment and implementation.
- Use of The Service's strategic database, Ingres, should be carefully managed so as not to expose the Insolvency Service to potential sourcing problems. If this database will be used for future systems development, the design should ensure the database can be swapped for another without the need for redevelopment. This database is not a leading system in a rapidly commoditising market space - one that is being won by Oracle, Microsoft and Informix.
- Current core systems have been developed to work within the scope of the Insolvency Service organisation. There are some problems with integration between the systems developed by users in Access and the core systems. There are also integration problems with data fed in from outside organisations, in particular data submitted from Companies House and in the exchange of information with the Courts.

3.17 Equipment:

- Current and planned levels of equipment are largely adequate for current needs. When the core systems are redeveloped, new servers will be required which may require an extension to the Elgar contract.

3.18 Controls:

- IT expenditure is largely non-discretionary, being dominated by salary costs and Elgar. We believe that current controls on the remaining costs are appropriate and effective.

What are The Service's plans for future use of new technology?

- 3.19 The Service's Plans for future use of new technology are set out in the current IT Strategy.

- We believe that these plans and assumptions are still valid, with the proviso that the strategy must be revised to reflect the Modernising Government Agenda, to reflect the progress made in implementing Elgar, and to validate again the estimated costs and benefits.
- Plans do not exist, but we believe they should be developed, for rationalising the proliferation of Access database systems and bringing key systems under the support of IT.
- As the strategy is implemented we believe that IT costs will rise. Support services should be provided by the suppliers of systems with the IT department taking on a more contract management role.

How could The Service make better use of new technology to improve the delivery of its services and functions, including how to maximise the value from IT and meet the Government's modernising targets?

- 3.20 We believe that additional funding will be needed for the Insolvency Service to meet the targets set by the Modernising Government Agenda, and that without this funding, these targets cannot be achieved.
- 3.21 The Service's IT Strategy sets out potential costs of around £8 million to implement the planned work programme. We believe that when the strategy is revised costs may be as much as double this amount, or £16 million.

Elgar forms the basic platform to develop and implement a number of the initiatives set out in the strategy, such as the redevelopment of the core systems. In order to exploit the current implementation of Elgar and to get more value for money out of the system The Service should:

- Dedicate more resource to closely manage the Elgar contract to get the maximum level of service possible from the contract.
- Arrange for a programme of training to be provided to end users to ensure they make the maximum advantage of the new functionality provided by Elgar. This should recognise that there is an on-going requirement for training at many levels of sophistication. Computer or Web-Based Training may be the most suitable medium for this.
- The IT department needs to reorganise so that it can focus on the delivery of key services. Exactly what these are should be based on consultation and prioritisation agreed with users. The service to be delivered should be documented in a Service Level Agreement.

IT ISSUES MENTIONED TO THE QR TEAM BY CONSULTEES

Integrate and update the 4 business systems.

Use external e-mail.

Sharing information and automatic data exchange with other parts of government.

Secure access for insolvency practitioners for banking - balance, transactions, payments .

Provision of information to insolvency practitioners e.g. on changes in the law, procedures, case law, technical bulletins, policy reviews etc.

General provision of information.	<ul style="list-style-type: none">-Develop web site.-Insolvency register -public access –free.-Leaflets and other information including translation into other languages.-Information on disqualifications (awareness/deterrent).
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Interface with Courts.	<ul style="list-style-type: none">-Document transmission.-Videolink for court hearings and for interviews/ assisting in form filling.-Document scanning to reduce storage costs (depends on extent to which standards of evidence require access to original documents).
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Scope for remote working.	<ul style="list-style-type: none">-Centres to handle telephone interviews in summary cases.-Examining officers working from home nearer to courts and clients.
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Administration centralised in centres in areas of high unemployment with fewer problems of recruitment and retention.

Relate to process review of OR processes.

Relevance to new functions proposed in policy consultation documents.

Risk Management.

Customer survey feedback e.g. on access - times, e-access.

Collection of monitoring information including Chartermark standards.

8.3 MANAGEMENT AND ORGANISATION

8.3.1 We shall be looking at the way The Service operates in Stage 2 but it is worth noting here some of the issues which have been put to us in Stage 1 and which we shall be following up.

Relations with DTI

8.3.2 As might be expected given the financial situation, there are tensions in relations between DTI and The Service on finance, particularly the annual RAM process and the running cost settlement. Finding a regime which gives The Service more flexibility should ease the tension but is unlikely to remove it altogether since relations with providers of finance are rarely relaxed.

8.3.3 Senior managers felt that otherwise relations were generally good but that DTI did not always remember to consult its agencies before signing up to central management initiatives (which the agencies then had to accommodate within limited resources) and that more could be done to ensure the agencies' views were taken into account in policy formation. This is being addressed by inviting agency representatives to join DTI sub-committees. We understand that ensuring coherence between the development of agencies and departments is the role of the "Fraser Figure". In DTI, this is the Chair of the Steering Board though other departments have different approaches. The current chair is responsible for 4 Agencies and is supported by a very small staff. **We believe that Director General of DTI Competition and Markets does not have adequate resources to support her in her critical monitoring role or as a Fraser figure and suggest that DTI review the position.**

8.3.4 In general staff felt that agency status was valuable psychologically but that in practice flexibility was limited by central controls, most obviously in the tight running cost control and the lack the freedom to manoeuvre within the pay negotiating brief. Many had very little contact with DTI centre. **We believe that steps should be taken to improve understanding e.g. by exchanges of staff and networking at national and regional/local level.**

8.3.5 DTI complimented The Service on the how they had used their flexibilities e.g. in designing pay and grading system to meet their needs; developing an NVQ for examiners; and equal opportunities and family friendly policies. Staff appreciated these policies but were unsure about the scope for transfers elsewhere in DTI, particularly for specialists. There were also problems with the operation of pay scales on advancement and promotion which were proving difficult to resolve.

Management

8.3.6 We found evidence of recruitment and retention problems in growth areas

(London, Leeds, Birmingham, Brighton and Reading) where there were opportunities in DTI or OGDs for generalists and/or opportunities outside the Civil Service for all. **This leads us to suggest that some administrative functions might be centralised in areas of lower growth and high unemployment, taking advantage of IT and modern communications technology.**

8.3.7 The Chief Executive is supported by the Deputy Inspector General HQ functions and the Deputy Inspector General Operations. They are joined on the Directing Board by the Director of Finance, Planning and Corporate Resources and the Director of Human resources. OR operations are grouped under 7 Regional Managers, a recent change which has given more flexibility in managing resources and work among offices. The role of Regional Manager is still developing and **we intend to investigate the scope for further delegation to regional offices.**

Location

8.3.8 Several of those to whom we spoke mentioned the importance of local contacts especially in the discovery of assets and in tricky investigations but others felt that the cost of maintaining so many offices, especially the London HQ, was considerable. We appreciate that account will have to be taken of the fact that many offices, including HQ, are on long-term leases but **we shall look at the scope for using new technology to reduce the costs of accommodation, achieve economies of scale in administrative work and at the same time get closer to customers by remote working and the establishment of regional centres of expertise.**

We are also required by the Guidance to look at Regional boundaries with a view to bringing coherence with the standard Government regions.

Comparisons with other organisations

8.3.9 Benchmarking activity to date has measured performance against in-house costs and quality standards set during the market test of The Service's Banking function and contracting out the administration functions of the OR. These benchmark figures are now 5 years old. Some activities are being measured against the EFQM standard and internal benchmarking is also being developed through the comprehensive process review of OR functions. This review aims to identify best practice across the administrative and investigative functions.

Its objectives are:

- The identification of best practice with a view to efficiency savings.
- The identification of efficiency savings from the use of new technology.

- The identification of improvements to customer services.
- The development of a process of continuous reviews.
- Assurance that all processes have been considered and all improvements and savings have been actioned and/or identified.

8.3.10 The Service is a member of the Civil Service Benchmarking Best Practice Club but its requests for details on similar performance information have not been answered. We are told that attempts to benchmark investigative activity against the police foundered because the police did not measure performance.

In the absence of comparative data it is difficult for The Service to demonstrate the effectiveness of its service delivery. **We intend to look for suitable partners in Stage 2 e.g.**

- **Insolvency organisations in other countries, especially Scotland**
- **Administration - insurers, banks, mortgage lenders**
- **Enforcement - Companies Investigation Branch, forensic accountants, lawyers.**