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5 June 1986

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John

NSP

PUBLIC EXPENDITURE SURVEY 1986 : OFFICE OF FAIR TRADING

... I annex a summary of the provision which I request for the Director General of Fair Trading. The Director General's Vote is relatively small (£8,658,000 in the current year) and is separate from that of my own Department.

My proposal falls broadly into three parts: the cost of slippage of the consumer credit computer; additional manpower and running costs in the licensing branch in 1987/88 pending computerisation; and additional consultancy provision. I propose that manpower and running cost allocations in 1988/89 and 1989/90 should be regarded as provisional while a review is undertaken of OPT's future work and staffing needs.

1987/88

You will recall from earlier correspondence that the Director General's financing plans in recent years have been badly hit by difficulties associated with the computerisation of the consumer credit licensing system. A large investment project of this sort (total costs will approach £3 million) is extremely difficult to handle within a small annual budget and the constraints of annuality. The arrangements made last year should have covered the position. Unfortunately, the Director General tells me that the contractor selected for the critical task - the conversion of paper

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records to a computerised format - has proved incompetent and the contract has now been terminated. As a result in 1985/86 (when the Treasury had agreed to a call on the reserve) the Office was underspent by some £600,000 and expenditure which would otherwise have been incurred in 1986/87 has been pushed forward in time. Unless an appropriate adjustment can be made to the Director General's financial ceiling in 1987/88 for this, and for the unavoidable increase in the cost of new contracts, the entire project will have to be called off. The money spent to date would then be wasted and other non-productive costs would be incurred in terminating contracts. Clearly that would not represent a defensible stewardship of public resources.

I strongly support the Director General's request that the OFT ceiling for 1987/88 should incorporate the sums needed to allow computerisation to proceed. The case for this expenditure has already been accepted. In the long run it will save money. The financing problem that has arisen is a technical problem which would not exist had the same end-year flexibility been available for this project as for capital spending. I hope that you will be able to give the Director General assurance very promptly so that the programme is not held in suspense until the completion of the Survey exercise. The Director General's plans assume that the computerised system will be operating in the second half of 1987. This programme will slip if authority to proceed is delayed. From the end of July, total costs will also increase by approximately £100,000 for every month in which the funding decision is delayed.

Licence fees are producing more than two million pounds per annum and there is a net surplus (ie an excess over the costs of running the system) of around £500,000 per annum which unfortunately the Director General cannot appropriate. The surplus accumulated over the years is already more than £2,500,000. A computerised system will be more effective and will also mean that firms do not have to wait so long for a licence. In the circumstances I suggest that it would be both politically and managerially inept to fail to complete the system because spending has been re-phased. I therefore support the Director General's proposal that there should be an increase over baseline of £750,000 for this purpose.

In addition, the Director General has made a strong plea in the enclosed paper for an increase in the real resources available to him for the full and growing range of his statutory duties. He considers that his present complement of 321 is already proving inadequate to carry out his statutory duties, to respond promptly to new consumer problems, to keep pace with rising workloads under regulatory laws, to participate fully in plans to prevent monopoly



abuse after privatisation, to cope with the current merger boom and to undertake new duties this year under my Financial Services Bill and under new legislation on misleading advertising.

The Director General has asked for a temporary strengthening of his licensing branch to hold the position in face of increasing workload until the relief promised by computerisation materialises. I support both the request for the translation of casual hours to "permanent" posts and the request for ten new posts to keep pace with applications for this short period. Without these the increasing wait for licences will risk becoming a political embarrassment. This is a temporary expedient, however, to meet a temporary problem. In the long run computerisation should much reduce the number of staff needed for the licensing operation.

Beyond this, I have told Sir Gordon Borrie that, although I sympathise with his position I cannot endorse all his requests. His analysis appears to reflect more long standing problems which need to be considered fundamentally in the context of a consultancy study of workload and complement which he has in mind and on which your officials and mine will be kept in touch.

I support the Director General's request for a small increase in his funding for bought-in consultancy (an additional £75,000 to increase the total OFT capacity to some £225,000). This is a cost-effective way of topping up and supporting professional studies for which resources are not available in-house.

In 1987/88 the total cost of the new licensing posts and bought-in consultancy would be £167,000. Aggregated with the knock-on effects of the latest pay settlement and the £750,000 requested for the computer the bid for the first survey year totals £900,000 above baseline.

1988/89 and 1989/90

For the second and third survey years I support the continuation of the extra funding for consultancy but the position on staff numbers and running costs must await the outcome of the further review. By that time the role of the Office in the Government's competition policy may be clearer as a result of our proposed review of competition legislation. And when the computer is fully operational this will cut down the number of clerical staff handling licences. It may be that posts thus saved could relieve growing pressures elsewhere in the Office without any overall increase in complement. Since some figure for manpower must go



into the Survey I propose the present baseline figure of 319 for the rest of the survey period but I shall regard this figure as provisional until these various uncertainties are resolved.

I am copying this letter to the Prime Minister.

A handwritten signature in black ink, appearing to be 'Paul Channon', written in a cursive style.

PAUL CHANNON

A handwritten signature in black ink, appearing to be 'Paul', written in a cursive style.

Encl

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OFFICE OF FAIR TRADING

PES SUBMISSION

PES 1986

Manpower

	1987-88	1988-89	1989-90
Present Pes baseline	321	319	319
Addititonal posts required	24	0	0
Total posts required	345	319	319

Finance

1. Present PES baseline

	£000	£000	£000
A. Running Costs			
EC 110: Pay of OFT staff	4,081	4,201	4,306
EC 115: DG's Pay	64	65	67
EC 130: Gen. Admin. Costs	3,822	3,918	4,016
B. Non-Running Costs			
EC 440: Capital Costs	73	75	77
TOTAL PES BASELINE	8,040	8,259	8,466

2. PES 1986 BID

A. Running Costs

EC 110: Pay of OFT staff	4,246	4,285	4,392
EC 115: DG's Pay	73	74	76
EC 130: Gen. Admin. Costs	4,546	3,991	4,093
B. Non-Running Costs			
EC 440: Capital Costs	75	70	70
TOTAL PES BID	8,940	8,420	8,631

ADDITIONAL PES REQUIRED

900	161	165
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16 May 1986

1986 Public Expenditure Survey

OFFICE OF FAIR TRADING

SUMMARY

1. This paper sets out the reasons for seeking an increase on baseline provision for the Office of Fair Trading.
2. The Director General of Fair Trading needs extra staff if the performance of his Office is not to deteriorate over the survey period. Additional financial provision is needed in a number of areas to cover such additional staff costs and to allow the Office to buy in services needed to support its work. Part of the bid reflects this need for an increase in the real resources made available to the Director General for the performances of the full and growing range of his statutory duties. This is dealt with in paragraphs 19 to 24 below and Annex 1. Secondly, provision will be needed to complete the programme to computerise the consumer credit licensing system. This is dealt with in paragraphs 25 to 27 below and Annex 2.
3. The total additional requirement is as follows:

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quality of its staff.

5. The Office cannot be regarded as a single whole within which resources can be freely diverted, at the Director General's discretion, between one task and another. The Director General has a wide range of statutory duties and functions, each largely self-contained. Performance on each has to be maintained at an effective level. The statutory framework is rigid and no unit can be run down below a certain critical point in order to relieve another.

6. The Office is very small by the standards of departments dealing with policy work of equivalent difficulty. There is no reserve on which to draw in any emergency.

7. The Director General has recently reviewed the position with his senior staff. He has concluded that the continued growth in the obligations and duties placed upon the Office, in terms of its present resource arrangements, has created an unacceptable degree of strain in responding to external developments and political imperatives, especially in relation to competition. Further statutory duties are to be added to the Office during 1986/87, ie on the subjects of Financial Services and Misleading Advertising. Unless positive steps are taken to give the Office more elbow-room the Director General sees an imminent risk that the quality of the investigations undertaken by his Office will be impaired, that mistakes and backlogs will accumulate in regulatory work and that he will be unable to respond as he (or they) would wish to Ministers' requests for advice.

8. It is of course the case that on each occasion on which laws have imposed new statutory duties on the Director General some allowance has followed in staff ceilings. However

- (a) the major new tasks imposed by statute on OFT in 1986-87 are in the Financial Services area, and in connection with the monitoring and control of Misleading Advertising. While it is true that some allowance has been made in staff ceilings, the increases authorised have been at the minimum end of the range deemed necessary, and they applied only to the staff directly engaged in the activity - no allowance was made for the demands imposed on professional and support services;
- (b) the remarkable surge in mergers case in 1986 has generated enormous pressure on the Office which is the product of outside events and established Ministerial policy (which requires comprehensive

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Outputs must necessarily reflect the number and quality of these staff, at which level there is little scope for productivity and efficiency savings.

10. This diagnosis of the general problem experienced by the Office of Fair Trading is necessarily subjective. It is not the outcome of any full scale external consultancy. The programme for the preparation of the 1986 Survey Report precludes any such study. It is however the considered view of the Director General and his senior managers, who believe that it can be supported at each point by recent experience. Its timing results from the improved management planning system now in force in OFT: its content reflects the situation which has developed gradually over the life of the Office to date.

11. The case made below necessarily presents the need for extra posts in terms of particular functions, but such individual bids must be considered in context of a more general need for depth and elbow-room to keep the work flowing and respond to the unpredictable. Note that what is unpredictable is the nature of the particular competition and consumer issues that will assume priority in 1987/88 and subsequent years as - for example - tasks associated with privatisation are currently making new demands on the Office. That demands of this nature will arise is not unpredictable at all.

12. Unless and until relevant legislation is changed (and the only changes currently in the pipeline would increase rather than reduce functions) the Director General has to plan to manage his Office on the assumption that he is to achieve the required objectives in relation to all his statutory functions. These can be grouped broadly into three categories:

- (i) functions connected with promoting competition and dealing with anti-competitive practices under the Fair Trading Act, the Restrictive Trade Practices Act, the Resale Price Act and the Competition Act (77* complemented posts)
- (ii) functions under the Consumer Credit Act (93* complemented posts)
- (iii) other functions for the protection of consumers under the Fair Trading Act and the Estate Agents Act (39* complemented posts)

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restrict claims for additional resources to a minimum, the bid for more Mergers staff is limited to 2. The Director General must reserve the right to bid for further increases if present merger pressures continue.

- (c) The Director General is anxious to respond positively to the Government's requests for expert assistance on problems affecting competition. The Office is currently well advanced on a programme of studies on restrictions in the professions which he believes Ministers have found valuable. Such work can most efficiently be done by a small dedicated team. One study was handled in this way (a team of four on the patent agents monopoly) and it is noteworthy that this went most smoothly and speedily. Those which had to be handled by staff simultaneously dealing with statutory case-work have not been so successful. Failing adequate resources the Director General would reluctantly have to consider whether further requests of this kind could be accommodated.
- (d) The Office receives about 800 complaints a year from firms, Members of Parliament, Departments and Local Authorities alleging anti-competitive and restrictive trade practices. At present all are carefully considered except when it is immediately clear that they give no legal basis for action. All the rest are investigated, although few lead ultimately to court action or to an investigation under the Competition Act or a monopoly reference. The Director General has recently determined that the Office should adopt a firmer policy in dealing with those complaints which do not offer a high prospect of appropriate investigation under the legislation.
- (e) The Director General is to examine and advise the Secretary of State on the anti-competitive features of the rules of SIB, some six self regulatory organisations, six additional investment exchanges and the International Commodities Clearing House. Sir Kenneth Berrill (Chairman of SIB) is concerned that shortage of resources at OFT will hold up the timetable for putting the new régime in place, and has made representations to the Department of Trade and Industry. Although four new complemented posts were allowed in PES 1985 for Financial Services work, three of these were diverted to other urgent work, and a further bid is therefore made. It remains to be seen whether a total of four

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management and to the work of the Office. At the same time the increase in applications and information about traders supplied to the Office makes it impossible to speed up dealing with cases of unfitness. The Office has always been proud of the information and guidance it issues to firms subject to regulation, since long before this approach was commended to Departments in Lifting the Burden (Cmnd.9571). It has however been impossible to undertake the necessary publicity on unfair business practices within the meaning of the Act so that licensees know what not to do. In other words, staff shortages render it impossible to get full value from the licensing process.

- (d) The licensing branch has a permanent complement of 50 for day to day work. For many years this has been inadequate and since 1983 Treasury have authorised an addition of 14 casuals to the staff. The constant turnover, recruitment and training of casuals is highly inefficient. To relieve pressure on a busy branch, there is a strong case to convert these into permanent posts. In addition, however, since 1983, there has been an increase of 16% in licence applications and notifications and the first quarter of 1986 saw an increase in input of nearly 30% over the corresponding period in 1985. There is, therefore, also a strong case for another 10 additional staff to help cope with this increased and heavy workload.
- (e) Legal problems are becoming apparent in the handling of appeals from the Office to the Secretary of State under the Estate Agents Act and the Consumer Credit Act. They need to be analysed. Both the analysis and consequential changes in procedures are expected to require more legal input to these processes. In order to cover this requirement, as well as the problems connected with Part III of the Fair Trading Act mentioned below and the consequences of the greater volume of pro-active work now proposed for OFT, an additional 2 legal posts are sought.
- (iv) Other consumer protection functions
- (a) Similar problems arise in relation to action against law-breaking traders under Part III of the Fair Trading Act - the complement of nine with responsibility for the entire UK is considerably smaller than the trading standards

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the recent reviews of opticians, patent agents and restrictions that continue to inhibit competition between members of various professions.

16. Beyond measures of this sort, which would release little real resource but cause a public and political upset and damage good management out of all proportion to the slight alleviation of pressure gained, the Director General cannot independently decide to stop carrying out a particular task. He would therefore have to consider asking the Secretary of State to initiate legislation to relieve him of particular duties. The priority to be attached to particular measures to promote competition or the interests of the consumer involves a question of political judgement. Realistically, primary legislation to repeal any of the statutes under which the Director General operates is unlikely in this Parliament. The immediate effect of continued tension between resources and requirements would therefore be that all the present functions would continue with delays, complaints and a higher risk of error. Sir Kenneth Berrill's fear that the Office will be the stumbling block in the way of introducing the new financial services régime could prove justified. The increasing disposition of aggrieved parties to challenge decisions of administrative authorities in the courts must make this scenario particularly alarming.

17. The continuation of the present hand-to-mouth situation must seriously curtail the Director General's ability to pursue service-wide initiatives to tighten up Civil Service management, for example the introduction of divisional budgets and of new staff appraisal systems.

18. In the context for which this analysis is required, the emphasis unfortunately has to be on what is going wrong and could go worse. Taken alone, this could convey a quite misleading picture of OFT performance and potential. Achievements in 1985 are summarised in the Director General's Annual Report. The record speaks for itself, the Office deploys considerable talent, experience and expertise in respect of competition and consumer affairs, and its reputation generally stands high. It is for precisely this reason that the Director General thinks it right to present the Government now with this analysis of his current problems and his considered view of what is needed to resolve them, while recognizing that it is for others to rank these matters in relation to other public spending.

BID FOR GENERAL PURPOSES

... 19. The details are annexed at 1. Broadly, the "extra" relates to

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22. In addition to staff costs, the Director General seeks extra funds for the consultancy work which is essential to back up complex consumer and competition studies. Within the ceiling, only about £145,000 could have been accommodated. There is an urgent need for greater provision. The purposes can be illustrated by specific priorities foreseen for the first survey year which have not been allowed for in that sum:

	consumer studies	£50,000
	misleading advertising (payment to experts to investigate the factual basis of advertisements)	£10,000
Commercial in Confidence	the reopening of a major case (cement) before the Restrictive Practices Court	£15,000

23. The bid covers the knock-on effect of the latest civil service pay rise in relation to the existing complement and the additional posts required, £87,000 in all, which, for the reasons already outlined, cannot be absorbed within OFT's present PES baseline.

24. The Director General is considering whether to commission an early inspection of some of the areas where he sees a need for extra staff. In some cases, the need is born out by statistics showing increase in workload. In others such as merger work the problem is as much an increase in the complexity the task.

BID FOR COMPUTER LICENSING PROJECT

25. The Director General's letter to the Secretary of State of 17 February 1986 explained the situation which has arisen in connection with the project to computerise consumer credit licensing. Partly because of delays last summer in obtaining financial authority to complete contracts, but more largely because of the failure of the contractor selected to convert manual records to disc, the project has to be rephased and new contracts negotiated. Briefly, this will push into the first survey year expenditure which would otherwise have taken place in FY 1986/87.

26. There are still uncertainties about the cost, but to allow realistic headroom a net addition to baseline of £750,000 is required. This represents a deferment of spending, but not a significant increase. The costs of licensing are met by fees (there is in fact an accumulated surplus of £2.6 million) so the computer costs will ultimately be self-financing.

OUTLINE PES SUBMISSION

PES 1986

Manpower

	1987-88	1988-89	1989-90
Present Pes baseline	321	319	319
Additional posts required	50	51	51
Total posts required	371	370	370

Finance

1. Present PES baseline

	£000	£000	£000
A. Running Costs			
EC 110: Pay of OFT staff	4,081	4,201	4,306
EC 115: DG's Pay	64	65	67
EC 130: Gen. Admin. Costs	3,822	3,918	4,016
B. Non-Running Costs			
EC 440: Capital Costs	73	75	77
TOTAL PES BASELINE	8,040	8,259	8,466

2. PES 1986 BID

A. Running Costs

EC 110: Pay of OFT staff	4650	4856	4976
EC 115: DG's Pay	73	74	76
EC 130: Gen. Admin. Costs	4,432	3,723	3,817
B. Non-Running Costs			
EC 440: Capital Costs	90	70	70
TOTAL PES BID	9,245	8,723	8,939

ADDITIONAL PES REQUIRED	1,205	464	473
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Detailed PES submission

PES 1986

A. CONSUMER AFFAIRS DIVISION

(i) <u>Salaries/Manpower</u>	1987-88	1988-89	1989-90
<u>Staff numbers</u>			
Present complement:	132	132	132
PES additional bid:	+37	+37	+37
Total staff required:	<u>169</u>	<u>169</u>	<u>169</u>
	£,000	£,000	£,000
Total cost of additional staff:	241	247	253

Narrative

CA division require 37 additional permanent staff. This figure includes 14 staff which are at present casuals. The additional costs and posts listed according to function, and in descending order of priority are:

Function	Number of staff	Cost £,000		
		1987-88	1988-89	1989-90
Misleading Advertising work	+2	31	32	33
Additional staff for the Consumer Credit Licensing Branch.	+10	82	84	86
Part III of the Fair Trading Act.	+5	52	53	54
Register of convictions work	+1	8	8	9
Representations and Appeals work	+1	22	23	23
Casework policy work	+4	46	47	48
Consumer Credit Licensing Branch: Convert 14 casual posts to permanent ones.	+14	-	-	-
	<u>37</u>	<u>241</u>	<u>247</u>	<u>253</u>

The cost of 14 casuals is already budgetted for in the PES baseline and is not therefore shown in the additional costs here.

PES 1986

B. COMPETITION POLICY DIVISION

(i) Salaries/Manpower	1987-88	1988-89	1989-90
Staff numbers			
Present complement	77	75	75
PES additional bid	6	7	7
Total staff required	<u>83</u>	<u>82</u>	<u>82</u>
Total cost of additional staff:	£,000 89	£,000 78	£,000 80

Narrative

CP division requires 6 additional staff for 1987-88 and 5 additional staff for 1989-90.*

Function	Number of staff		Cost £,000		
	1987-88	1988/1990	1987-88	1988-89	1989-90
Financial Services					
work:	+3	+2	47	36	38
Additional workload					
of Mergers Secretariat	+2	+2	30	30	30
Work in connection	+1	+1	12	12	12
with EEC competition					
rules					
TOTALS	<u>6</u>	<u>5</u>	<u>89</u>	<u>78</u>	<u>80</u>

* Note

The manpower baseline figure for 1988-89 and 1989-90 is too low for present needs and provision has been made within the existing baselines expenditure for an additional 2 staff for 1988-89 and 1989-90.

(ii) General administration expenditure

Research/consultancy: additional requirements are for £15,000 consultancy costs for a possible re-examination of the Cement cartel case.

D. LEGAL DIVISION

	1987-88	1988-89	1989-90
(1) Salaries/Manpower			
Staff numbers			
Press complement:	14	14	14
PES additional bid	<u>2</u>	<u>2</u>	<u>2</u>
Total staff required:	<u>16</u>	<u>16</u>	<u>16</u>
	£,000	£,000	£,000
 Total cost of additional staff:	 55	 56	 57

Narrative

Legal division require 2 extra staff for the increase of work that will arise in connection with the Misleading Advertising directive and the other statutory obligations. The salaries bid has also been increased to allow for the prospective re-grading of 5 Senior Legal Assistants to Grade 6.

	£,000	£,000	£,000
Cost of 2 extra staff	35	36	37
Cost of regrading	<u>20</u>	<u>20</u>	<u>20</u>
Total costs:	55	56	57

detailed PES submission

PES 1986

F. ADMINISTRATION BRANCH

	1987-88	1988-89	1989-90
(i) Salaries / Manpower			
Staff numbers	71	71	71
There are no additional bids for extra staff.			

G. ALL BRANCHES / DIVISIONS

(i) Salaries

The 1986 pay settlement has been agreed at 6%. The 1986-87 salaries were calculated using an inflation factor of 4%, resulting in an extra £86,000 on the 1986-87 pay bill. It is considered that this amount can be funded from within the 1986-87 running costs, but for the forward years of the PES exercise there will be no leeway for the knock-on effect of the pay rise. It is essential therefore that £87,000 for 1987-88, and revalued for the following two years, is added to the pay bill for the existing OFT staff. The salaries of the staff required over and above the PES baseline include the knock-on effect of the pay rise.

(ii) General Administrative Expenditure

Included in the bid is £29,000 for the running costs (postage, telephones, etc.) associated with the additional bid for staff, and £20,000 for furniture and fittings for 1987-88 only.

COMPUTERISATION OF CONSUMER CREDIT LICENSING

Background

1.1 To date, 196,000 applications for licences have been received by the Office of Fair Trading (OFT). Files are kept relating to each application and the names of applicants (no matter whether the application was refused, surrendered, granted or revoked), trading names and names of all relevant officers, and the names of some 50,000 traders who currently have adverse information recorded against them (regardless of whether they have a licence or not), are indexed and at end 1985 totalled some 900,000 names.

1.2 Each month, an average of 1,650 new applications and 1,800 requests for variation of existing licences and notifications of changes of directors, etc, are received.

1.3 Licences presently expire in 1986. Provision had been made in 1986/87 for additional casual staff to assist in the renewal exercise in the period immediately before computerisation. However, because computerisation has been delayed, see below, the Secretary of State has agreed to extend licence validity by 5 years so that renewals will now start in 1991.

The Present System

2.1 Apart from checking the validity of, and an individual scrutiny of, each application form and supporting documents, all applications, variation applications and details of new directors, partners, etc., notified to OFT, are physically checked against the index; if the name is similar and adverse information is revealed, or if the similarity appears misleading (eg because of geographical closeness of two similar businesses), further checks are carried out, involving a physical check of the appropriate files. Licences, supporting documents, and statistics and records are all prepared manually.

2.2 The system was designed for operation by computer but this was aborted in 1979 because of Government financial cut-backs.

4.4 The preliminary estimates of the planned scheme were based on the initial proposals of three short listed suppliers; as they conducted detailed studies, the overall resources required clarified. In July 1985 the estimated costs for 1985/86 and 1986/87 were £2,383K. OFT had available only £1,034K and had to ask for £800K extra in 1985/86 and £600K in 1986/87. This was, eventually, provided, as to the £800K by an increase in the contingency fund and as to the £600K by an increase in OFT's vote for 1986/87 in exchange for a corresponding reduction in DTI's vote.

The Turnkey

5. The turnkey has gone ahead as planned. The Business System Design has been conducted and paid for. A special air conditioned computer room has been constructed and a new electricity supply installed. A 1 PDP 11/84 mini-computer, 28 visual display units, 12 microfilm viewers, 2 printers, 2 slave printers, and 1 camera, with associated wiring and associated equipment, have been installed.

The MRC Exercise

6.1 Three factors make the MRC exercise unusual and complex:

a) the amount of data to be captured on tape - the information from the present 196,000 files (and the 24,000 applications expected in the next year) and from 50,000 index slips (involving in all one million pages of forms and 66 million alphabetic and numeric characters which have to be punched on to tape);

b) the state of the original data (some sixty different format of forms, completed in a variety of manuscript and typing styles);

c) the amount of paper to be micro-filmed (and indexed to link to the computer) - 4 million pages.

6.2 The MRC exercise, involving handling working files and the administrative controls resulting therefrom, was planned in two sub-projects:

The Present Financial Position

8.1 In 1986/87 OFT has in its estimates provision £1,022K for the project as a whole. Had the project gone ahead as planned, most of the MRC exercise would have been paid for in 1985/86; of the 1986/87 provision most was earmarked for the completion of the turnkey system and associated costs (staff, consultants, staff training, etc).

8.2 However, to complete the project now, a longer overall timetable will be necessary. The turnkey will have to be extended, consultants, permanent OFT and casual staff spend a longer period than envisaged on the management and staffing of the project, etc. Thus, in addition to finding a suitable alternative for the completion of the MRC exercise, a complete redistribution of the financial expenditure plan has been necessitated. This paper examines the options for completing the MRC project and translates the cost of the chosen option into the overall effect on the financial plan as a whole.

8.3 If it were not for annuality, there would be little problem in going ahead with the chosen option. The "underspend" in 1985/86 could be carried forward and the project completed within the financial limits of July 1985. The end year flexibility scheme ("EYF") was introduced to improve value for money from capital expenditure by minimizing the delays and disruption associated with unavoidable slippage. If the slippage in this case had occurred on the capital equipment, OFT might have been able to take advantage of EYF but it is understood that expenditure on data capture cannot count as capital expenditure, even though such expenditure is necessary before live running can commence and is therefore the equivalent of capital expenditure.

8.4 The cost of the project increases each day as new applications, notifications, etc, add to the amount of data to be captured.

The Options

9.1 OFT has examined the options before it, with a view to seeing how the MRC exercise, and, thus, the project as a whole, can be satisfactorily concluded.

9.2 The essential task remaining to be done is the key-punching of the data and the micro-filming of the documents. This can be broken down into four elements:

- a) microfilming of all file documents;

9.6 To reduce costs, and contrary to previous planning, all short-listed options envisage that keyed data will not be verified by being double keyed and that stock keeping of forms and booklets will no longer be done by computer. (The accuracy of the keyed data will be reduced by not being verified but not to an unacceptable level; accuracy will be checked by the computer on input and database loading stage and by a sample visual check).

9.7 All short-listed options (described briefly at Annex A) envisage that micro-filming will be carried out by a specialist supplier because of the scale of the exercise, the type of equipment required and the need for special lighting and accommodation. Suppliers' costs, increased costs of OFT, casual, and consultant staff being engaged on a longer project than originally envisaged, extra costs of consumables and miscellaneous expenses, and the cost of completing the preparation of the paper files and all other MRC related costs are included in the total cost of each option.

9.8 The five options considered for critical examination have been selected as those which:

- a) limit the suppliers to those previously short-listed or at present connected with the project (to avoid the need for full tendering procedures, if possible; to shorten the "learning curve" and to enable the fastest possible re-start) (short listed suppliers not mentioned in this paper are no longer interested in taking on the task);
- b) look to a good relationship between prime and sub-contractors; and
- c) appear the most practical.

9.9 Each short-listed option assumes, inter alia, that:

- a) suppliers have properly understood the requirements, their estimates of costs are correct, and that inflationary increases of more than 5% will not occur;
- b) where two suppliers are involved, they will work well together;
- c) OFT staff in sufficient numbers and capability will be made available (though in no option do the requirements for OFT permanent staff exceed the current plan);

11.4 This option has operational and contractual advantages in that HGL being the turn-key supplier, they have a contractual interest in seeing the project as a whole completed and OFT is in constant dialogue with them. Another advantage is that PSI was the sub-contractor under Databasix, know the task and are keen to do it although they are more expensive than SMF.

11.5 It has, however, the major disadvantage that HGL no longer operate a major data capture bureau themselves and would have to sub-contract such work out. This would cause substantial control problems and calls into doubt the accuracy of their estimate, already the largest.

Option C

12.1 Under this option, all work (except micro-filming, contracted to SMF) is carried out by OFT using a mix of clerical staff and "bought in" data capture operators and supervisors.

12.2 The option can be divided into two sub-options; under C.1 special software is bought to enable the data capture to take place speedily on the existing OFT computer; under option C.2 the use of the planned turnkey software is envisaged.

12.3 The total cost of option C.1 would be £714k and option C.2 £678K.

12.4 The overall staff required would be 54.

12.5 The option has the advantage that using OFT staff to do all the work (except micro-filming) reduces costs. It reduces total file movements, increases security of files, flexibility and control of expenditure.

12.6 It has, however, major disadvantages. It involves the establishment by OFT of a data preparation team staffed and supervised by contract casual personnel. Because of their specialist nature they may be difficult to recruit. OFT has no experience of running a data capture exercise and unforeseen snags could crop up. Over a 9 month period there would doubtless be a high turnover of the bought-in data capture operators, leading to managerial problems. Overall control may therefore be a problem. Option C1 has the further disadvantage that HGL would have to write special software which could take 8 months to develop, causing a further delay and associated increased costs.

15.2 OFT has £1,022K available in 1986/87. As the Secretary of State has agreed to a deferment of renewals (see paragraph 1.3 above) the money intended for use in 1986/87 for casual staff to deal with renewals prior to the computer going live (£199K) will also be available to be used on the computer project.

15.3 If any of the options described above were to be adopted, and the cost thereof to be worked into an overall financial plan for the project as a whole, OFT could meet the costs in 1986/87 from its present provision. If option A were chosen, however, an additional £796K would be required in 1987/88, option B - £826K; option C.1 - £672K; option C.2 - £636K; option D - £760K and option E - 759K.

15.4 In the light of these figures and the advantages and disadvantages of each option, it is considered that the risks attaching to options A and B are too great for them to be seriously short-listed further.

15.5 Similarly, although options C.1 and C.2 have the advantage of cost, the lack of OFT managerial experience in running a data capture operation seriously increases the overall risks and disadvantages described in paragraph 12.6 above. The delay and increased costs inherent in option C.1 additionally makes that option further unattractive. It is by no means clear that option C.2 could be run by OFT and it could be necessary, if this option were chosen, to pay more for consultancy control of the project. This option cannot therefore be recommended further.

15.6 Option E has the disadvantage of duplication of management and control (see para. 14.5 above) for virtually no real cost saving. Option D appears to be the most risk free. It is also the most advantageous, both from a planning and an operational point of view.

15.7 Option D is therefore recommended as the best option.

Financial Justification

16.1 Using the rules in "Guide to Standard Costings" contained in the document "Investment Appraisal and Cost Monitoring for Information Technology Projects" produced by HM Treasury, it is calculated that, taking March 1986 as the starting point, option D would produce a scheme breaking even in 1993/94 (with a cumulative net present value of £866K over ten years).

17.5 However, even if sufficient staff were available, the system (originally designed for computerised operation) is growing more difficult to operate manually. The system entails, as described above, a check on all previous similar names, etc. The greater the number of total applications made, the greater and more demanding this searching task. Yet this difficulty is a physical one, easily solved under a computerised system.

CONCLUSIONS

18.1 It is concluded that:-

(a) because of:-

(i) the increasing volume of data and complexity of the manual system;

(ii) the inherent difficulties of running such a system manually: and

(iii) the staffing restrictions on the system;

that consumer credit licensing can no longer be run on a manual basis; and

(b) because of:-

(i) the expenditure already incurred (and which would otherwise be wasted) (£1,211K to end 1985/86) and the capital equipment already purchased;

(ii) the fact that, proportionally, only a small (but difficult) part of the overall scheme needs to be done: and

(iii) the conclusion at (a) above,

that the computerisation scheme should be completed; and

(c) that completion should be by option D (SMF - microfilming; AMP - data capture; OFT - indexing, correction and control).

Short-Listed Options

Appendix A

	<u>Option A</u>	<u>Option B</u>
Microfilming	Surrey Microfilm (SMF)	Photographic Suppliers (PSI)
Indexing	A.M. Programmers (AMP)	Hoskyns (HGL)
Data Capture	AMP	HGL
Correction & Control	AMP/OFT	HGL/OFT
	<u>Option C.1</u>	<u>Option C.2</u>
Microfilming	SMF	SMF
Indexing	OFT	OFT
Data Capture	OFT	OFT
Correction & Control	OFT	OFT
	<u>Option D</u>	<u>Option E</u>
Microfilming	SMF	SMF
Indexing	OFT	OFT
Data Capture	AMP	AMP/OFT
Correction & Control	AMP/OFT	AMP/OFT

Overall Cost**Appendix B**

(a) Cost of each MRC Option, broken down into elements.

	A	B	C.1	C.2	D	E
Microfilming	150	174	150	150	150	150
Data Capture	446	451	330	296	416	415
Administration	157	157	155	155	153	153
Consumables and miscellaneous	10	10	10	10	10	10
Consultancy	35	35	35	35	35	35
Sub Total	798	827	680	646	764	763
Add 5% (inflation)	40	41	34	32	38	38
TOTALS	838	868	714	678	802	801

(b) The extra funds required in 1987/88*, when each option has been worked into a new overall plan for the project as a whole with all consequential costs:-

A	B	C.1	C.2	D	E
796	826	672	636	760	759

* OFT meeting 1986/87 costs from its present 1986/87 PES provision.

CONSUMER CREDIT LICENSING

Appendix C

RECEIPTS AND EXPENDITURE

	Receipts	Expenditure	Surplus	£ Accumulated Surplus
1975	-	72,382	(72,382)	(72,382)
1976	66,611	604,006	(537,395)	(609,777)
1977	1,714,950	876,969	837,981	228,204
1978	1,478,691	1,232,751	245,940	474,144
1979	1,595,498	1,024,447	571,051	1,045,195
1980	1,142,279	1,220,042	(77,763)	967,432
1981	1,640,784	1,587,876	52,908	1,020,340
1982	1,809,260	1,538,886	270,374	1,290,714
1983	2,090,756	1,583,156	507,600	1,798,314
1984	2,114,531	1,767,092	347,439	2,145,753
1985	2,205,578	1,727,605	477,973	2,623,726

