



JU602
Secretary of State for Trade and Industry

DEPARTMENT OF TRADE AND INDUSTRY
1-19 VICTORIA STREET
LONDON SW1H 0ET
Telephone (Direct dialling) 01-215 5422
GTN 215)
(Switchboard) 01-215 7877

CONFIDENTIAL

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The Rt Hon John MacGregor
Chief Secretary
HM Treasury
Parliament Street
London SW1

Dear John,

NBP

R24/2

PES; COMPANIES REGISTRATION OFFICE

In my letter of 2 June I said I would write about the Manpower and running costs of the Companies Registration Offices (CROs).

As discussed with your officials at the end of last year, the CROs have now prepared a Corporate Plan for the next five years. I enclose a copy of the Summary and Conclusions.

Both Michael Howard and I have looked at this Plan critically, and we are content that it is sound and contains demanding targets. The target for increases in productivity is more than 9% per annum over the next three years on top of the major increases in productivity already achieved over the last couple of years. But despite this rapid and very welcome improvement in productivity, the growth in demand for the CRO services will make it impossible to give up all of the 100 additional staff authorised in the last PES round to September 1986 without undermining the CROs' standard of service to the public, which is also very relevant to the Department's continuing efforts to combat fraud. In this connection the CROs need to maintain the improvements in compliance with the law on company returns, on which the PAC has expressed strong views.

I am therefore writing to you to seek your agreement to retain 91 of the 100 until April 1987, 41 at April 1988 and 24 at April 1989. Thereafter staff numbers may well rise again slightly if, as currently expected, demand grows rapidly.

The bid for more manpower requires an increase in the PES provision for the CROs. Rising fees as the business of the CROs continues to grow are already assumed in the baseline. The



amounts needed are as follows:-

<u>1987/89</u>	<u>1988/89</u>	<u>1989/90</u>	£'000
1092	546	441	

I also need an equivalent increase in the Department's overall running costs provision.

The CROs are a business which looks eminently suitable to move to a net running cost basis. I will want to put such a proposal to you later in the year as soon as further work has been done on the performance yardsticks and other criteria to be adopted but in the meantime we need to deal with the manpower and running cost implications of the continuing high demand placed on the CROs.

I am copying this letter to the Prime Minister.

PAUL CHANNON

8.1 Summary

8.1.1 The CROs' operations are primarily derived from and governed by the requirements of British company law. Their main functions are to incorporate and register new companies, to collect and retain information about companies, to make such information available to the public and to dissolve companies (Sections 1.1 and 1.2). Ministers have recently re-affirmed that the CROs should remain part of the DTI and they attach importance to improving the CROs' performance of their functions (Section 1.3). The overriding objective of the CROs over the next 5 years will be to provide their services with increasing efficiency and effectiveness (Section 1.4).

8.1.2 For many years there has been a continuing increase in the CROs' workload, arising from externally generated demand for their services (Section 2.1). Given the constraints within which they operate, the only viable immediate response the CROs could make to these pressures was to concentrate on a minimum performance of their statutory functions, but the result was to reduce effectiveness and to increase user dissatisfaction and reduce staff morale (Section 2.2). The CROs' longer-term response was therefore to set in hand an intensive procedural review programme, which identified in particular the need to strengthen development resources within the CROs, and to commission a number of externally directed scrutinies. These latter included a Rayner-type Functional Review and a Clerical Work Analysis Review which between them made a large number of detailed recommendations for increasing productivity: many of these have already been implemented and the remainder are in hand (Sections 2.3 to 2.5). As a result of these various measures, staffing levels have, despite a 75 per cent increase in demand, varied little since 1981, apart from the increase agreed in 1984 (following PAC criticism) to enable compliance activities to be stepped up (Section 2.6).

8.1.3

Studies have shown that macro-economic developments do not greatly affect the pattern of demand, and they are not expected to do so in the life of this Plan. It has in addition been assumed, in the absence of other information, that the Government's fiscal and company policies will remain constant (Chapter 3). On this basis demand for the CROs' main services is expected to grow as follows (Chapter 4):

TABLE 8.1

Expected Annual Rate of Growth 1986-1991 (%)

Incorporations	5
Document Receipt	3 in 1986/87 rising to 6.7 in 1990/91
Mortgages	5.5
Searches	15 to 18

8.1.4

The Users' Survey conducted as a result of the Functional Review indicated that the reputation among its customers of the CRO in England and Wales was low, and that users were dissatisfied in a number of respects with the service offered. The consultants considered that there was no untapped market for CRO services, and they recommended that the CROs' marketing priority should be to improve the present services to existing customers. In response to this and to the comments of the Public Accounts Committee, the CROs have drawn up a marketing strategy which aims to improve the service offered and to ensure that it is fully utilised (Section 5.1). The strategy will comprise continuing efforts to ensure that companies comply with their statutory duty to submit accounts and returns, the adoption of a range of measures to improve quality control, the speed of response and the regard in which the CROs are held by their customers together with the examination of new services responding to customer needs identified in the Survey (Sections 5.2 to 5.4).

8.1.5

As part of their response to the recommendations of the external scrutinies, the CROs have developed a management strategy whose aim is to make the best use of scarce resources by promoting the efficient and effective performance of the CROs' tasks. The strategy covers getting the organisational structure right, strengthening the corporate planning function, making the most effective use of technology, training staff to give of their best, improving communications between management and staff and measuring and setting targets for performance (Chapter 6).

8.1.6

The CROs intend to review their fee structure. This is however a complex matter, since UK and European law impose constraints and there are a number of important micro-economic and policy considerations to be borne in mind. Action has of necessity awaited the Users Survey Report. The intended review will obviously take some time and so it has been necessary to assume for the purposes of this Plan that fees will remain at their present level. Any future change in fees policy will be taken into account when the Plan is reviewed: this should not cause great difficulty, since any new fee structure would have to continue to cover costs without imposing a tax on companies, and the price elasticity of demand for CRO services is low (Chapter 7).

8.2 Resource requirements

8.2.1

Chapters 4, 5 and 6 have indicated the staffing implications of increased demand, of the marketing strategy and of efficiency measures respectively. As can be seen from Table 8.2 below, the staff requirement of the CROs will fall from 1104 at April 1986 to 1028 at April 1989, as the once-off savings deriving from the Management Analysis Unit's programme and from the STEM project will more than compensate for the impact of rising demand; after 1989 the staff requirement will rise slowly as the effects of demand growth outstrip the scope for continuing efficiency savings.

TABLE 8.2

 Changes in Staff Requirement April 1986 to April 1991

Allocation at April 1986	1104
Changes due to:	
Workload	66
Technology	-50
Other Efficiency	-25
Net change	-9
Requirement at April 1987	1095
Changes due to:	
Workload	79
Technology	-89
Other Efficiency	-40
Net change	-50
Requirement at April 1988	1045
Changes due to:	
Workload	80
Technology	-33
Other Efficiency	-64
Net change	-17
Requirement at April 1989	1028
Changes due to:	
Workload	83
Technology	-81
Other Efficiency	
Net change	2
Requirement at April 1990	1030
Changes due to:	
Workload	83
Technology	-73
Other Efficiency	
Net change	10
Requirement at April 1991	1040

The figures in this table relate to permanent posts. The CROs will in addition continue to employ casuals to deal with seasonal fluctuations and to cover vacant posts pending the appointment of permanent staff. It is however intended that, as part of the drive towards greater efficiency, the use of casuals should be reduced over the period of the Plan (on 1.4.86 the CROs employed 60 casuals in addition to the permanent staff in post).

- 8.2.2 Achieving the efficiency savings indicated above from the introduction of new technology and meeting rising demand will obviously involve capital expenditure on computers and other equipment. Table 6.3 in paragraph 6.9.2 indicated the sums needed. In addition, the marketing strategy may involve additional capital expenditure, for example on better microfiche copiers or on new methods of data transmission such as facsimile. The sums involved cannot at present be quantified, as the necessary studies have yet to be undertaken, but would be relatively small and would over time be covered by increased search receipts.
- 8.2.3 The CROs will of course also incur pay costs associated with the employment of the manpower numbers indicated in paragraph 8.2.1, together with the usual items of general administrative expenditure.
- 8.2.4 Annex E indicates the total forecast expenditure of the CROs over the next five years (including items such as attributed costs for the common services provided by the Department). It compares this, on the basis of a Memorandum Trading Account, with the level of income implied (on the basis of unchanged fees) by the forecast of demand in Chapter 4 (a more detailed analysis of fee income is given in Annex F). Table 8.3 summarises the overall position:

TABLE 8.3

Financial Year	Income and Expenditure		
	Expenditure	(£ m)	
		Receipts	Surplus
1986/87	18.43	27.64	9.21
1987/88	19.08	28.87	9.79
1988/89	19.94	30.46	10.52
1989/90	21.0	32.7	11.7
1990/91	21.8	35.28	13.48

It is clear that, even without any change in the level of fees to take account of inflation, income will continue to more than cover expenditure.

8.3 Sensitivity

- 8.3.1 As shown in Chapters 4 and 6, the forecasts on which the statement of resource requirements above have been based are as robust as they can be. They are central values: they are therefore as likely to be too high as too low.
- 8.3.2 In the case of demand, the outcome is largely outside the CROs' control. If the outcome for one element of demand is above or below the central forecast, then the others are likely to be as well; even on the low forecast demand will still increase, though less rapidly. Since unforecast changes in demand would affect both income and expenditure, it would require extreme changes in the trend of demand, or indeed far-reaching changes in fees, to produce circumstances where expenditure exceeded income.
- 8.3.3 On efficiency savings, it is likely that a lower outcome in one area could be balanced by a higher one elsewhere and so the variations from forecast are not expected to be great.

8.4 Resource constraints and options

- 8.4.1 The statement of resources above has been made on the basis of what, on the assumptions used in this Plan, the CROs need in order to meet the expected level of demand. No mention has been made of the constraints which limit the resources available to the CROs. In fact the manpower allocation of the CROs is, under present policies, to be reduced from 1104 to 1004 at the end of September 1986. So far as capital expenditure is concerned, the necessary sums for 1986/87 are provided for in the Estimates. The sums needed for later years are currently under discussion.
- 8.4.2 It is clear that there is therefore a gap in respect of manpower, running costs and also possibly capital expenditure between what the CROs need and what is at present available to them. It is most unlikely that demand will be so far below forecast as to enable the CROs to meet demand within current resource constraints. How then could this gap be closed?

- i) Reduce costs. Since the Plan already assumes that the maximum possible savings will be obtained from greater efficiency, (and a large increase in demand has already been absorbed), this could only be done by cutting activities or reducing the level of service. Most of the functions of the CROs derive from statute. To limit activities to a minimum consistent with the statutory requirement reduces effectiveness and increases user dissatisfaction and lowers staff morale, (Chapter 2). It is in effect equivalent to a reduction in service. Yet the level of service already offered is close to the minimum as a result of the measures taken to cope with demand pressure in recent years; this level is unacceptably low, as shown by the comments of the PAC and of the Users Survey, and it is Ministerial priority to improve it.
- ii) Increase fees to choke off demand. As Chapter 7 has shown, the price elasticity of demand for CRO services is low. The level of fee increases required would be politically unacceptable and would breach EC law.
- iii) Find additional resources. The Department's Finance and Resource Management Division advise that the Department could not achieve its 1987 and 1988 Treasury manpower targets, while at the same time meeting the requirements of the CROs above the 1004 staff at present provided for after September 1986, without unacceptable consequences for the Department's other activities. Additional resources can therefore only be obtained by approaching the Treasury. Such a solution would provide short-term relief, but would not deal with the longer term problem.
- iv) Secure greater flexibility, as a business covering all its costs from fees, to match resources to demand. This too would require an approach to the Treasury. This course would enable the CROs to meet the pressures from outside without having to make unacceptable choices over the level of service to the public. There

would however need to be some other means by which control over the operations of the CROs could be exercised. This could perhaps be based on net running costs and/or performance measures.

8.4.3

The CROs provide, under Statute, an important service for which there is rising demand. The public are prepared to pay the full economic cost of the service provided. Ministers have decided that the provision of this service should continue to be a matter for the DTI; they attach importance to improving the CROs' performance of those functions. In addition, the service provided is a public good which assists the economy by enabling firms to take advantage of limited liability and by providing information which is not otherwise available and which assists the proper functioning of the market. In these circumstances the CROs see it as essential to have access to the resources they need to be able to meet demand and to provide the level of service their customers want. The CROs furthermore feel that they should be able to adjust their use of resources to the level of demand, provided that efficiency continues to improve.