



ASE Consulting

Project - Review of XNP Services

Final Report – December 2004

ISSUE 1.1

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Synopsis

Key observations

- 1) After considering all the information presented, and in the time permitted, we are pleased to make the following observations:
 - There is scope for continuing with in-house delivery of XNP services. With significant investment, in terms of headcount, finance and technology further efficiencies in the licensing process may be achieved. A failure to invest and grow the function whilst meeting enforced headcount reductions will eventually result in it failing to meet its most basic functions.
 - There is good scope for the private sector to take on the role of the majority of the functions of XNP. The EU and TPU functions require additional commercial work to be completed before they can be offered as good candidates for private sector involvement. The PU and policy aspects of CWC, IAEA sponsorship and UK Safeguards Office along with the SDU do not make good candidates for private sector involvement. All other XNP functions satisfy the criteria of what should make a successful outsourced function.
 - but there is a real prospect that a supplier would see a big opportunity in providing such services. A Supplier will identify a more valuable business opportunity if the scope of the outsourcing is of a scale and content to be a business in its own right. The subsequent value for money that can be achieved by the Department in outsourcing will be improved. The proposed scope of the outsourcing reflects such a balance. Anything much less than what is proposed would start to undermine the critical mass.
 - The sensitivity of XNP's operations does not represent an insuperable obstacle to outsourcing and the risk of an inappropriate judgement decision being taken is something that the private sector will take very seriously.
 - An outsourced activity would be expected to look, over time, to extend into support for OGDs. This would be good commercially, potentially offering good VFM to the OGDs and, through better joining up, further reduce risks.
 - The future success of XNP, whether outsourced or in-house is dependent upon attracting, retaining and valuing its people. The cost of providing XNP's services over the next 10 years is not insignificant. It is believed that further Value For Money for the Department will be achieved if the service was able to be delivered in the Private Sector. (Para 24 – 25)
 - XNP has a wealth of knowledge within the Directorate. This could bring commercial benefit if it were to be better coordinated, managed and publicly presented.
 - With the focused investment and increased outreach to industry enabled by Private Sector involvement, the prospects of success in preventing proliferation through Export Control will be increased. The operational arrangements outlined in this paper would result in the establishment of an independent oversight of the Export Licensing process for the first time.

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Key Recommended actions

2) The key recommended actions resulting from the information presented and reviewed are to:

- Decide if outsourcing is the way forward;
- Agree to the scope of the outsourcing (e.g. which functions not yet fully aligned to outsourcing should be prepared for inclusion);
- Produce high-level briefing paper(s) for circulation to OGDs, Staff, Ministers and key stakeholders and a plan to seek their support and document key concerns; and
- Commission the production of a project outline and draft business case to support Gate 0 milestone.

Issue

- 3) The Export Control and Non Proliferation (XNP) Directorate of the DTI initiated a review (XNP Services Review) into how they can best continue to deliver high quality, cost effective services to Ministers and to Industry in light of resource constraints. The review included the extent to which it might be feasible to contract out some or all of its functions to a Private Sector provider.
- 4) In recent years the Export Control Organisation within XNP has reviewed and refined both its internal processes and interoperability with other Government Departments (OGDs). These changes have resulted in significant productivity gains that have enabled the Directorate to clear the backlog of long-term licence requests and meet its own targets on turnaround time for Export Licensing activities. These changes and improvements should enable it to get close to meeting its headcount targets for May 2005.
- 5) XNP is under pressure to make a further reduction in headcount by April 2006. In addition serious consideration is being given to relocating the functions away from London. Plans are also in place to move XNP in 2005 from their current offices to Kingsgate House.
- 6) XNP business processes have developed and evolved over time to react to market and political needs. The Directorate relies heavily on a wide range of disjointed IT systems. OGDs play a key role in the day-to-day delivery functions of XNP. None of the OGDs have access to XNP's IT/IS systems and there are significant obstacles to integrating business systems. The portfolios of XNP's own IT systems need significant investment if they are to deliver improvements in productivity.
- 7) The XNP organisation largely performs a front line service to industry in the area of controlling non-proliferation by granting a range of export licences. XNP also performs the role of competent authority/national office for such areas as Nuclear Safeguards and Chemical Weapons Conventions. A number of the individuals in XNP sit in an official capacity on various committees and working groups.
- 8) XNP sits within the Services Group of DTI HQ alongside FRM, IWS, Companies House, and ACAS. The DTI's role to support an overarching Government wide agenda on Non-Proliferation is a key reason for the XNP service.

Findings

Scope for further significant improvements in existing services

- 9) Significant efforts have already been applied to restructuring the licensing process. Over time this will enable XNP to make a moderate saving in headcount and benefit from reduced running costs. Whilst further activities are planned, external constraints being placed on XNP will hamper progress. DTI need to invest significantly in XNP if they truly wish to see financial savings that are a direct result of reduced headcount. Specifically the Department needs to invest now in additional resources and the deployment of pan Government IT/IS systems if they wish XNP to make a step change in its operation.
- 10) The size of the XNP organisation after meeting its May 2005 headcount reduction is such that it will always be operating close to the limit of its capacity. This creates a significant risk of failure to provide the necessary minimum level of service. Recent experience has demonstrated that a basic outage in IT systems caused a backlog of work that required a significant amount of time in order to recover. The work conducted recently by OR demonstrates a capacity for complete overload in the processing of ELAs from which no recovery would be possible without additional resource being provided. XNP could use the DTI brand to further expand the service it provides to industry and enter into commercial partnership with other service organisations and IT suppliers to make best use of what exists today.
- 11) XNP cannot mature without access to funding, technical partnerships, and the exploitation of additional revenue streams. Whilst key resources and the forward thinking management within XNP see a future, the support and financial infrastructure within the Public Sector is not currently aligned to their specific needs. Any attempt to meet the downstream headcount targets, both interim and final, without first supporting the function by way of appropriate levels of investment will significantly increase the risks of failing to support the needs of industry, or the non-proliferation agenda of Government, or possibly both.

Scope for transferring XNP functions to the private sector

The Potential Market

- 12) The decision to outsource is a major step for any organisation. The trend in both the Public and Private Sector however is to outsource non-Core business functions to market focussed delivery organisations. This does not mean that the outsourcing of the functions of XNP could not be done successfully, just that it may be leading the way.
- 13) UK industry has for many years successfully performed front-line services for UK Government that are not wholly different to the processing of licence applications. Some are simplistic and high volume businesses, such as TV licensing, maintenance of Driving Licences, and Vehicle Registration document processing. A more comparable example of Private Sector involvement in a complex public service is that of the Criminal Records Bureau. The operator of this service collects information from a variety of external

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resources, including other Government agencies, before making an informed judgement on whether or not to grant clearance to an applicant.

- 14) What is clear is that XNP needs external help if it is to meet the challenges it faces in the future. Such help can be provided by the private sector. Initial, exploratory discussions with private sector organisations suggest that they perceive a business opportunity in running the Export Control Organisation and would invest to improve its IT capabilities and its outreach/education activities with both UK industry and international governments. This investment would be made on the basis that a sufficiently long-term contract with the DTI could be established.

Scope of outsourcing

- 15) XNP today is a complex operation that relies on external organisations and information to make a judgement decision. XNP as a private entity should be no less capable of performing the services than the current public sector organisation. Whilst there are issues that need to be addressed, none are such that they could prohibit the current XNP services being performed by a private company (the “supplier”).
- 16) Areas of XNP that need additional care to be applied to allow them to be sensibly contracted out include Special Documents Unit, Enforcement Unit, Technical Policy Unit, and the service aspects of the UK Safeguards Office, IAEA sponsorship and Chemical Weapons Convention. XNP could decide to commit further consultancy effort to developing the specifications required to support a contracting process, not transfer these functions to the private sector or await the views of the preferred contractor. It is for the Department to determine the priorities to be attached to such activity and to direct additional consultancy effort as appropriate. A more comprehensive explanation of why the aforementioned functions require additional attention is provided in paragraph 35 below.
- 17) In order to secure an optimum cost of service provision from a private company, balanced with the need to perform existing services, the maximum security classification of any IT systems and associated communications interfaces within the supplier’s boundary will be Confidential. The physical and procedural security will be specified to Top Secret and Codeword level.
- 18) The IT systems available to the supplier will be equivalent to those currently available within XNP. Decisions will be required on the preferred IT and communications infrastructure to be used by the supplier in consultation with potential bidders and the Department.
- 19) The Enforcement Unit, whether or not it remains in-house or as part of the Supplier, will continue to provide its support to Export Licensing activities and the ECO’s ratings and pagers services. It will also continue to administer the Restricted Enforcement Unit that will be supported by the appropriate supplier functions.
- 20) It is intended that all current interfaces with OGDs and agencies will continue to be supported after the supplier arrangements have been established. Similarly, those functions, which interact with the Policy Unit and the CWC, will continue to do so from within the supplier’s functions.

Future interfaces

- 21) The scope of the Supplier organisation, without further work being completed, would cover the current Licensing Casework Group, excluding the Enforcement Unit. It would also include the whole of the Business Process and Change Group and all of the Policy and Business

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Relations Group with the exception of the Policy Unit. The staff supporting the agreed XNP functions may be transferred under TUPE arrangements in the formulation of agreements with the Supplier. Given that the interfaces cover the existing OGD counterparts based in Whitehall and the policy areas of what remains of XNP, it would seem most likely that the Supplier would continue to operate from the most optimum location in London. A diagram showing the detailed process flows for Export Licensing activities, Ratings and Pagers is included at Appendix B.

Security Concerns

- 22) There is often a view that 'security' of the State or Government's requirements to maintain their obligations with trading partners is something that can only be entrusted to Civil Servants. Again, the reality of the situation is that Government itself is made up of elected individuals that perform a service for one or a number of terms. Currently, most of the research, design, build and maintenance of the infrastructure that is used daily to support the staff and IT systems of the Civil Security Agencies is provided by the Private Sector. The reason for excluding any area of XNP from outsourcing is not because of any overriding security concerns, nor should it be.

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Legal Issues

- 23) It would be unlawful for there to be a delegation of the authority to issue export licences to a Private Contractor without a change to the existing legislation. However, the Deregulation and Contracting Out Act 1994 could enable the Secretary of State to contract out some or all the functions currently carried out by the Secretary of State under the secondary legislation made under the Export Control Act.
- 24) The Licence Issuing step in the Export Licensing process cannot be a 'rubber-stamp'. It has to involve the due consideration of the application prior to deciding upon whether or not to issue the licence.
- 25) If there were a need to change legislation in support of moving the Export Licensing function of the Department into the private sector, this would incur a time delay and would raise the political profile of the proposal, as the matter would have to be put before Parliament
- 26) A possible way of mitigating the risk of poor licensing practices by a Private Contractor is to establish that the Directors of the Private Company be held personally accountable in the event that the administration of the Export Licensing process was found to be improperly conducted.
- 27) It is not possible, within the terms of existing legislation for the Department to charge for the issuing of licences. It is clear that a Private Company could also not do so without a change to legislation.
- 28) The legality of moving the Export Control function of the Department into the Private Sector could not be challenged generically otherwise than through an application challenging the vires of any contracting out Order. In all likelihood, an exporter, or an interested NGO, could only test it on the basis of a judicial review application of a licensing decision. In these circumstances it would not be the decision to contract out the function that would be challenged but rather the legality of the new decision-making process.

XNP "core" Oversight Team

- 29) As a consequence of creating the supplier, a core Oversight function is required to be formed within the Department. This function will perform the following management tasks to ensure the quality, security and ongoing evolution of the outsourced service:
 - Contract and Performance Management (1 Post)
 - Change Management and ongoing process improvement management (1.5 Posts)
 - Finance and Service Management (1.5 Post)
 - Security Management (0.5 Post)
 - Quality sampling (2 Posts)
 - Policy Management, including the management of the PQ process (to be supported, where necessary by the remnants of XNP and The Supplier functions as per the current PQ handling arrangements) (0.5 Post)
- 30) All current interfaces and responsibilities, wherever feasible, will be maintained. This will lead to a minimal number of new posts being required as a consequence of establishing the supplier. At present, it is anticipated seven staff, as shown above, could provide the Oversight function.

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- 31) The Supplier Oversight function of 3.5 posts needs to be filled by summer 2005. This covers the Contract and Performance Management, Change Management and ongoing process improvement Management and Finance and Service Management posts. The remaining posts would be required by the time the contract was awarded.

Why is it best for some functions to remain?

- 32) Within the Public Sector, outsourcing is often associated with the transfer of a service to the Private Sector in return for a payment profile that is linked in some way to a metric that is understood, contained and controllable. In the context of XNP such a metric might be a fee for the processing of a licence to a conclusion or a fixed charge to the exporting entity for each 'rating'.
- 33) It is too early to say what financial model would fit the needs of both the Department and the Private Sector partner. A typical model would include a fee for each transaction (rating, licence request, pager, etc) and set annual fees to cover programme related activities.
- 34) Government regularly outsources functions that people perform and agrees to secure those people for a period of time. What has really taken place in such a transaction is a transfer of the risk of failure of the individual or team to provide the service to the agreed Public Sector standards. The Contractor is responsible for maintaining sufficient capacity in the service to meet Government needs and, if necessary, will have to carry the cost of sourcing from elsewhere. Often, the reality of the situation is that if the person or team does fail in the short term then Government has to deal with the consequences. This situation is no different to XNP and its relationship with OGDs as XNP relies on their performance and accuracy and has to manage the situation if OGDs fail to perform.
- 35) To determine the scope for what can and cannot be outsourced depends primarily on two issues: a) is it legal and b) is it 'good business' for the supplier. The Private Sector takes a pragmatic and long-term view of an opportunity to perform services to the Public Sector. They will accept business that needs investment if there is visible scope for long-term savings.
- 36) To determine the scope of outsourcing in terms of the existing functionality of XNP we start from the principle that it can all be done in the Private Sector. We then look at the functions to determine if there is anything that would cause the Private Sector supplier to qualify out of the bid process due to the view that 'this is not good business for us'.
- 37) Finally, a set of criteria derived from case studies of successful and unsuccessful contracting out arrangements has been used to provide a baseline assessment of each area within XNP to determine its current readiness for outsourcing. This criteria is included below:
- The supplier must have clarity of the actual requirement and impact of failing to meet the agreed performance targets.
 - There must be clear boundaries of responsibility and defined interfaces between the contractor and all stakeholders.
 - The outsourced services should be able to be discretely 'owned' by the supplier leaving them free to operate the service using their own processes and technology.
 - There should be only limited reliance on Government dependencies to deliver the core service.

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- The service should have scope for further improvement in order for the Supplier to be able to offer a more competitive proposition than Government.
- A supplier must understand the functions they are providing and the business environment within which this service fits.
- The service should offer the potential for growth and both the supplier and Government should benefit from the supplier driven change.

38) The functions that were considered to not be fully aligned with outsourcing at this time and the reasons for this judgement are as follows.

Function	Reasons why outsourcing may fail
Secure Document Unit	<p>Unlikely to achieve real transfer of ownership.</p> <p>Specific, measurable targets unlikely to be generated which characterise the true requirement of the SDU service.</p> <p>Lack of opportunity for growth and service very dependent on Government.</p>
Enforcement Unit	<p>Lack of clarity on boundaries of responsibility and interfaces and reliant on Government information.</p> <p>Specific, measurable targets difficult to define.</p> <p>Unlikely to achieve real transfer of ownership.</p> <p>Hard to see growth potential for the supplier and additional benefits for the Customer.</p>
Chemical Weapons Convention (Policy Aspects)	<p>Specific, measurable targets unlikely to be able to be defined.</p> <p>Unlikely to achieve real transfer of 'ownership'.</p> <p>Private Sector unlikely to hold enough business knowledge of the service they need to provide.</p> <p>Limited growth potential for the supplier and additional benefits for the Customer.</p> <p>No real prospect of additional improvement to existing service delivery model to offer a more competitive service.</p>
Policy Unit	<p>Lack of clarity on boundaries of responsibility and interfaces.</p> <p>Specific, measurable targets difficult to define.</p> <p>Unlikely to achieve real transfer of 'ownership'.</p> <p>Private Sector unlikely to hold enough business knowledge of the service they need to provide.</p> <p>Hard to see growth potential for the supplier and additional benefits for the Customer.</p> <p>No real prospect of additional improvement to existing service delivery model to offer a more competitive service.</p>
Technical Policy Unit	<p>Hard to see growth potential for the supplier and additional benefits for the Customer.</p> <p>No real prospect of additional improvement to existing service delivery model to offer a more competitive service.</p>
UK Safeguards office (Policy Aspects)	<p>Hard to see growth potential for the supplier and additional benefits for the Customer.</p> <p>No real prospect of additional improvement to existing service</p>

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	delivery model to offer a more competitive service.
IAEA Sponsorship	Hard to see growth potential for the supplier and additional benefits for the Customer. No real prospect of additional improvement to existing service delivery model to offer a more competitive service.

Table 1

- 39) Each of the seven areas mentioned above have been evaluated to determine the steps that would need to be taken to prepare them for outsourcing. The steps have been costed and the number of additional savings in XNP headcount stated. These details can be found in the Section “Expanding the scope of outsourcing”, below.

Expanding the scope of outsourcing

- 40) Policy Unit, Chemical Weapons Convention Unit, Enforcement Unit, Secure Documents Unit, the UK Safeguards Office, IAEA sponsorship and Technical Policy Unit are all currently in need of additional work to align them for a successful contracting out of their functions. The activities to complete this alignment in each case are described in Table 2 below.

XNP Function	Areas to be addressed
Policy Unit. – 7 staff	Education of OGDs and industry to trust their role Definition of service and parameters for measurement Develop performance agreement Develop a charging model for each item of service Establish what value the Policy Unit might be to a contractor
Chemical Weapons Convention – 8 staff	Determine the Policy versus Service elements of the function Legal issues Interfaces to OGDs and trust with Policy work Industry Trust Service definition OPCW finance flows Cost of volumetric changes
Enforcement Unit – 11 staff	Technology Security of knowledge Knowledge Management Performance criteria and measurement schemes OGD Interfaces Interface with Policy Unit Trust with agencies
Secure Document Unit – 7 staff	Technology Security of information Interface into DTI – physical & information

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	Performance into DTI
UK Safeguards Office - 3 staff (Policy Aspects)	<p>Establish the value of the UK Safeguards Office to a Contractor</p> <p>Determine the Policy versus Service elements of the function</p> <p>Define the service level and the opportunity for improvements/ diversification in service delivery</p>
IAEA Sponsorship – 3 staff	<p>Establish the value of the IAEA sponsorship function to a Contractor</p> <p>Determine the Policy versus Service elements of the function</p> <p>Define the service level and the opportunity for improvements/ diversification in service delivery</p>
Technical Policy Unit - 6 staff	<p>Establish the value of the Technical Policy Unit to a Contractor</p> <p>Define the service level and the opportunity for improvements/ diversification in service delivery</p>

Table 2

- 41) In addition to the consultancy support, a Business Case will need to identify the internal and external cost of the staff involved in addressing the above issues. We estimate 30% of the issues can only be resolved as a result of meetings with, on average, not less than six attendees. For each meeting, four man-days are estimated to be required for meeting preparation and the resolution of all outstanding issues from a meeting. This equates to a total of 830 man-days of resource time for internal and external full time staff and 277 days of consultancy cost.
- 42) The EU and TPU are currently an integral part of the functions of the ECO organisation. The TPU function requires only a small amount of additional effort to ensure that it will make a successful transition to the Private Sector. The EU has more complex issues to resolve, but the problems are not insurmountable. It is clearly desirable that in order to establish the Private Sector provider with sufficient ownership of the XNP licensing function that the EU should be transferred over.

Moving forward

- 43) In order to act upon this report, an activity is required to prepare XNP to conduct a tendering process. The resources required to perform the project will come from a mixture of sources; some current XNP staff may be involved, some wider DTI staff will require an involvement, specialist legal support will be necessary and some Consultants' time will also be required. The following highlights the activities to be performed within the project. They are not set out in any preferred sequence – this will be the subject of the planning process, which is identified as a required activity.

Required Activities

- 44) To set up the project, a decision on the scope and scale of the supplier's functions must be made. The additional work to confirm the inclusion of functions not yet completely aligned to external contracting must be completed for those functions deemed a necessary part of the outsourcing. Optionally, OGD Export Control/Counter Proliferation functions and DTI Import Licensing functions may be included within the supplier's responsibilities and this should be defined within the scope if appropriate.
- 45) A Project Initiation Document for the agreed scope of the 'Outsourcing' project must be created and a management team to oversee the project established.
- 46) A resource model for the project must be created and resources identified to form the core project team. A project budget must be found and authorised.
- 47) The project deliverables must be specified and agreed.
- 48) Consultations must take place with each Government Department and agency required to interface with the supplier to elicit concerns and to define the boundaries of responsibility, the characteristics of the interface and the service levels to be maintained by both parties to the interface.
- 49) A risk analysis should be conducted to baseline the existing threat of proliferation being managed by HMG and to assess the efficacy of the counter measures taken by the Export Licensing process as currently arranged. A subsequent analysis should be performed when the detail of the supplier's processes and interfaces are defined in detail to ensure that the proliferation risk level has not been increased.
- 50) A statement of requirement for the responsibilities and service level required of the supplier must be produced and agreed.
- 51) A review of the available commercial vehicles for the creation of the supplier must be undertaken. Reward and penalty schemes must be devised which include appropriate incentives for the promulgation of good licensing decisions within agreed target performance levels. A recommendation on the preferred commercial framework for the establishment of the supplier must then be made and agreed.
- 52) The legal issues surrounding the establishment of the supplier and the extent of its authority to issue licences need to be fully identified and resolved. The resulting impact upon the workload of the XNP Oversight function must be evaluated.

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- 53) The requirement for accommodation and IT infrastructure for the supplier will be evaluated to ensure that the impact of the establishment of the supplier is understood by IWS.
- 54) A consultation process with the Trade Unions must begin.
- 55) A Business Case for the establishment of the supplier, with a supporting financial model must be prepared and agreed.
- 56) An ITT must be prepared and a plan for the tendering process created which identifies resources, timescales and costs.
- 57) During the course of the project, three OGC Gateway Reviews will take place. The project plan will identify the products required to support these reviews and will ensure that the reviews are scheduled accordingly.
- 58) The project will also identify the required resource to manage the tendering process and will prepare an outline plan for this exercise that will form a project in its own right.
- 59) The cost of establishing and executing a project on the scale described above will result in around £250K of expenditure on external consultants. It is further estimated that the likely cost of consultancy support to the tendering exercise will be around £350K.



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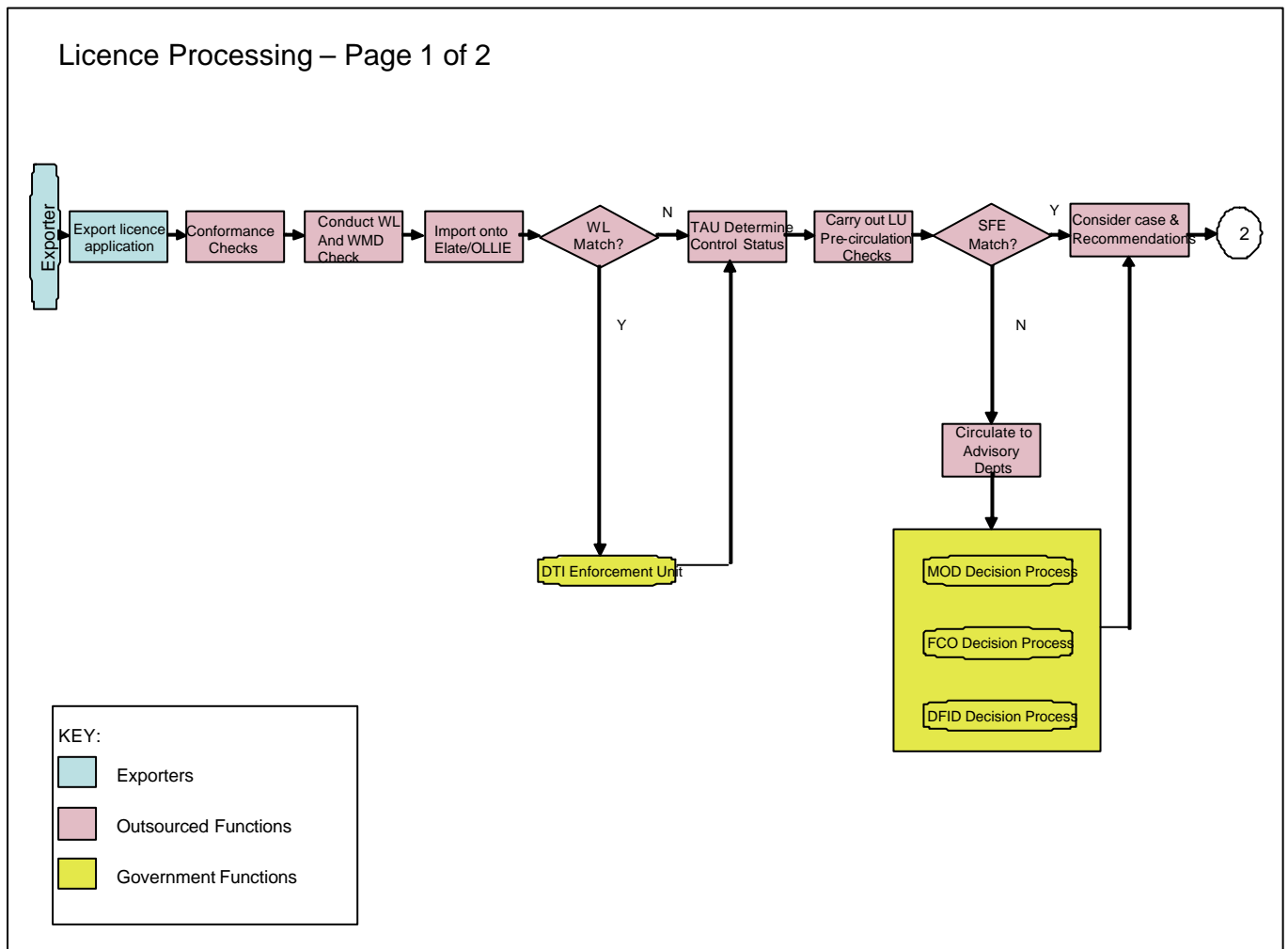
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Appendix A – Flows and interfaces

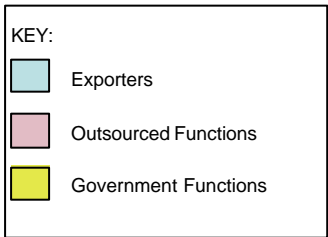
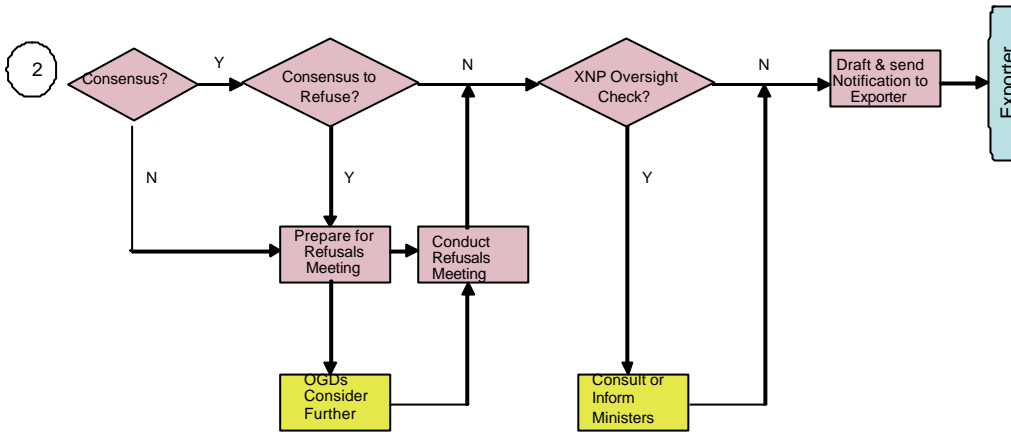
Process Flows and Interfaces

60) The diagrams show the flow of the licensing process as it would be if contracting out took place along the lines described in this paper. It can be seen that there is little impact upon the process in terms of additional steps or additional interfaces. The processing of Appeals remains intact as per the SIEL/OIEL processing described by the diagrams. However, this does depend upon The Supplier being given access to STRAP material.



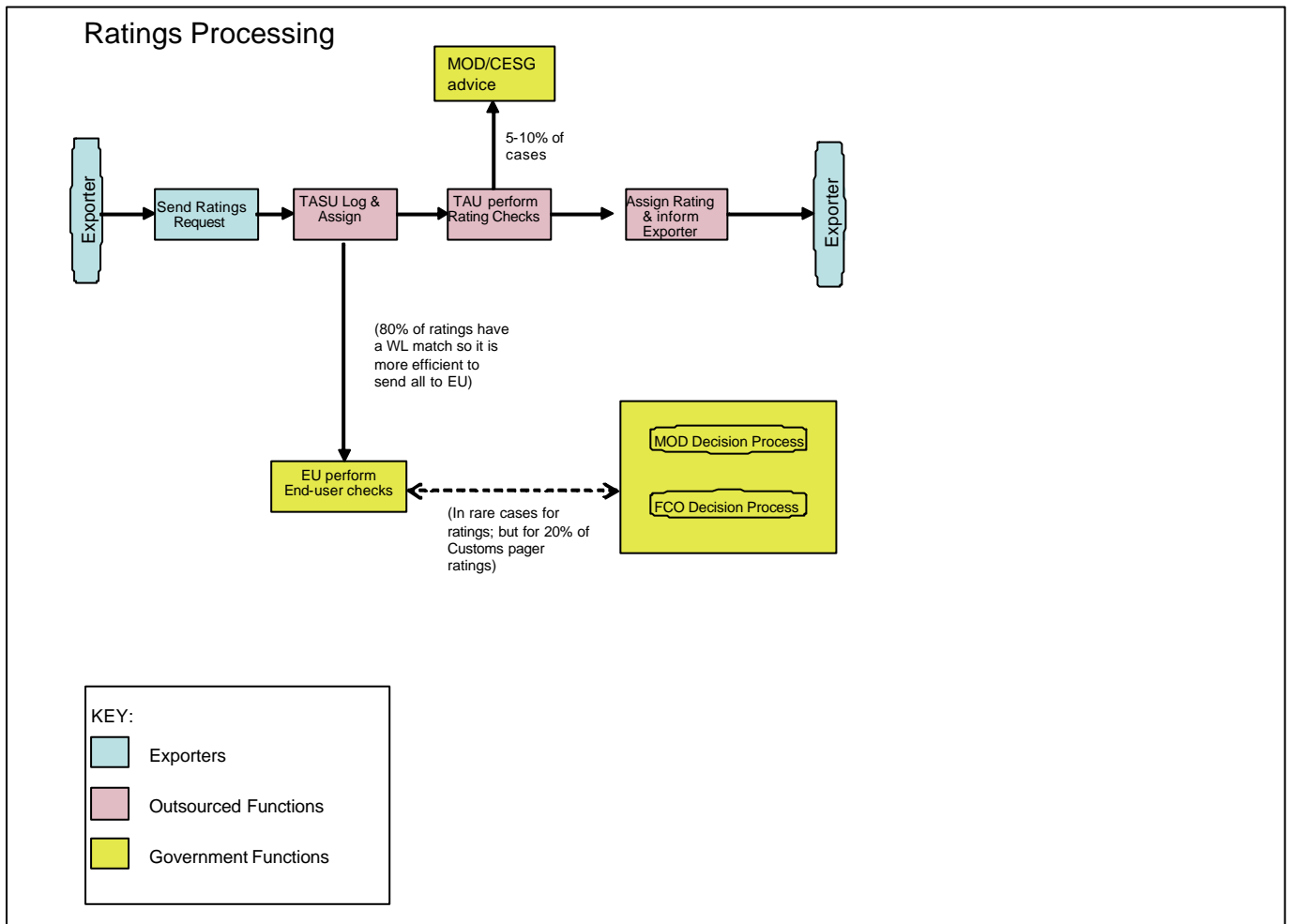
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61) The processing of ratings and pagers is largely similar, though the frequency of consultation with OGDs is far greater for pagers than for ratings. Again, there is a dependency upon The Supplier being given access to STRAP material to continue to support the paging process as at present. Clearly, the pager is initiated by HM Customs & Excise rather than the Exporter and the result is returned to them. The diagram below shows the arrangements that would exist if contracting out took place.



62) In summary, it can be seen that the proposed arrangements are sympathetic to current processes and interfaces assuming the supplier is given access to STRAP material for selected, cleared staff. The extent of the scrutiny involved in processing licences, ratings and pagers would be consistent with current practice. The involvement and influence of the OGDs would be the same as at present, giving them the same opportunity to intervene in licensing or rating decisions as they believed appropriate.