

Health and Safety Executive (HSE)

**Review of the effectiveness of the queries and disputes
procedure – final draft**

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1. INTRODUCTION, STATUS, METHOD AND STRUCTURE

1.1 Introduction

The Government's 1997 Quinquennial Review of the Health and Safety Commission/Executive (HSC/E) recommended that the HSE should investigate introducing charging for its permissioning, safety case, regimes. A feasibility study was completed and charging regimes were introduced for COMAH from April 1999 and for Railways, Gas Transportation and Offshore from October 1999.

Because of concerns about the introduction of charging raised by the Commission, Ministers agreed with the Commission's recommendation that a review of each charging scheme should be conducted after two years of operation.

One of the purposes of the review is to establish the “effectiveness of the financial and administrative arrangements for the charging schemes”. As part of this work we were directed to undertake a short review of the effectiveness of the queries and disputes procedure and to consider what further business improvements could be made to the charging systems.

1.2 Status

This is a final draft which takes account of comments on the first draft.

1.3 Methodology

The Programme PID outlined the methodology for this review as follows:

Review of the Effectiveness of the queries and disputes Procedure

We propose to review a sample of the queries and disputes recorded through the HSE's Procedure for queries and disputes from the inception of the charging regimes to date in order to develop an understanding of the issues arising, and the ways in which these issues have been resolved. This sample will be picked from each of the regimes.

Following concerns about the quality of invoicing raised during the work on COMAH - and during the Autumn meetings of the CRG's - it was felt important to supplement the survey work with a limited amount of statistical analysis. This work has therefore been informed by two elements of work:

- interviews with a range of stakeholders in the queries and disputes procedure including:
 - 10 duty-holders;
 - Heads of Railways, COMAH and Gas, and Offshore Charging Teams;
 - Staff within charging teams and the EA.
- an analysis of statistics received relating to the number, proportion and type of queries and disputes in each charging regime. This data relates

to queries and disputes in the COMAH, Railways, Gas Transportation and Offshore regimes, over the period from the introduction of charging to 31 August 2001.

1.4 Structure of the Document

The structure of this report is as follows:

- Section 2 provides background on the current procedure for queries and disputes, and an initial analysis of the historic queries;
- Section 3 provides the results of our the review of the effectiveness of the procedures;
- Appendix 1 provides a preliminary statistical analysis of the number of queries and disputes for each of the regimes;
- Appendix 2 presents a preliminary analysis of the types of queries received for COMAH, Railways and Offshore.

2. THE CURRENT PROCEDURE FOR QUERIES AND DISPUTES

2.1 Process overview and timeline

The diagram below illustrates the current procedure applied for queries and disputes relating to charging, under each of the four regimes.

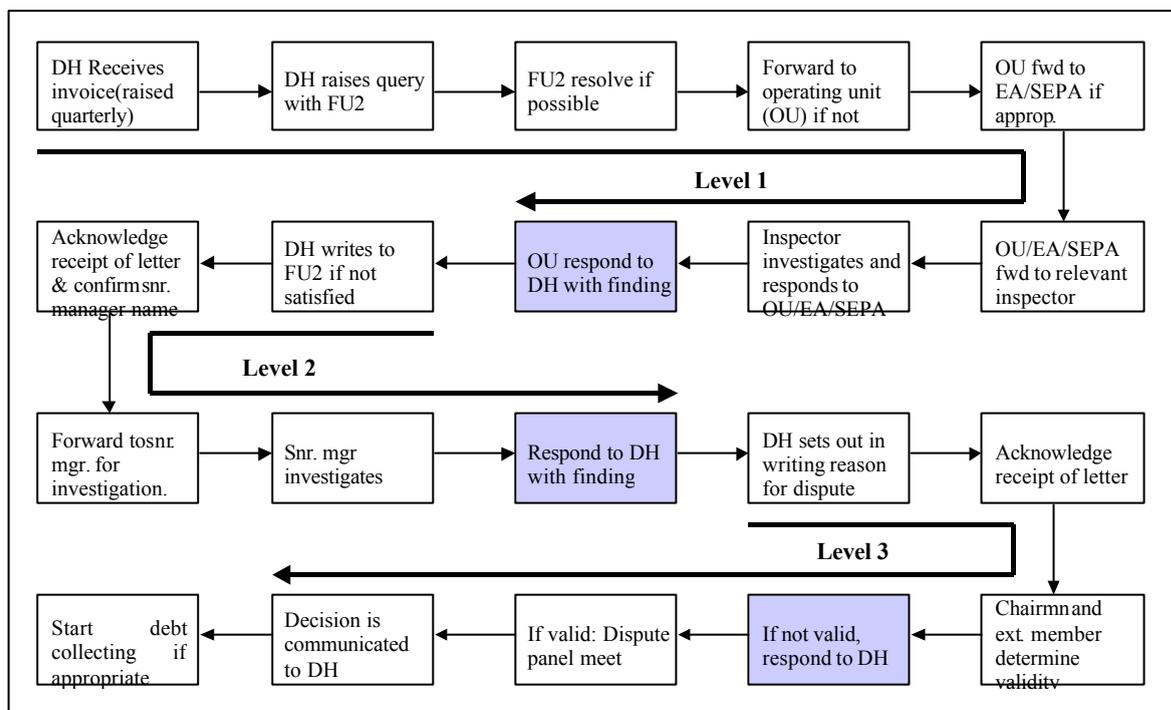


Figure 1: Queries and disputes procedure

The shaded blocks represent the points in the procedure where an escalation occurs should the duty holder not be satisfied with the finding, from Level 1 to Level 2, and finally to Level 3 – the Dispute Panel hearing. A Level 2 query can also be initiated by the HSE, should the duty holder not respond to the finding of Level 1, and not lodge a Level 2 query.

Level 1 queries typically relate to information contained in the invoice including:

- Composition of charge out rate
- Amount of the invoice
- Method of payment
- Terms of payment
- Invoicing arrangements

The Finance Unit attempts to answer the query in the first instance, but if it is unable to do so, will pass the query onto the relevant HSE Operating Division. If the query relates to COMAH, and concerns the Environment Agency (EA)

or the Scottish Environmental Protection Agency (SEPA), the COMAH charging team will contact someone in the EA finance unit and inform them of the query. The operating division or the EA/SEPA will then attempt to answer the query satisfactorily, but if unable will contact the relevant inspector and request additional information, as required. This is ultimately relayed back to the duty holder.

Should the duty holder be unsatisfied with the resolution of the Level 1 query, he can then have the matter considered by a senior HSE manager at Level 2.

Level 3 of the procedure refers queries and disputes which are not resolved at Level 2, to a Disputes Panel. The Disputes Panel comprises senior officials from the relevant HSE Operating Division and Agency, where appropriate, and the Head of HSE Planning, Efficiency and Finance Division, and an external member. The external member will be drawn from a list approved by the HSE/Agencies Industry-wide Charging Review Group. The Director of HSE's Safety Policy Directorate will normally chair the Disputes Panel. Before the panel meets, the chairman and the external member will consider the duty holder's submission independently, and decide together whether or not to hold a panel hearing. Senior managers from HSE or the Agencies who have taken part in Level One or Two determinations concerning that particular case will be precluded from being a member for that particular Disputes Panel determination.

In terms of timelines, the official procedure is shown below with the agreed performance standards. As in the previous diagram, the shaded blocks indicate the end of one level and the beginning of the next, should the duty holder not be satisfied with the reply received from the HSE.

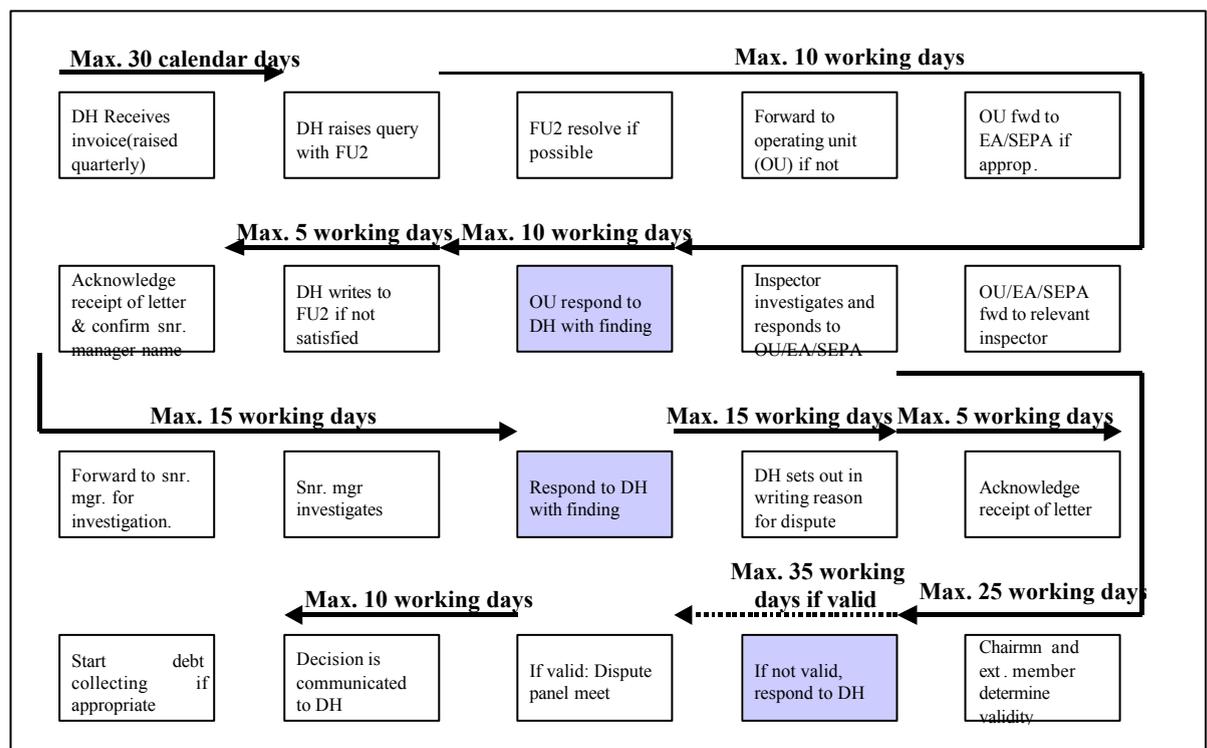


Figure 2: Timeline for queries and disputes

The published service levels indicate that the maximum duration of this procedure should be six months, from the time the invoice is received to the date on which the finding of the dispute panel is formally communicated to the duty holder. Level 1 queries should be responded to within ten working days, while Level 2 queries should be replied to within 40 working days in total.

Of course the query and dispute procedure was set up as a service to industry. Duty holders should, of course, use the procedure responsibly to pursue legitimate queries and disputes. Senior managers within HSE have expressed a concern that a small minority of duty holders may have raised and progressed queries either to exert political pressure or to make a point of principle.

2.2 Initial analysis of query data

The data provided for the sum of all the regimes indicates a very strong downward trend in the number of queries over time, particularly at Level 1. This clearly shows that initial teething problems were successfully addressed, and information provided to duty holders improved significantly. This is borne out on a query per invoice analysis, with the initial level of around 30% falling to a current level of approximately 6%.

Considering the data per regime, the vast majority of queries and disputes relate to COMAH charging, and the statistics for the sum of all regimes is largely reflective of the COMAH regime trends. On a per invoice basis the trend is strongly downward from year 1 to year 2, but indicates a slight increase in the current year (after normalising for number of invoices). Analysis of percentage of charges varied shows that in year 1 charges were only varied after level 3. In year 2, this changed, with 8% of queries resulting in a variation at level 1, and none at level 3. This indicates that the procedure started to function properly after the first year, where uncertainty and inexperience undoubtedly affected staff willingness to alter charges.

The data for the other regimes, which are far smaller in terms of queries shows similar trends to COMAH, and the analysis above is equally applicable.

Analysis of the reasons for the queries for each regime highlights the following points:

- For COMAH and Gas, there are two almost equally weighted reasons that account for 80% of all queries, both of which relate to invoice quality. The first is a query on the amount charged, and the second is a request for more information or timesheets. The bulk of the second category is likely to be in relation to invoices with an EA element to them although the percentage of EA invoices is very small.
- In Offshore, by far the most common request (68%) is for a breakdown of charges. This clearly implies that the level of detail on invoices is insufficient in the view of a minority of operators.

- Request for more information or timesheets is also the main reasons for queries in the Railways regime, although it is a slightly lower percentage than in the others (48%).

3. REVIEW OF EFFECTIVENESS OF PROCEDURES

3.1 Process analysis

The following observations can be made in terms of process efficiency and effectiveness.

3.1.1 Hand-overs

There are a number of hand-overs in the process, generally via telephone or e-mail. The majority of queries are either received or prompted by the Finance Unit, then passed on to the relevant operational charging unit. This unit then contacts the relevant inspector (or senior manager for Level 2) if they are unable to resolve the query themselves. In some cases, the query needs to be passed on to the EA or SEPA, who then pass on to the relevant inspector.

The least efficient scenario is clearly a query involving the EA or SEPA, which involves three hand-overs before the query can be considered. The feedback to the duty holder then requires an additional hand-over, from the inspector back to the EA/SEPA co-ordinator. At this point the duty holder is generally sent a letter with the finding. The scenario however has two more hand-overs before completion, from the co-ordinator to the charging team, and finally, where a new or amended invoice needs to be issued, back to the Finance Unit. This brings the total number of hand-overs, for this scenario, to a maximum of six.

3.1.2 Duplication of effort

The current process includes areas where duplication of effort occur, because of the route queries take. One clear area is in the tracking of queries. The Finance Unit logs all incoming queries before passing them on to one of the charging teams. The charging team also logs the query for their information and management. Where the query is referred to the EA/SEPA the query is again logged. Each unit then, to varying degrees, expedites the open queries.

3.1.3 Lead time

The service levels shown in Figure 2: Timeline for queries and disputes indicate one possible bottleneck, exacerbated by the number of hand-overs required. The bottleneck is most likely to occur at Level 1, where the HSE has 10 working days to respond to a query raised by a duty holder. The HSE could find itself under pressure to meet this service level where the query involves the EA/SEPA, and hand-overs are at a maximum. In a worst case scenario, the HSE would have to make a total of four hand-overs within 10 working days, and allow time for the relevant inspector to respond. One of these hand-overs is to a separate organisation, increasing the difficulty of meeting the required standard.

3.2 Feedback from Duty Holders

Of the duty holders spoken to, half complained that after a query was raised there was either no response from the HSE, or the response was outside the

agreed service level. Some of these mentioned Level 1 queries outstanding from almost a year ago.

Those that had been involved in a Level 3 dispute were complimentary of the fairness of the procedure but felt that it took a long time to reach the first panel hearing, with findings taking significantly longer than the 6 month service level. The other issue raised was the amount of documentation sent to the duty holder prior to the hearing, which one duty holder found excessive. The duty holder concerned mentioned receiving one lever arch file per query, and questioned the amount of time required by the HSE to prepare this, and for duty holders to read through, in preparation for the hearing.

It is worth noting that a number of the duty holders spoken to had not made significant use of the query and dispute procedure to date, but felt that as the materiality of amounts billed by the HSE increase so might the likelihood of making use of the query procedure.

3.3 Analysis of query logs

Analysis of the query logs for each of the regimes highlights the following statistics, as at 17/7/2001¹:

3.3.1 COMAH and Gas

- The query tracker shows 79 queries in total, of which 35 are still open.
- Of the 35 still open, 30 relate to queries concerning the EA, the bulk of which were requests for more information.
- 15 of the queries were still open after two calendar months (approximately 40 working days).
- 18 of the open queries were open for between 2 working weeks and two calendar months.

3.3.2 Railways

- There were only four outstanding queries for Railways, all of which were less than ten working days old.

3.3.3 Offshore

- One query was open, and was less than ten working days old.

3.3.4 Observations

The most striking observation relates to the proportion of queries concerning the EA. Although the value of EA invoices amounts to only approximately £150k per annum (out of approximately £3.5m), it is responsible for the vast majority of queries. Almost all the EA queries are still open, and unresolved. It should be noted that EA receive relatively little revenue from COMAH compared with other regulatory regimes and consequently might be expected to give this work lower priority. Most of the queries relating to HSE personnel are able to be resolved, and usually within the specified service level.

¹ This analysis is based on the Query Tracker report extracted for 2001/2002 as at 17/7/2001

While some of the queries still open may have progressed to Level 2, there are still 15 queries open for a time period in excess of two months, which is the service standard for the resolution of Level 2 queries. Of these 15 queries, 14 relate to EA queries. We understand the EA Income Manager has taken steps to rectify the problem.

The Offshore and Railways regimes have little or no trouble with resolving queries within specified time limits.

3.4 Discussion

There is clearly a problem in responding to EA queries within the agreed service level time of 10 working days. This is likely to be partly as a result of the number of hand-overs required, one of which is inter-organisational, and difficulties that the EA has obtaining the required information from the inspector concerned. Since the information in the TRS system is at the same level as that on the invoice sent to the duty holder, the only way to obtain more detail on the nature of work carried out is to contact the inspector. The inspector then has to refer to personal notes to break the time down further and feed back to the EA co-ordinator. Given that inspectors are often away from the office, and may only pick up e-mail periodically, it can be some time before they become aware of the query, and can begin responding to it.

Although no information exists on the amount of time consumed by Level 3 queries, discussions clearly indicate that they consume a large amount of time for senior HSE staff, inspectors, duty holders and administration staff alike. Given however that there have only been a total of eight Level 3 disputes since the inception of charging, the total time consumed by these hearings as a proportion of the number of person-hours spent on charging activity in the same period is likely to be relatively small.

3.5 Recommendations

Although the process itself has inefficiencies associated with it, in terms of hand-overs, duplication of effort and lead times, there are few quick fixes available, and the overall benefits of these quick fixes are likely to be relatively small. For example, in order to reduce the hand-overs, queries could be directed to the charging team, and not via the Finance Unit. This would reduce the number of hand-overs in the process by one. The charging team would need to inform the Finance Unit of the query to prevent debt collecting activity. On the face of it this seems like a relatively obvious process improvement, but given that approximately 40% of queries are generated because the Finance Unit chases invoice payment, the benefit is somewhat diluted. This fact arguably justifies the additional hand-over, provided the time taken to pass the query on is minimal. The greater the time the hand-over consumes, the stronger the argument for altering the process.

The most obvious fix is to improve the quality of information to prevent the query in the first place. This is particularly applicable to EA timesheets and invoices. The hidden cost of a query is the delay in payment, and this could be an argument for investing in modifications to the TRS system to allow more detailed capture of information for billing. Given however that the total

annual income from EA work is less than £200k, and that 90% of invoices are collected within 90 days, the costs of a modification are likely to outweigh the benefits arising from it.

One recommendation which would require little effort to implement, and may well have tangible benefits is more active expediting of open queries. This would certainly assist in meeting the service levels would go some way to improving performance. Hand-overs between people and organisations impede follow up as ownership of the query is shared between individuals and/or organisations. In cases where there are multiple hand-overs expediting becomes more important, to communicate to process participants a sense of urgency and that ownership does exist. Having said this, it needs to be remembered that while active expediting and increasing inspector's awareness may help to some degree, as long as the level of information remains as is, the HSE will always be under pressure to meet the published service levels.

4. APPENDIX 1: ANALYSIS OF QUERIES AND DISPUTES

4.1 Introduction

The purpose of this analysis is to provide the Health and Safety Executive with a statistical review of key data, and to highlight the emerging trends relating to the number of queries and disputes received. This will also inform our final report when we bring together findings from the review of the efficiency of administrative processes with the review of the query and dispute procedure.

The statistical analysis is split into five sections, covering all four regimes collectively, and then each of the regimes (COMAH, Gas Transportation, Offshore and Railways) individually. Each section covers 3 key areas:

- The total number, and the level, of queries and disputes;
- The total number of queries and disputes in relation to the number of invoices issued;
- The percentage of charges varied following the queries and disputes procedure;

In each section we have worked with data provided by the HSE, which splits queries into periods of different lengths. The difference in length of each time period should not be overlooked when reviewing the data.

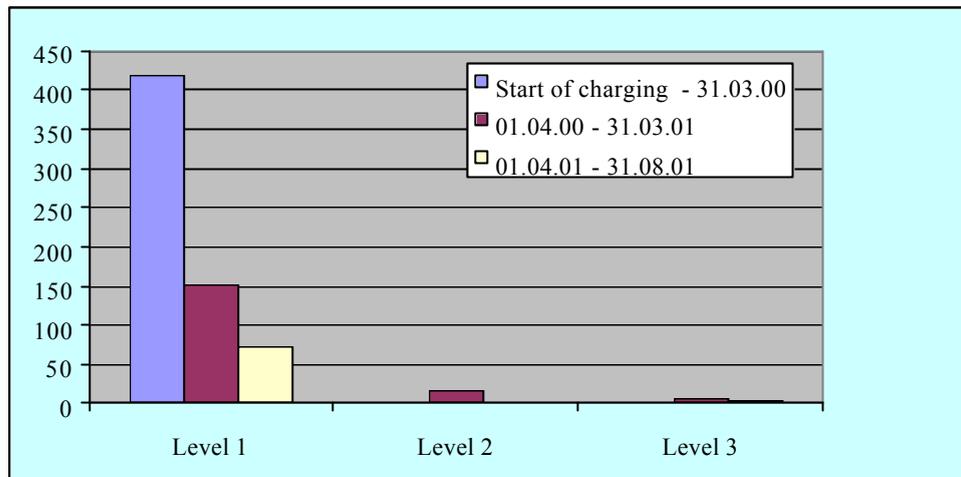
- The start of the charging period (1 April 1999 for COMAH, 1 October 1999 for Gas Transportation, Offshore and Railways) to 31 March 2000.
- The financial year 1 April 2000 to 31 March 2001
- The part year 1 April 2001 to 31 August 2001.

The data available for the period to 31 March 2000 is limited to the total number of queries at each level for each of the four sectors. Consequently our review of this period is not as comprehensive as that of the two later periods. The information for the period to 31 March 2000 is also limited in that the number of queries and disputes for COMAH at Level 2 cannot be determined.

The statistical findings are presented below:

4.2 Total results for all sectors

The total number, and level, of queries and disputes

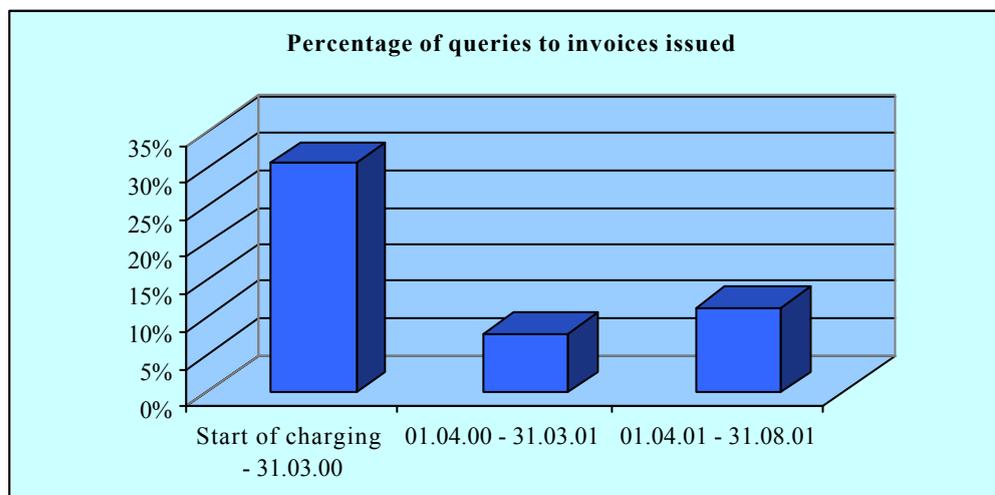


The charging regime across all sectors illustrates a downward trend in relation to the number of queries and disputes received. The number of cases within each of the sectors is evaluated in more detail in the sections below. From this evaluation it is clear that the majority of the queries and disputes fall within the COMAH regime.

An initial observation highlights that very few queries are received / progress to Level 2 or Level 3, indicating that the procedure for dealing with disputes is statistically very strong.

The qualitative impact of the procedure for dealing with queries and disputes is discussed in detail in section 4 of this report.

The total number of queries and disputes in relation to the number of invoices issued



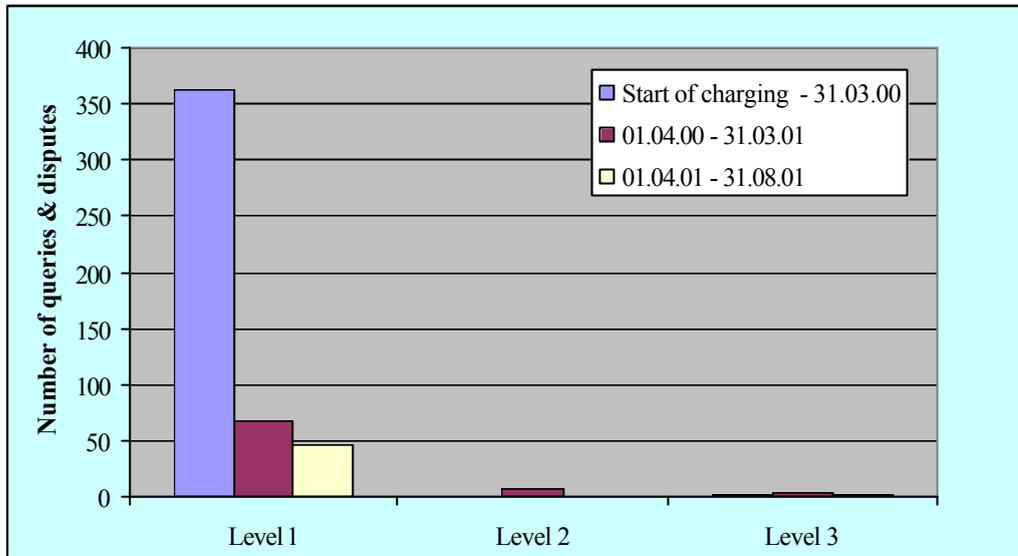
The total number of cases received in relation to the charging regime fell dramatically in the second period of charging. Although the data in the third period shows an increase, it should be remembered that there is no data

available for the number of invoices raised in the COMAH and Railways sectors in the period from July/June to August 2001 respectively. This limitation is noted in the relevant sections below.

An analysis of the trends in each sector is set out in the sections below.

4.3 COMAH

The total number, and level, of queries and disputes²

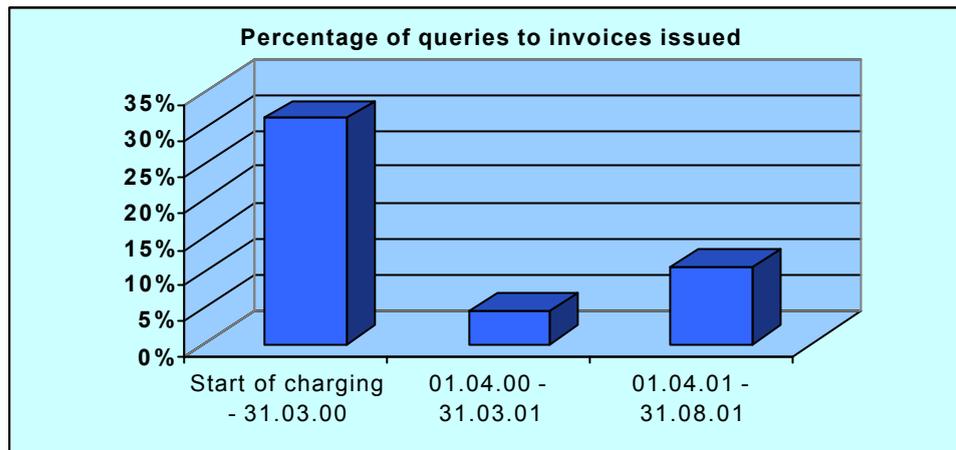


The number of Level 1 cases in relation to COMAH is high during the first period of charging, however the number of cases has fallen significantly over the time periods. This implies that the initial queries raised were due to the fact that the charging regime was a new initiative which Duty Holders were not familiar with, rather than invoicing errors on the part of the HSE. The number of cases received in the future would therefore also be expected to decrease.

The level of queries progressing to the level 2 and 3 stage is very low. Only 2.9% of the total 476 queries received at level 1 were dealt with under levels 2 and 3, and this shows that the procedure appears to be operating effectively at the Level 1 stage.

² This information is taken as the total number of disputes for the period to 31 March 2000, and as the number of cases received during the period for the other two periods.

The total number of queries and disputes in relation to the number of invoices issued³.



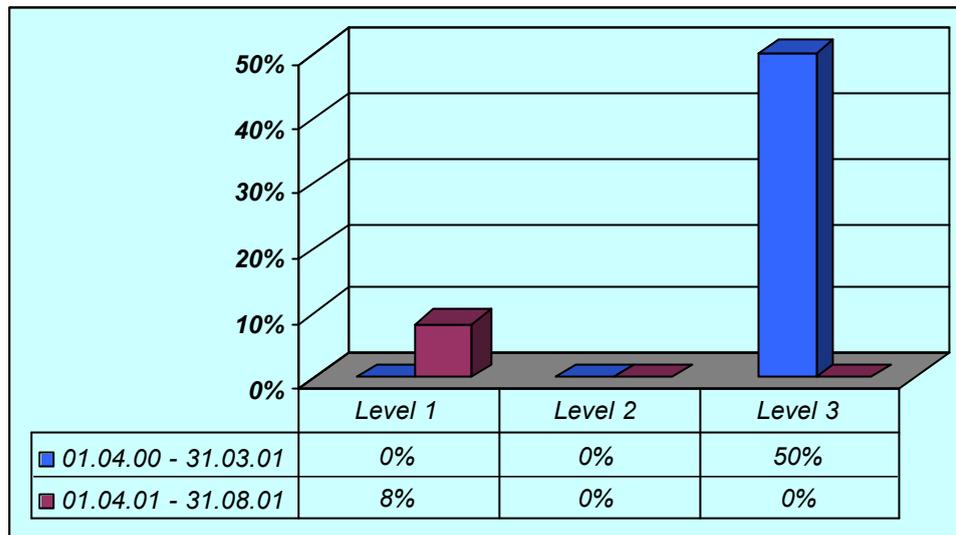
The number of queries and disputes received in proportion to the number of invoices issued does not follow the same trend as the total number of queries received. In the first period of charging, 31% of all invoices issued were queried. This percentage fell significantly to just 5% in the second period. However, in contrast to the total number of invoices issued, the percentage increased to 11% in the final period.

The increase in the third period is probably explained in that the available data for the number of invoices issued in this period only includes the total from April to June 2001, and not to August 2001. When the number of invoices received in April – June 2001 is averaged and used to give an estimated total for the period to August 2001, the percentage falls to 6%, in line with the previous period.

Further details on the actual number of invoices issued in July and August 2001 is required to confirm that the number of cases received as a proportion of invoices issued is following a downwards trend.

³ The third period only includes the number of invoices issued in April– June 2001. The number of queries covers the period April – August 2001.

The percentage of charges varied following the queries and disputes procedure⁴



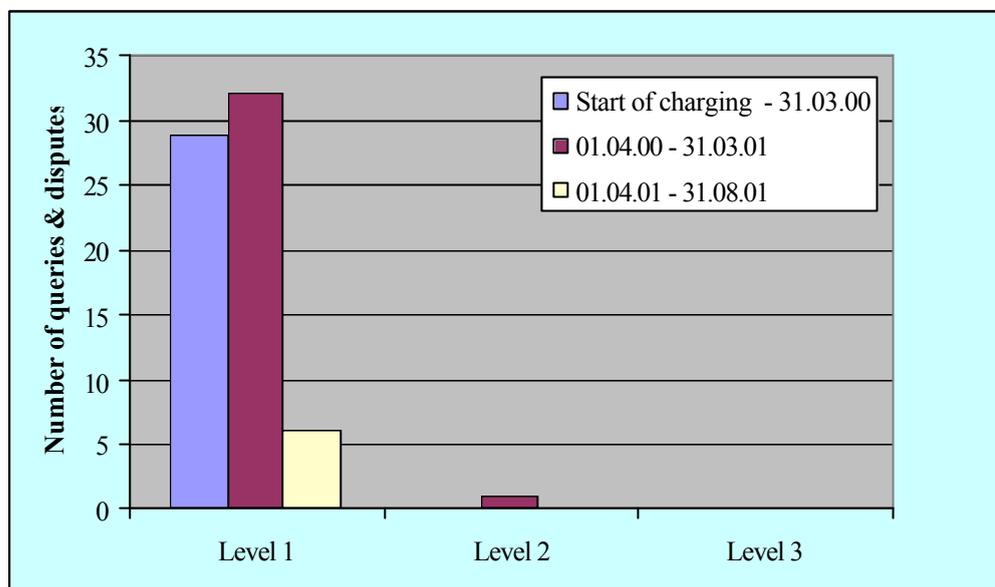
The majority of cases received do not result in the initial invoice charge being varied. However, 1 in every 2 cases that progress to Level 3 do end up with the charge being varied. This trend is reversed in year 2.

Further details of the nature of the queries and the reason for variation is required in order to conclude if there is a recurring reason as to why the invoiced charge is being varied, and if it is possible to adopt additional procedures at Level 2 to prevent the cases progressing to Level 3.

⁴ Figures shown as a percentage of cases received during the period and cases carried forward from the previous period. No data available for the first period of charging.

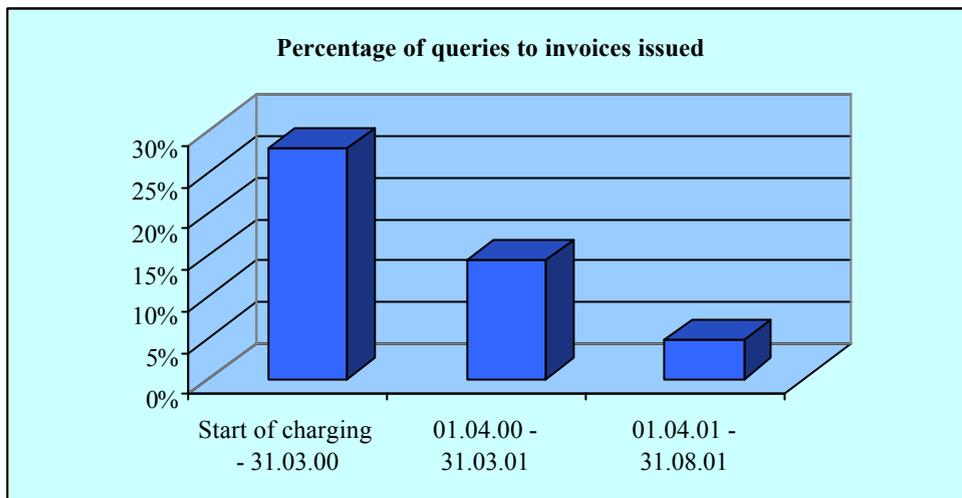
4.4 Offshore

The total number, and level, of queries and disputes



The number of cases at Level 1 increased slightly in the year to 31 March 2001, yet dropped significantly in the period to 31 August 2001. Only one case progressed to Level 2, showing that the procedures applied to address the queries at the Level 1 stage are operating effectively. This point is reinforced by the absence of any Level 3 queries.

The total number of queries and disputes in relation to the number of invoices issued⁵

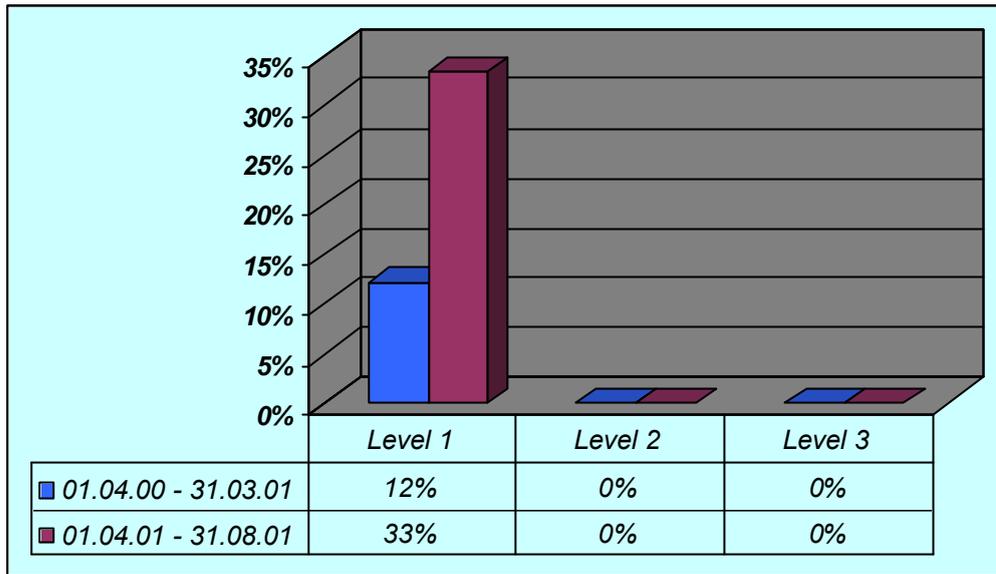


The rate of invoices generating queries and disputes in the Offshore sector is consistent with the trend in the other three sectors. A strong downward trend is illustrated in the graph above, showing that the majority of cases in the first period were possibly due to the introduction of the new charging regime that was unfamiliar to the Duty Holders.

The concept of initial ‘teething problems’ with the charging initiative is confirmed in section 4, where the nature of the queries is examined more closely.

⁵ Note: the invoices issued in March 2000 and 2001 are included within periods 2 & 3 respectively. The data for number of cases includes the March 2000 and 2001 data in periods 1 & 2 respectively.

The proportion of charges varied following the queries and disputes procedure

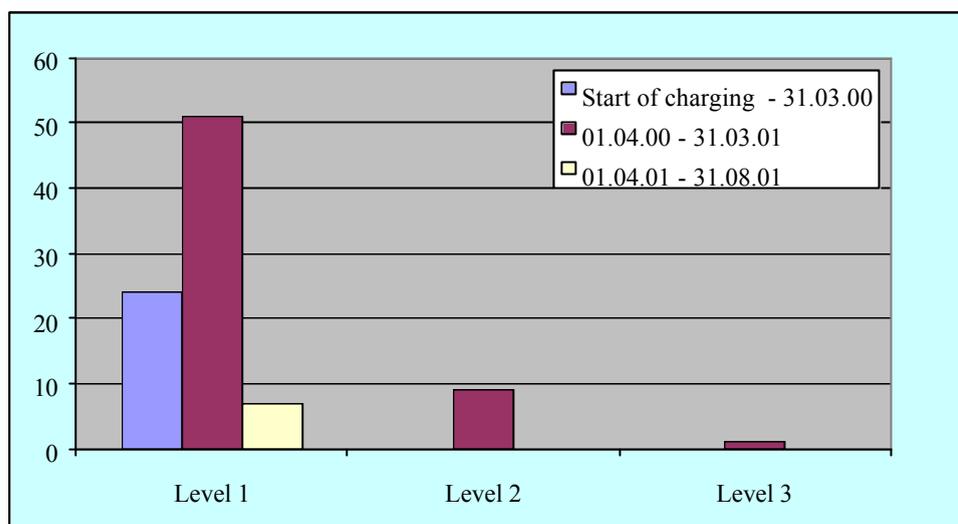


Overall, only a low proportion of the claims received resulted in the charges being varied in the first period. The increasing trend in the second period does result in a high proportion of charges being varied. However, in absolute terms, only 2 of the 6 cases received in the period were varied, and hence this does not give cause for concern over the invoicing system.

Close monitoring of this ratio in the future should indicate whether there is an underlying problem with the invoicing system, however, it is not believed that this is the case due to the low level of queries overall.

4.5 Railways

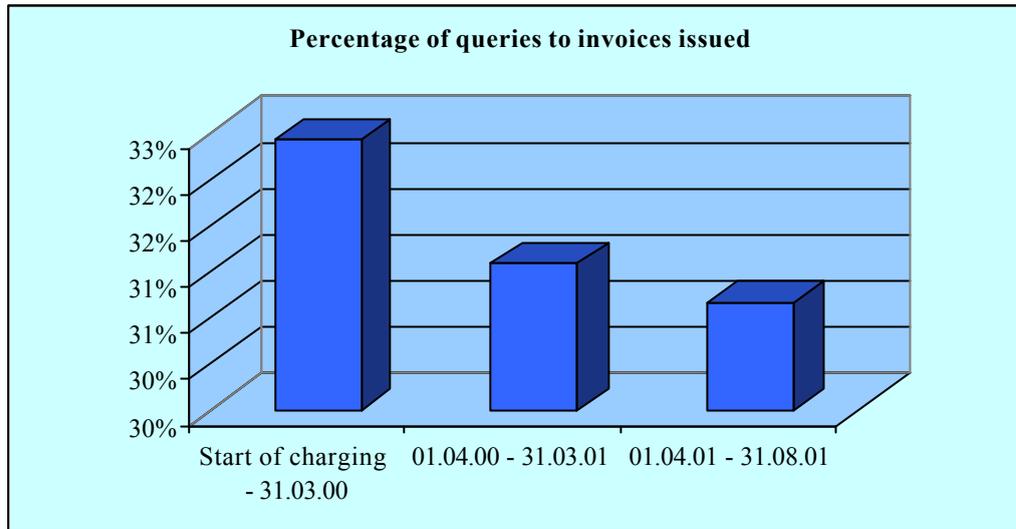
The total number, and level, of queries and disputes



The number of queries and disputes in the Railways regime is the second highest of the four regimes, with 92 queries and disputes received in total. However, this number is significantly lower than the total number received in relation to COMAH (490).

The declining trend over the time period is consistent with the other regimes, implying that the high level of cases in the first period was a result of the charging regime being a new agenda, and that the procedures in place are sufficient to deal with the queries and disputes raised.

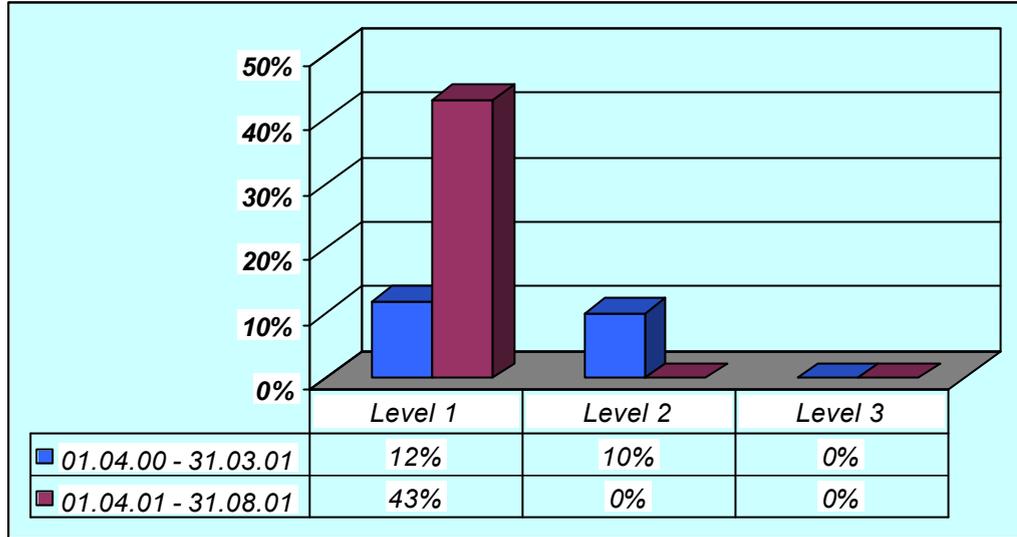
The total number of queries and disputes in relation to the number of invoices issued⁶



The downward trend in the number of queries and disputes raised in the Railways sector is consistent with the other three sectors. The percentage for the third period is expected to be lower when the data for June – August 2001 is included. However, details of the exact number of invoices issued in this period is required before any conclusions can be drawn.

⁶ Note: the invoices issued in March 2000 and 2001 are included within periods 2 & 3 respectively. The data for number of cases includes the March 2000 and 2001 data in periods 1 & 2 respectively. The third period takes no account of any invoices raised in June – August 2001 as this data is not available.

The percentage of charges varied following the queries and dispute procedure



The Railways sector illustrates the highest proportion of cases where the charge is varied following the queries and disputes procedure. It is not possible to conclude from the statistical analysis whether this is due to an increase in invoicing errors, or a more lenient procedure being adopted in response to the cases received.

Overview

It is clear that the COMAH regime generates a far greater number of queries to the other sectors. However, there are general trends that have emerged from analysis of the separate regimes:

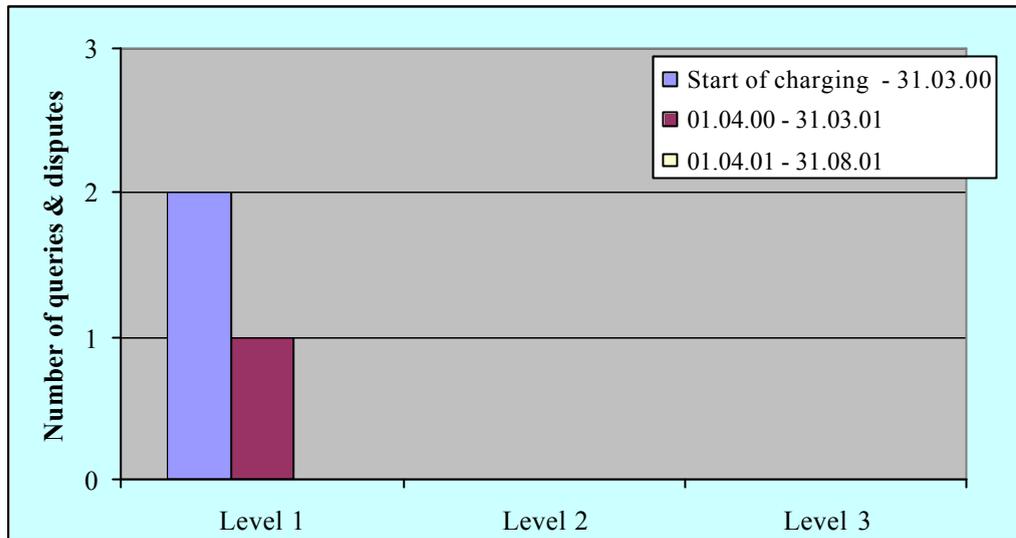
- The total number of cases received has fallen over the periods;
- The total number of cases as a percentage of invoices issued has fallen over the period; and
- Only a small percentage of charges are varied following the queries and disputes procedure.

The number of cases not pursued by the Duty Holder following the submission of a query or dispute is low, there are only 5 such instances in total across all four regimes over the periods analysed.

From the data provided, it has not been possible to analyse the time taken to deal with the cases received.

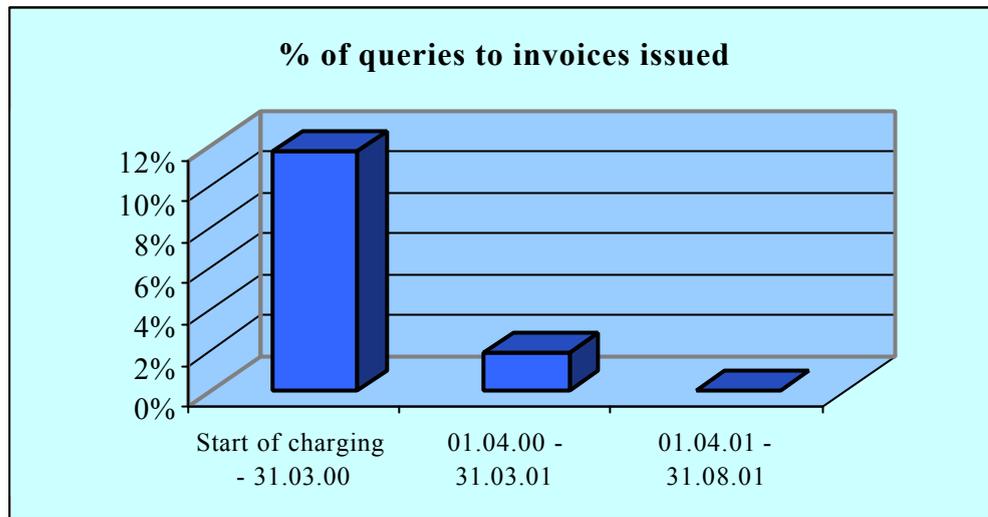
4.6 Gas Transportation

The total number, and level, of queries and disputes



The number of queries in the Gas Transportation regime is extremely low. This clearly reflects the fact that there are only 10 dutyholders and around 30 other companies that are charged for exemptions. All cases received were Level 1, implying that they were a result of the Duty Holders being unfamiliar with the new charging regime.

The total number of queries and disputes in relation to the number of invoices issued⁷.



The percentage of queries to invoices issued in the first period is considerably lower in the Gas Transportation sector (12%) than under COMAH (33%), but the sample size is clearly too small to draw any firm conclusions.

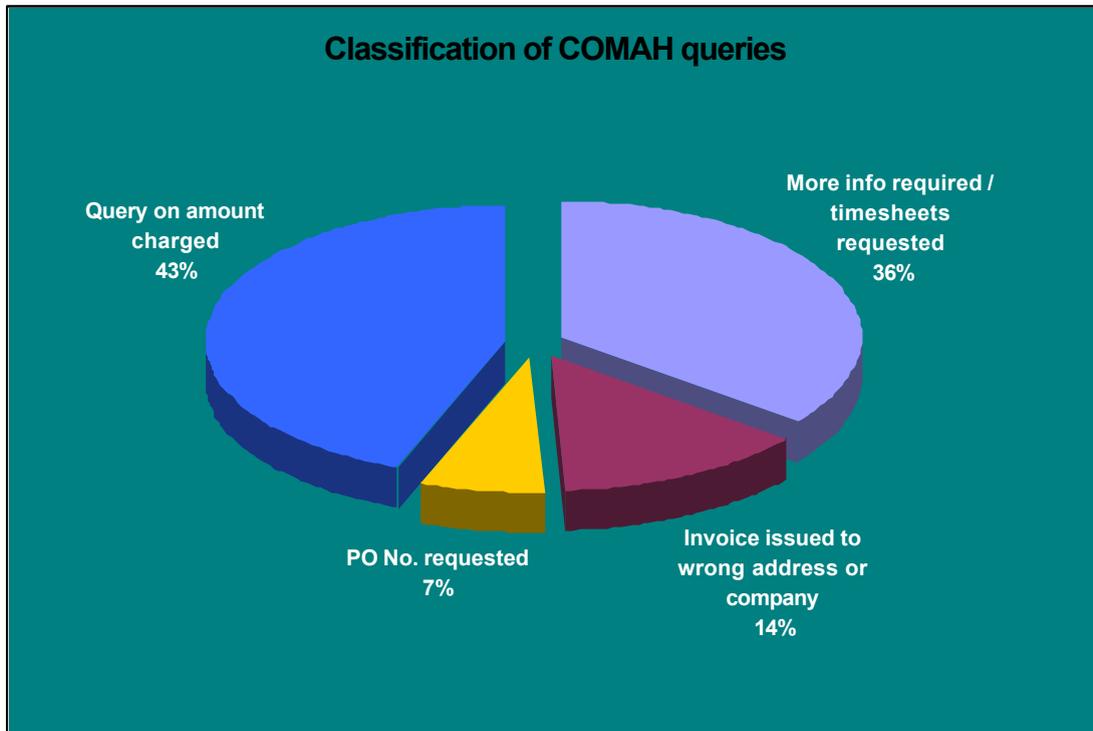
The percentage of charges varied following the queries and disputes procedure

None of the queries and disputes received under the Gas Transportation regime resulted in the charge being varied.

⁷ Note: the invoices issued in March 2000 and 2001 are included within periods 2 & 3 respectively. The data for number of cases includes the March 2000 and 2001 data in periods 1 & 2 respectively.

5. APPENDIX 2: STATISTICAL ANALYSIS OF QUERY TYPES

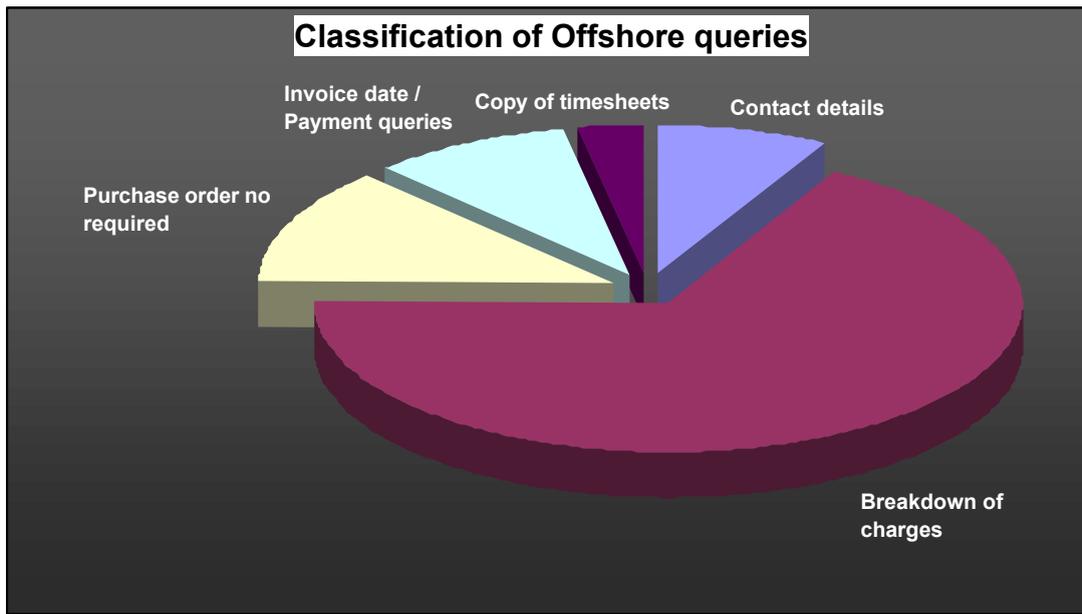
5.1 COMAH



The analysis of queries in the COMAH regime is consistent with the Railways sector in that the two most common queries related to requests for inspectors' timesheets or for other further information relating to the invoice and queries on the amounts charged.

Administrative queries, i.e. the absence of a purchase order number and the incorrect address / company details, related to 21% of all queries

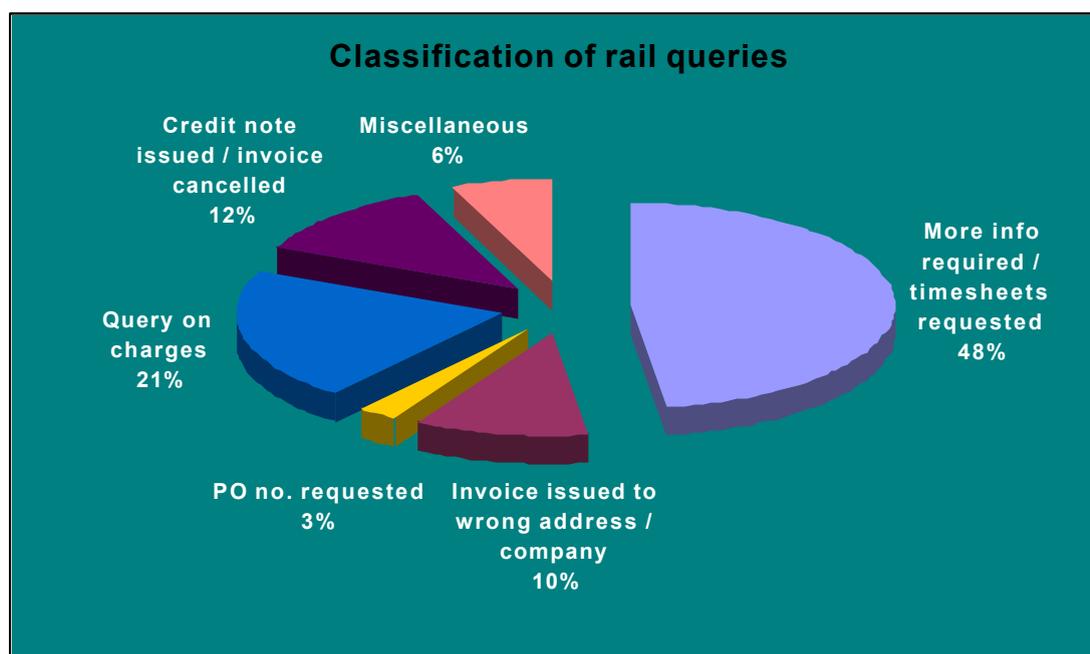
5.2 Offshore



The above chart illustrates clearly that the majority of queries received in the Offshore sector relate to the breakdown of the charges. Frequent queries requested the details of inspectors, the hours charged on particular elements of the job, and the exact nature of the work carried out. Only 2 of the total of 65 queries requested copy of the inspectors' timesheets.

Administrative queries including contact details, the request for a purchase order number, the payment method, and the invoice date, accounted for 32% of the total number of queries analysed.

5.3 Railways



The above diagram illustrates that almost half of the queries received in the Railways sector related to requests for inspectors' timesheets or for other further information relating to the invoice. The number of queries relating to the breakdown of charges is also the most frequent query in the Offshore sector (68% of all queries).

21% of queries related to the charges on the invoices, and were connected with either the actual amounts charged or queries that the work performed was not chargeable (e.g. a telephone conversation which gave no assistance). 12% of queries resulted in credit notes (for full or part invoices) being issued or invoices being cancelled.

Administrative queries, i.e. the absence of a purchase order number and the incorrect address / company details, accounted in total for 13% of all queries. This is a significantly lower level than that in the Offshore sector (32%).