

Title: Proposed Reduction of Licence Application Fees and Annual Registration Fees for the Approved Contractor Scheme IA No: HO Lead department or agency: Home Office/ Security Industry Authority Other departments or agencies:	Impact Assessment (IA)			
	Date: 10/11/2011			
	Stage: Final			
	Source of intervention: Domestic			
	Type of measure: Secondary legislation			
Contact for enquiries: PSI Team, Home Office 020 7035 0229				
Summary: Intervention and Options			RPC Opinion: RPC Opinion Status	

Cost of Preferred (or more likely) Option				
Total Net Present Value	Business Net Present Value	Net cost to business per year (EANCB on 2009 prices)	In scope of One-In, One-Out?	Measure qualifies as
Ben£25.6m	£1.9m	N/A	No	NA

What is the problem under consideration? Why is government intervention necessary?

Individuals who must be SIA licensed pay a licence fee to cover the full cost of their application. Companies approved by the SIA under Approved Contractor Scheme (ACS) pay an annual registration fee. The fee levels are currently £245 for a three year individual licence fee and £17 per annum per ACS employee respectively. The SIA has achieved overall cost savings in the order of 20% which will generate an overall surplus of £5.2m in 2011/12; £3.3m in 2012/13; and £3.1m in 2013/14 if fees are maintained at the current level. In order to achieve a balanced budget and to reduce the 2011/12 surplus, it will be necessary to reduce both the cost of the individual licence fee and the annual registration fee under the ACS.

What are the policy objectives and the intended effects?

Managing Public Money requires that SIA fees should meet the full costs of the service and neither produce a loss or surplus; the policy objective is to ensure that this is the case with SIA fees. The intended effect is to ensure that the private security industry receives the benefit of cost reduction measures at the earliest opportunity to achieve value for money and fairness. The aim is for this to take effect from 1 January 2012 as a delay until the April common commencement date would cost the industry an estimated £0.9m. This fee reduction will ensure, as far as possible, that the fees charged by the SIA in respect of registration under the ACS and individual licensing, fund only the cost of the service, with no surplus or deficit.

What policy options have been considered, including any alternatives to regulation? Please justify preferred option (further details in Evidence Base)

Option 1: Do nothing, maintain fees at current levels. If the fees did remain at current levels, a surplus of £5.2m will be generated in 2011/12, £3.4m in 2012/13 and £3.1m in 2013/14 (see Appendix A).
 Option 2: Reduce the licence fee by £25 (10%) and the annual ACS registration fee (per employee) by £2 (12%) in order to re-align income with the lower level of costs and allow consistency of pricing across years. (See Appendix B). Option 2 is the preferred option because individuals and businesses will benefit from reduced costs as soon as possible without distorting market conditions.
 Option 3: Reduce the licence fee by £40 and the annual ACS registration fee by £2 to eliminate the 2012/13 surplus. This would result in considerable fee fluctuation - licence fees would have to be increased by £15 for 2013/14 to address a deficit in that year, causing significant distortion in costs for industry and unacceptable risks to compliance levels. (See Appendix C).

Will the policy be reviewed? It will be reviewed. If applicable, set review date: 09/2012

Does implementation go beyond minimum EU requirements?			N/A		
Are any of these organisations in scope? If Micros not exempted set out reason in Evidence Base.	Micro Yes	< 20 Yes	Small Yes	Medium Yes	Large Yes
What is the CO ₂ equivalent change in greenhouse gas emissions? (Million tonnes CO ₂ equivalent)			Traded: N/A	Non-traded: N/A	

I have read the Impact Assessment and I am satisfied that (a) it represents a fair and reasonable view of the expected costs, benefits and impact of the policy, and (b) that the benefits justify the costs.

Signed by the responsible Minister:

_____ Lynne Featherstone _____ Date: 04/12/2011 _____

Summary: Analysis & Evidence

Policy Option 2

Description:

FULL ECONOMIC ASSESSMENT

Price Base Year 2011	PV Base Year 2011	Time Period Years 10 yr	Net Benefit (Present Value (PV)) (£m)		
			Low: £25.6	High: £25.6	Best Estimate: £25.6

COSTS (£m)	Total Transition (Constant Price) Years	Average Annual (excl. Transition) (Constant Price)	Total Cost (Present Value)
Low	0.0	0	0
High	0.0	0	0
Best Estimate	Negligible	0	£0

Description and scale of key monetised costs by 'main affected groups'

There is no change to the administrative processes for individuals and businesses, and therefore no additional costs. This proposed fee reduction does not have any increased cost impact on businesses. The impact is in relation to reduced costs, and therefore only constitutes benefit. The estimated cost of the fee change to the SIA is a one off £9,000 to cover system changes to accommodate the changes to fee levels.

Other key non-monetised costs by 'main affected groups'

N/A

BENEFITS (£m)	Total Transition (Constant Price) Years	Average Annual (excl. Transition) (Constant Price)	Total Benefit (Present Value)
Low	0.0	£2.6m	£25.6m
High	0.0	£2.6m	£25.6m
Best Estimate	None	£2.6m	£25.6m

Description and scale of key monetised benefits by 'main affected groups'

There is no change to the policy which the SIA enforces. This change solely concerns a reduction in the fees charged for an individual licence and annual ACS membership. Full calculations are set out in Appendix D. "Main affected groups" are the individual workers who pay for a licence, and the companies who pay for ACS membership. Licence applicants will save £0.8m in 11/12, £3.1m in 12/13 and £2.8m in 13/14. ACS companies will save £0.7m in 11/12 and £0.25m in all subsequent years.

Other key non-monetised benefits by 'main affected groups'

N/A.

Key assumptions/sensitivities/risks

Discount rate (%)

3.5

These proposed reduced fee levels are derived from projections using the best evidence currently available to the SIA.

Present Value Benefits to individuals are £23.7m and £1.9m to businesses.

BUSINESS ASSESSMENT (Option 2)

Direct impact on business (Equivalent Annual) £m:			In scope of OIOO?	Measure qualifies as
Costs: N/A	Benefits: N/A	Net: N/A	No	NA

Summary: Analysis & Evidence

Policy Option 3

Description:

FULL ECONOMIC ASSESSMENT

Price Base Year 2011	PV Base Year 2011	Time Period Years 10yrs	Net Benefit (Present Value (PV)) (£m)		
			Low: £39.7	High: £39.7	Best Estimate: £39.7

COSTS (£m)	Total Transition (Constant Price) Years	Average Annual (excl. Transition) (Constant Price)	Total Cost (Present Value)
Low	0.0	0	0
High	0.0	0	£0
Best Estimate	Negligible	0	0

Description and scale of key monetised costs by 'main affected groups'

There is no change to the administrative processes for individuals and businesses, and therefore no additional costs. This proposed fee reduction does not have any increased cost impact on businesses. The impact is in relation to reduced costs, and therefore only constitutes benefit. The estimated cost of the fee change to the SIA is a one off £9,000 to cover system changes to accommodate the changes to fee levels.

Other key non-monetised costs by 'main affected groups'

N/A

BENEFITS (£m)	Total Transition (Constant Price) Years	Average Annual (excl. Transition) (Constant Price)	Total Benefit (Present Value)
Low	N/A	£3.8	£39.7
High	N/A	£3.8	£39.7
Best Estimate	N/A	£3.8	£39.7

Description and scale of key monetised benefits by 'main affected groups'

There is no change to the policy which the SIA enforces. This change solely concerns a reduction in the fees charged for an individual licence and annual ACS membership. Full calculations are set out in Appendix E. "Main affected groups" are the individual workers who pay for a licence, and the companies who pay for ACS membership. Licence applicants will save £1.2m in 11/12, £5.0m in 12/13 and £4.6m in 3/14. ACS companies will save £0.7m in 11/12 and £0.25m in all subsequent years.

Other key non-monetised benefits by 'main affected groups'

N/A

Key assumptions/sensitivities/risks

Discount rate (%)

3.5

These proposed reduced fee levels are derived from projections using the best evidence currently available to the SIA.

Present Value Benefits to individuals are £37.7m and £1.9m to businesses.

BUSINESS ASSESSMENT (Option 3)

Direct impact on business (Equivalent Annual) £m:			In scope of OIOO?	Measure qualifies as
Costs: N/A	Benefits: N/A	Net: N/A	No	NA

Evidence Base (for summary sheets)

A. Strategic Overview

A.1 Background

- 1.1. The Private Security Industry Act 2001 (the Act) provided for the creation of the Security Industry Authority (SIA) as a Non Departmental Public Body. The SIA was created in April 2003 by Order of the Home Secretary.
- 1.2. The SIA's main tasks are to license individuals in specific security sectors who meet specified criteria and to approve security companies which meet agreed (voluntary) standards. Since its creation in 2003 the SIA has:

- Developed, designed and implemented the licensing criteria and supporting systems.
- Created compliance and investigation teams.
- Introduced the voluntary Approved Contractor Scheme (ACS).

Around 765,000 individuals have so far achieved the SIA licence qualifications, of which 360,000 currently hold a licence (many individuals who do not lawfully need to hold a licence have chosen to undertake the nationally accredited qualification). Over 700 ACS companies have been approved.

- 1.3. Although the SIA set-up and development costs in 2003/04 were funded by the Home Office, since then the Authority has been required to be self-financed through income generated from regulatory activities. The most recent change to the licence fee came into effect in April 2007 and for the annual ACS registration fee, in October 2007. It should be noted that there are two elements to ACS income – the application fee (which is not proposed to be subject to change), and the annual registration fee which is proposed to be reduced for the purposes of this Impact Assessment.
- 1.4. HM Treasury's rules and guidance on fees, levies and charges are set out in *Managing Public Money*. They require fees to be set at a level that enables public bodies to recover the full costs of delivering their responsibilities, with no cross subsidies and ensuring fairness and value for money. Setting a fee for a public service normally requires powers in primary legislation. The Private Security Industry Act 2001 permits the SIA to impose such charges as are prescribed in connection with the issue of individual licences and the operation of the ACS scheme. The fees are set in The Private Security Industry (Licences) Regulations 2007 (SI 2007/810 and The Private Security Industry Act 2001 (Approved Contractor Scheme) Regulations 2007 (SI 2007/808) respectively.
- 1.5. The SIA is required to operate on the basis of full cost recovery. The achievement of full cost recovery on a year by year basis is affected by the SIA's three year business cycle. This cycle is driven by the pattern of individual licensing. The majority of licences are for three years with the application fee paid in full and recognised in the first year of the licence. Licensing was introduced in England and Wales in sectors of the private security industry and geographically for Scotland and Northern Ireland on specified 'enforcement dates' from 2006/07 with the largest sectors being licensed for the first time in that year and the last major roll out being Northern Ireland from 2009/10. These factors, combined with the subsequent pattern of licence applications, mean that the SIA's income follows a three year cycle, with higher volumes and income in years one and two and lower volumes and income in year three.
- 1.6. The SIA has taken steps to reduce its expenditure to ensure that the regulated private security industry receives value for money. The SIA's actions have been supported by current Government austerity measures. These actions have allowed the SIA to reach a break even point in 2010/11 (the third year of the financial cycle) and continued downward pressure on costs means that fees need to be reduced to ensure that unreasonable surpluses are not made. These fee changes need to breach the Common Commencement Date and be made on 1 January 2012, in order to make savings to the industry, at an estimated £0.9m.

A.2 Groups Affected

2.0 The business sectors affected are those currently regulated by the SIA as listed below. The licence is granted to the individual conducting designated activities, usually under a contract for services.

Manned Guarding sectors:

- Door Supervisor (includes those employed 'in-house')
- Close Protection
- Cash and Valuables in Transit
- Public Space Surveillance (CCTV)
- Security Guard

Keyholders

Vehicle Immobilisers (England, Wales and Northern Ireland) (includes those employed 'in-house') – the duration of this licence is 1 year, as opposed to the 3 year licence duration for all other sectors.

2.1 The voluntary ACS scheme covers the same sectors, but is in respect of businesses rather than individuals. ACS companies pay an initial application fee and then an annual per capita registration fee reflecting the number of licensed employees.

B. Rationale

3.0 The aim of the fee reductions is to ensure that the SIA can continue to be self financing for both individual licensing and ACS, without creating a surplus or overcharging the industry for the service it receives or making a loss in any financial year. This is in line with Government policy to pass on the benefits of improved efficiency in 'arms length' bodies to users.

3.1 The SIA has been successful in reducing its costs over the last two years. In particular:

- Reduction in licensing costs through the renegotiated service provider contract –saving around 35% per annum, equivalent to some £1.7m in 2010/11
- Improved efficiency in the delivery of licensing and ACS services
- Reductions in staffing and associated costs as a result of controls on recruitment
- Reductions in support costs through better management of communications, room hire, travel and subsistence, etc.

3.2 These savings are supported by the Government's austerity measures, which the SIA fully support and comply with. Together, the firm application of these measures yielded over £4m of savings in this financial year. These initiatives have ensured that the SIA has remained fully self-financing in 2010/11 and is forecast to do so over the next two years. Appendix A shows (in £'000), the current forecast position assuming no change to fee levels.

3.3 The Government's Arms Length Bodies review reported on 14 October 2010 and proposed that the regulation of the private security industry should no longer be the responsibility of a Non-Departmental Public Body (NDPB) and that there should be a phased transition to a new regulatory regime. This announcement caused considerable uncertainty as to the SIA's future and, because of the uncertainty and the timing of announcements about the future of regulation, it was not possible to consider or implement a fee reduction during the current year. The proposed changes should therefore be brought forward as soon as possible (by January 2012) so that:

- Individuals and businesses can benefit from reduced costs at the earliest opportunity (a delay until April 2012 would cost the industry an estimated £0.9million).
- Revised arrangements are in place well in advance of the Olympic and Paralympic Games.
- Distortions to patterns of application (and therefore risk to the licensing delivery system) as a result of individuals delaying their application in anticipation of the reduction are minimised.

- The risk of non-compliance and wilful criminality by individuals working without a licence as a result of them delaying their applications is minimised.

C. Objectives

- 4.0 Managing Public Money requires that fees should meet the full costs of the service and neither produces a loss or surplus; the policy objective is to ensure that this is the case with SIA fees.
- 4.1 The intended effect is to ensure that the private security industry receives the benefit of cost reduction measures at the earliest opportunity to achieve value for money and fairness. The aim is for this to take effect from 1 January 2012 as a delay until April would cost the industry an estimated £0.9m.
- 4.2 This fee reduction will ensure, as far as possible, that the fees charged by the SIA in respect of registration under the ACS and individual licensing fund only the cost of the service, with no surplus or deficit.
- 4.3 The financial objective for the Scheme is full cost recovery and compliance with the financial guidelines on fees and charges set out in *Managing Public Money*. Costs include:
- Development costs;
 - Operational costs for ACS and licensing activities;
 - Overheads (staff related);
 - Indirect costs incurred by the SIA, e.g. corporate services (HR, IT, Finance, Communications staff) costs and technology infrastructure.

D. Options

- 5.0 Option 1 Do nothing, maintaining fees at current levels. This would result in a forecast surplus of £5.2m for 2011/12, £3.4m in 2012/13 and £3.1m in 2013/14 (Appendix A). This is not the preferred option and would place an unnecessary and unreasonable burden on those who are licensed in those years.
- 5.1 Option 2 Reduce the licence fee by £25 (10%) and the annual ACS registration fee (per employee) by £2 (12%) in order to re-align income with the lower level of costs and allow consistency of pricing across years. This would result in a surplus of £4.3m in 2011/12, break even in 2012/13 and 2013/14 based on current assumptions (Appendix B).
- 5.2 Option 3 Reduce the licence fee by £40 and the annual ACS registration fee by £2 to eliminate the 2011/12 surplus. However, licence fees would then be subject to a forecast increase of £15 for 2013/14 to avoid a significant deficit in that year. This would result in considerable fee fluctuation within the normal lifespan of the individual licence which would distort application patterns, increase the risk of non compliance and distort the market by creating pricing differences reflecting the random timings of renewals of different individuals (Appendix C).

E. Appraisal (Costs and Benefits)

GENERAL ASSUMPTIONS & DATA

- 6.0 This impact assessment covers a period of one year (2012/13), but gives forecast figures for a further financial year (2013/14). The SIA produces volume forecasts for the upcoming financial year which are extrapolated into future years. These are not considered to be accurate over a ten year period. A model was developed to forecast the costs and benefits of each option compared over a three year period (2011/12 to 2013/14). Appendices A to C show estimated income and expenditure for ACS and licensing activity for the three-year period for options 1, 2 and 3.

Expenditure

- 6.1 Current spending forecasts have been reviewed and revised in the light of the current trends in expenditure and reflect the SIA's forecast at the half year 2011/12. Future forecasts reflect
- Current forecast commitments for future periods in respect of business as usual.
 - Estimated costs associated with planned changes to licensing arrangements which can legitimately be charged to licence holders and ACS members.
 - Forecast levels of inflation.
 - SIA's planned cost reductions.
- 6.2 The SIA has embarked on a transition programme to deliver a new regulatory regime in line with ministerial requirements. Formal consultation on these proposals is expected to take place in early 2012. This uncertainty means that it is prudent to ensure that SIA finances remain robust to ensure it can address variances in costs or demand which may arise as a result of the transition.

Income

- 6.3 The SIA's licensing operations are funded solely from the fees it charges to individuals and ACS activity is funded from ACS charges to member companies; there is no cross subsidy between individual licensing and ACS.
- 6.4 Within the SIA's three year business cycle, the demand for licences is currently forecast to rise to a high of 12,500 monthly net applications in April 2012 (approximately 625 per day), followed by a decline to a low point of 10,750 in January 2013 (approximately 540 per day). The impact of this is a significant fluctuation of monthly income over the next three years.
- 6.5 Whilst income fluctuates, the regulatory workload of the SIA remains broadly constant. This is supported by the ongoing activity based analysis that the SIA undertakes, which shows that two thirds of their costs are related to the ongoing management of the licensed population and enforcement activity against illegal operation, and only a third of costs vary directly with volume. The SIA are not, therefore, able to reduce costs directly in line with falling volumes.

Licence fee

- 6.6 The current licence fee level was set at £245 in April 2007. This represented an increase of £55 (29%) from the previous fee level of £190. At 2007 prices (CPI), the fee would now be £280.
- 6.7 Whilst it has been difficult to forecast short term licensing demand within the three year cycle, aggregate annual forecasts have been accurate and the SIA is confident of demand levels and therefore the volume of applications it will receive from individuals on an annual basis.

Annual ACS registration fee

- 6.8 The current annual ACS registration fee was set at £17 per head per annum in October 2007, a reduction of £3 (15%) on the original level of £20. The fee has been held since 2007. At 2007 prices (CPI), the fee would now be £19. Currently there are 714 ACS companies employing some 129,000 licensed individuals. It is assumed that the number of ACS companies will grow to 750 over the period covered by this proposal. However, only small and micro businesses are now likely to join as all large and the majority of medium size businesses are already members. Consequently, the impact on the number of individuals employed by ACS companies and the impact on aggregate revenue from this fee will only be affected on a marginal basis.

Proposed fee levels

- 6.9 Option 1: Fees will remain at current levels. This will generate an ACS surplus of £0.2m and a licensing surplus of £4.7m 2011/12, £0.1m and £3.3m respectively in 2012/13, and £0.3m

and £2.8m in 2013/14. Aggregate surplus for the three years to 2013/14 is forecast at £11.8m.

- 6.10 Option 2: Reducing the licensing fee to £220 from 1 January 2012 would reduce the licensing surplus to £3.8m in 2011/12 and break even in 2012/13 and 2013/14.
- 6.11 Reducing the annual ACS registration fee to £15 per head per annum from 1 January 2012 would reduce the ACS surplus to £0.1m in 2011/12 and eliminate the surplus in 2012/13 and 2013/14. For ACS fees, a reduction in fees from 1 January would ensure that the majority of renewals are covered by the new fees. Arrangements will, however, need to be put in place to allow for part year refunds as the ACS per capita charge is annual. The impact of this is factored into the figures in this paper.
- 6.12 Option 3: Reducing the licensing fee to £205 and reducing the annual ACS registration fee to £15 per head per annum as for Option 2.
- 6.13 Reducing the licensing fee to £205 from 1 January 2012 would reduce the licensing surplus to £3.3m, in 2011/12 with deficits of £1.8m in 2012/13 and £1.7m in 2013/14. However, under the requirements of Managing Public Money, fee levels are set at a level to recover forecast costs and one year cannot, without statutory consent, be taken with another. This option would therefore, on current forecasts, require fees to be raised to £220 in 2012/13 in order to avoid a deficit for that year. This would be subject to a further impact assessment and consultation.
- 6.14 Appendices A to C show the impact of fee reductions proposed in each of the options for the financial years 2011/12 to 2013/14.
- 6.15 The key costs and benefits associated with the preferred option (Option 2) are set out below:

COSTS

- 7.0 Options 2 & 3: The proposed fee reductions do not have any increased cost impact on businesses. The impact is in relation to reduced costs, and therefore only constitutes benefit to businesses and individuals. The estimated cost of the fee change to the SIA is a one off negligible £9,000 to cover system changes to accommodate the changes to fee levels.

BENEFITS

- 8.0 There is no change to the policy which the SIA enforces or to the operational standards that the SIA will apply. This change solely concerns a reduction in the fees charged for an individual licence and annual ACS membership. Full calculations are set out in Appendix D.

Option 2:

The benefits of Option 2 are £25.6m in PV over 10 years.

Option 3:

The benefits for Option 3 are £39.7m in PV over 10 years.

All demand volumes are based on the SIA's demand forecasting model which was accurate to within 1% in 2010/11.

ONE-IN-ONE-OUT (OIOO)

- 9.0 N/A as fees and charges are out of scope, except where they result from an expansion or reduction in the level of regulatory activity.

F. Risks

- 10.0 This IA does not contain a risk assessment related to the need for licensing or whether it is a proportionate intervention into the security industry market. No changes in the scope or criteria for licensing are proposed.
- 10.1 Seven years on from the establishment of the SIA, licensing has now been introduced to the main sectors and across the UK and licensable numbers based on applications received and turnover within the industry over the next 30 months can be forecast with a degree of accuracy not previously possible.

Option 1

10.2 The following risks have been identified in respect of Option 1:

- Unnecessary costs to industry and buyers of private security services.
- Charging individuals and the industry more than is required to cover the SIA's costs.
- Loss of regulatory and financial credibility.
- Higher than necessary charges may encourage individual non-compliance.
- Higher than necessary charges may discourage membership of the ACS scheme.

10.3 These risks might be mitigated by increased compliance work, at additional cost and by a communication process, but in our view the risks remain significant and the additional burden on individuals and businesses cannot reasonably be justified.

Option 2

10.4 The following risks have been identified in respect of Option 2 for the licence fee reduction:

- Early applicants will complain they have had to pay higher fee.
- Distortions to patterns of individual application (and therefore risk to the licensing delivery system) as a result of individuals delaying their application in anticipation of the reduction.
- The risk of non-compliance and wilful criminality by individuals working without a licence as a result of them delaying their applications.
- Uncertainty around the SIA's future structure and costs.

10.5 In addition, delaying a fee reduction from 1 January 2012 to the common commencement date of April could have an impact on licensing and compliance in the preparation for the Olympic and Paralympic Games.

10.6 The first three risks above might be mitigated by announcing the reduction close to the change date ie when the regulations are laid in Parliament.

10.7 Operational plans will be put in place to manage the impact on licensing volumes. However, it is considered that the introduction of the new fees from 1 January will help to reduce impact and risk.

10.8 The SIA will make arrangements to ensure that risks to compliance are also properly assessed and addressed in the period between any announcement on future fee levels and the actual changes to fees.

10.9 The SIA and Home Office will work together to ensure communications on the fee changes are correctly managed.

10.10 No significant risks have been identified in respect of the proposed reductions in the ACS per head annual fee.

Option 3:

11.0 The risks set out under option 2 also apply to Option 3. In addition, the following risks have been identified:

- Those who apply early will pay more than necessary
 - Unfairness in pricing for individuals
 - Distortion of the private security market and pricing.
 - Geographic distortions in costs for individuals.
 - Fee will need to be increased in years 2012/13 and 13/14
 - Increased financial uncertainty for regulatory regime
- 11.1 Because of the three year renewal cycle for the majority of SIA licences, this approach would mean that a group of licensees would benefit from a significantly lower fee. Because the SIA's costs are largely fixed, there is no cost justification for such an advantage which would reflect only the date on which a licence was originally issued.
- 11.2 Different sectors and businesses commenced licensing at different times. As a result, the impact of a significantly lower licence fee for one year might disproportionately affect the costs of some businesses or sectors, creating a commercial advantage related only to the accident of the original licensing date of individuals. As contracts in the industry are understood to refer to the licensing costs in certain circumstances, such an approach would also distort relative pricing for customers in the private security industry. The impact is likely to be greater in smaller businesses where there is less likely to be a spread of licence renewal dates across employees. The impact of these distortions would remain for at least the following three years of the licence.
- 11.3 In addition, the lowering of the fee could have a geographic impact as, for example, the renewal anniversary for Scotland and Northern Ireland would fall in 2013 and a disproportionate percentage of licensees in these countries would be likely to pay a higher fee than those in England and Wales as a result.
- 11.4 The Government has announced that the SIA will be abolished in its current form and that there will be a phased transition to a new regulatory regime. The final nature of this change will be subject to formal consultation in 2012 and the timetable will depend upon the passage of new legislation. Consequently, there are significant uncertainties as to the future cost and demand patterns of the SIA. This uncertainty means that it would not, in the SIA's view, be prudent to reduce licensing fees by more than 10% at this stage. Any further reduction should be considered in the light of the final proposals for future regulation.

G. Enforcement

- 12.0 The SIA's compliance strategy is conducted in a fair, open and proportionate manner, and compliant with the principles of the Hampton code.
- 12.1 There are many factors and influences which affect compliance levels. This is reflected in the SIA compliance strategy, which has four strands:
1. Designing in compliance: making it more attractive in business terms for the security industry, and its purchasers, to comply.
 2. Selective, consistent and proportional enforcement: no routine inspections.
 3. Intelligence led operations: using the National Intelligence Model to produce strategic and tactical assessments, to prioritise and inform targeted compliance activity and identification of potential criminality.
 4. Engaging partners: seeking to exploit our strengths and specific focus and that of each partner to enable all of us to achieve our goals and avoid duplication of effort.
- 12.2 An example of the first strand is the influence on the owner of a premise licensed to sell alcohol. If the owner does not employ licensed door supervisors, their business may be at risk.

12.3 A second is the relationship between the SIA approved contractor scheme and the need to have a high proportion of staff licensed before approval.

12.4 The SIA does not propose any changes to their compliance and enforcement strategy in relation to this IA. More information on compliance can be found at:

<http://www.sia.homeoffice.gov.uk/Pages/enforcement.aspx>

H. Summary and Recommendations

The table below outlines the costs and benefits of the proposed changes.

Table H.1 Costs and Benefits		
Option	Costs	Benefits
2	Negligible (one-off)	£25.6m (PV over 10 years)
		(Made up of) - Businesses £1.9m
		- Individuals £23.7m
3	Negligible (one-off)	£39.7m (PV over 10 years)
		(Made up of) - Businesses £1.9m
		- Individuals £37.7m
Source: SIA estimates		
NB. Numbers may not sum due to rounding		

The Net Present Value calculation for Option 2, which is the preferred option, is therefore £25.6m over 10 years. HM Treasury's rules and guidance on fees, levies and charges are set out in *Managing Public Money*. *Managing Public Money* requires that SIA fees should meet the full costs of the service and neither produce a loss or surplus; the policy objective is to ensure that this is the case with SIA fees. Options 3 would mean licence fees would be subjected to a forecast increase of £15 for 2013/14 to avoid a significant deficit in that year. This would result in considerable fee fluctuation within the normal lifespan of the individual licence which would distort application patterns, increase the risk of non compliance and distort the market by creating pricing differences reflecting the random timings of renewals of different individuals (Appendix C). Option 2 is therefore the preferred option as the expected benefits to the industry exceed the expected costs, and it is in keeping with the SIA's charging objectives.

I. Implementation

Licence fee

14.0 The Government plans to implement the licence fee change on 1 January 2012 (breaching the Common Commencement Date).

14.1 Because under the PSIA fees are payable on application, the licence fee due will be the one prescribed in regulations on the date the completed application is received by the SIA. All applications received before 00.01 on 1st January 2012 will be charged at £245, all after that time will be charged at £220.

14.2 If licence renewals are submitted before the fee reduction then the price applicable at the time that the renewal application is received will apply. The new licence will take effect upon the expiry of the first. Licence renewal applications can be made up to four months in advance of licence expiration and, if received by the SIA before 1 January 2012, will be processed at the current fee of £245.

14.3 Any licence application returned to the applicant as incomplete and then resubmitted after the fee reduction on 1 January 2012 must pay the applicable fee ie £220..

Annual ACS registration fee

15.0 The annual ACS registration fee will also change on 1 January 2012, and will follow the same principles of application and renewal as stated above.

J. Monitoring and Evaluation

16.0 The effectiveness of the new fees regime would be monitored by the SIA Finance and Business Planning team and will cover in year checks of volumes and revenue, used to inform the annual review of fees.

K. Feedback

17.0 Information gained from the monitoring process will be fed back into the annual review of fees.

L. Specific Impact Tests

18.0 See Annex 1.

Annex 1. Specific Impact Tests

Statutory Equality Duties

Equality Impact Assessment

A basic equalities impact test has been carried out. The groups affected by the reduced fee are licence applicants or security companies, depending on who pays the licence application or ACS fee.

It is known that a low number of women and believed that a high number of individuals from minority ethnic groups currently hold SIA licences. The fees would be applied equally across all licence applicants/ ACS companies. There are no subsidies or discounts for those in low income brackets. Groups will be affected by the policy in a similar way. It is believed the policy cannot promote equalities and/or good race relations.

The SIA is committed to measuring and assessing its impact on the industry on an ongoing basis and research activity includes seeking to collect evidence of the racial, gender and age composition of the industry labour market and SIA contribution to any changes over time. This work will be progressed through the SIA research programme.

It is believed that the licence application fee reduction is not relevant to equality and/or discrimination.

Economic Impacts

Competition Assessment

N/A

Small Firms Impact Test

N/A

Environmental Impacts

Greenhouse Gas Assessment

N/A

Wider Environmental Issues

N/A

Social Impacts

Health and Well-being

N/A

Human Rights

N/A

Justice

N/A

Rural Proofing

N/A

Sustainability

Sustainable Development

N/A

Appendices: Summary of key assumptions – Affordability

The following financial statements consider the trading position for both Licence fee income and costs and, separately for ACS Income and costs.

The statements are based on the results of a comprehensive review which was carried out in September 2011 and cover the remainder of the 2011/12 financial year and the following two financial years.

Appendix A – Option 1

The table below shows the results for the next 3 years if fees are maintained at the current level.

	11/12	12/13	13/14
	£000	£000	£000
LICENSING INCOME	31,729	30,629	28,067
LICENSING INCOME REDUCTION			
TOTAL LICENSING INCOME	31,729	30,629	28,067
TOTAL LICENSING EXPENDITURE	(27,038)	(27,464)	(25,282)
LICENSING SURPLUS/(DEFICIT)	4,691	3,165	2,785
ACS INCOME	2,272	2,196	2,196
ACS INCOME REDUCTION			
TOTAL ACS INCOME	2,272	2,196	2,196
TOTAL ACS EXPENDITURE	(2,066)	(2,061)	(1,942)
ACS SURPLUS/(DEFICIT)	206	135	254
OTHER INCOME	305	75	75
TOTAL SURPLUS/(DEFICIT)	5,202	3,375	3,114

Appendix B – Option 2

The table below shows the results for the next 3 years if the licence fee is reduced by £25 (10%) and the Annual ACS registration is reduced by £2 (12%).

	11/12	12/13	13/14
	£000	£000	£000
LICENSING INCOME	31,729	30,629	28,067
LICENSING INCOME REDUCTION	(856)	(3,125)	(2,864)
TOTAL LICENSING INCOME	30,873	27,504	25,203
TOTAL LICENSING EXPENDITURE	(27,038)	(27,464)	(25,282)
LICENSING SURPLUS/(DEFICIT)	3,835	40	(79)
ACS INCOME	2,272	2,196	2,196
ACS INCOME REDUCTION	(64)	(250)	(250)
TOTAL ACS INCOME	2,208	1,946	1,946
TOTAL ACS EXPENDITURE	(2,066)	(2,061)	(1,942)
ACS SURPLUS/(DEFICIT)	142	(115)	4
OTHER INCOME	305	75	75
TOTAL SURPLUS/(DEFICIT)	4,282	0	0

Appendix C – Option 3

The table below shows the results for the next 3 years if the licence fee is reduced by £40 (16%) and the Annual ACS registration is reduced by £2 (12%).

	11/12	12/13	13/14
	£000	£000	£000
LICENSING INCOME	31,729	30,629	28,067
LICENSING INCOME REDUCTION	(1,370)	(5,001)	(4,582)
TOTAL LICENSING INCOME	30,359	25,628	23,485
TOTAL LICENSING EXPENDITURE	(27,038)	(27,464)	(25,282)
LICENSING SURPLUS/(DEFICIT)	3,321	(1,836)	(1,797)
ACS INCOME	2,272	2,196	2,196
ACS INCOME REDUCTION	(64)	(250)	(250)
TOTAL ACS INCOME	2,208	1,946	1,946
TOTAL ACS EXPENDITURE	(2,066)	(2,061)	(1,942)
ACS SURPLUS/(DEFICIT)	142	(115)	4
OTHER INCOME	305	75	75
TOTAL SURPLUS/(DEFICIT)	3,768	(1,876)	(1,718)

Key Assumptions and points to note

Assumptions

1. Income figures are based on the forecast levels of demand which, in turn are generated from the SIA's demand forecasting model. Whilst this is largely a probability based model adjusted on a quarterly basis for actual demand it has proved over the last two years to be accurate to within 5%. It is assumed that demand will continue to be forecast within this level of accuracy.
2. The above tables have included the impact of the fee reduction for both licensing and ACS and these figures are shown as 'income reduction' and deducted from gross income.

Points to Note

3. The SIA commenced a programme of cost reduction and efficiency improvement in the second half of 2009/10. This programme has, to date, delivered cost savings in the order of 20% and is a major factor in generating a level of surplus which is then available to reduce the burden on businesses and individuals.
4. The SIA is required by HM Treasury to operate on the basis of full cost recovery. The achievement of full cost recovery does, however, need to be considered in relation to a three year business cycle which is driven by the pattern of licensing renewal established by the timing of the implementation of licensing across different sectors. In practical terms income is at its highest level in the first year of the three years, falls over year two before picking up again as the cycle re-starts. Two thirds of the SIA's costs do not vary with licensing volumes and cannot be flexed in the short term. As a result of these factors a balanced full cost recovery is achieved over the three year cycle and not in individual years. The effect of adjusting fee levels on an annual basis to achieve yearly full cost recovery would be extremely burdensome and therefore not considered to be in the best interests of the Security Industry.

Appendix D – Benefits Calculation for Option 2

The benefits described below relate to Option 2: the licence fee is reduced by £25 (10%) and the Annual ACS registration fee is reduced by £2 (12%).

	Appendix D:- Benefit calculations	Yrs	0 2011/ 12	1	2	3	4	5	6	7	8	9	Total £'000
A	Individual licences												
	Application volumes ('000)		137	125	115	120	125	115	120	125	115	120	
	Proposed reduction	£25											
	Benefit to individuals (£'000)		856 ⁱ	3,125	2,864	3,000	3,125	2,875	3,000	3,125	2,875	3,000	27,845
	NPV (3.5% discount rate) - Factor		1.00	0.97	0.93	0.90	0.87	0.84	0.81	0.79	0.76	0.73	
	NPV (£'000)		856	3,019	2,673	2,706	2,723	2,421	2,441	2,456	2,183	2,201	23,679

B	ACS Companies												
	Volume of fees payable ('000)		15	125	125	125	125	125	125	125	125	125	
	Proposed reduction	£2											
	Benefit to companies (£'000)		30	250	250	250	250	250	250	250	250	250	2,280
	NPV (3.5% discount rate) - Factor		1.00	0.97	0.93	0.90	0.87	0.84	0.81	0.79	0.76	0.73	
	NPV (£'000)		30	242	233	225	218	211	203	197	190	183	1,932

	Net Benefits - (A+B) (NPV) £'000		886	3,261	2,906	2,931	2,941	2,632	2,644	2,653	2,373	2,384	25,611
--	---	--	-----	-------	-------	-------	-------	-------	-------	-------	-------	-------	--------

ⁱ This represents the saving in 11/12 for forecast of 34240 licences issued post 1/1/12 at £25 reduction

Appendix E – Benefits Calculation for Option 3

The benefits described below relate to Option 3: the licence fee is reduced by £40 (10%) and the Annual ACS registration fee is reduced by £2 (12%).

	Appendix E:- Benefit calculations - OPTION 3	Years	0 (2010/11)	1	2	3	4	5	6	7	8	9	Total £'000
A	Individual licences												
	Application volumes (‘000)		120	125	115	120	125	115	120	125	115	120	
	Proposed reduction	£40.0 0											
	Benefit to individuals (£'000)		1200	5000	4600	4800	5000	4600	4800	5000	4600	4800	44400
	NPV (3.5% discount rate) - Factor		1.00	0.97	0.93	0.90	0.87	0.84	0.81	0.79	0.76	0.73	
	NPV (£'000)		1200	4831	4294	4329	4357	3873	3905	3930	3493	3522	37734

B	ACS Companies												
	Volume of fees payable (‘000)		15	126	126	126	126	126	126	126	126	126	
	Proposed reduction	£2.00											
	Benefit to companies (£'000)		30	252	252	252	252	252	252	252	252	252	2,298
	Total benefit to companies		30	252	252	252	252	252	252	252	252	252	2,298
	NPV (3.5% discount rate) - Factor		1.00	0.97	0.93	0.90	0.87	0.84	0.81	0.79	0.76	0.73	
	NPV (£'000)		30	243	235	227	220	212	205	198	191	185	1947

	Net Benefits - (A+B) (NPV) £'000		1230	5074	4529	4556	4577	4085	4110	4128	3685	3707	39681
--	---	--	------	------	------	------	------	------	------	------	------	------	-------