Economic Note	Number: HOEN0020
Title of regulatory proposal	SIA Fee Reduction 2023
Lead Department/Agency	Home Office
Expected date of implementation	6 April 2023
Origin	Domestic
Date	25/01/2023
Lead Departmental Contact	Hannah McCarthy Hannah.mccarthy@homeoffice.gov.uk
Departmental Assessment	GREEN

Rationale for intervention, objectives and intended effects

The Security Industry Authority (SIA) is a non-departmental public body, established in 2001 by the Private Security Industry Act 2001 (PSIA). Managing Public Money (MPM) requires that SIA fees should meet the full costs of the service provided and neither produce a loss nor a surplus. MPM advises that fees should be revised on at least an annual basis. On reviewing, the SIA has concluded that a fee reduction of £6 per licence should be implemented to ensure the SIA fulfils its MPM responsibilities. The Government needs to amend secondary legislation to reduce SIA fees, to transfer the surplus back to the private sector.

Policy options (including alternatives to regulation)

Option 1: Do nothing, this does not meet the Government's objectives.

Option 2: The SIA propose to reduce the statutory fee for a three-year licence by £6, from £210 to £204. In conjunction with the licence rebate scheme that has been in place since April 2020, this would result in a reduction in the licence fee paid by applicants from £190 to £184. **This is the Government's preferred option**.

Costs and benefit summary

Total costs are estimated to lie in a range of **£2.3 to £2.8 million (PV)**, with a central estimate of **£2.5 million (PV)** over three years. Total benefits are estimated to lie in a range of **£2.3 to £2.8 million (PV)**, with a central estimate of **£2.5 million (PV)** over three years. Because this measure is a fee reduction, it is a transfer as set out by HM Treasury's Green Book (2020). The **NPSV** is estimated to be close to **zero**.

Total Cost £m PV	Transition Cost £m	Cost to Business £m	Total Benefit £m PV
2.5	**0.0**	**0.0**	**2.5**
NPSV (£m)	**BNPV (£m)**	**EANDCB (£m)**	**BIT Score (£m)**
0.0	0.0	0.0	NA
Price Base Year	**PV Base Year**	**Appraisal period**	**Transition period**
2023/24	2023/24	3 years	NA

Departmental sign-off (*SCS*):	SRO	Date: 24/01/2023
Chief Economist sign-off:	G6 or SCS	Date: 24/01/2023
Better Regulation Unit sign-off:	BRU Head	Date: dd/01/2023

Evidence Base

1. Background

The Security Industry Authority (SIA) is a non-departmental public body, established in 2003 through the Private Security Industry Act 2001 (PSIA).

The SIA is the regulating body for the private security industry in the UK. It is their duty to ensure that everyone in the private security industry is qualified, and that training providers are meeting quality standards set out for them.

The SIA operates on a full cost-recovery basis; its income is dependent on application fees for licences, and its voluntary Approved Contractor Scheme (ACS) for corporate entities that supply staff within the private security industry. 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. All licences are for three years (except vehicle immobilisation licences) with the application fee paid in full and recognised in full in the first year of the licence.

Licensing income for the 2021/2022 financial year was £28.5 million, which was 5 per cent higher than the forecast of £27 million. Total income for this period was £30.6 million with total costs equalling £27.6 million, leaving a surplus of £3 million. This was a reduction on the 2020/21 surplus of £4.4 million.

2. The policy issue and rationale for government intervention

HM Treasury's guidance as outlined in the Managing Public Money[1] (MPM) publication requires that fees charged by public sector bodies should meet the full costs of the service and neither produce a loss nor a surplus; and to review their fees annually. The SIA has reviewed its fees on an annual basis and did not reduce fees in 2020/21 due to uncertainty of demand resulting from the COVID-19 pandemic.

Although the SIA implemented a fee reduction in 2020, it has continued to report surpluses; including £3 million in 2021/22. A reduction in the fee for a three-year licence of £20 (£210 down to £190) was achieved via a rebate scheme. This rebate for fee reduction did not change the statutory licence fee, which remains at £210. Funding for this rebate is obtained by drawing down on historically accumulated reserves. The fee rebate scheme will run for two three-year licensing cycles[2] (or six years) until 2025/26, by which time accumulated reserves are forecast to be close to zero (see Table 4). Following the end of the rebate scheme, the fee level will (in the absence of any fee change proposed in this document) revert to its statutory level of £210

The current forecast for licence application fees in 2022/23 is a fall from £28.5 to £27.1 million. The long-term impact of both COVID-19 and the introduction of training requirements on the licence applications will continue to be assessed in order to baseline the future forecasts and fee levels.

3. Policy objectives and intended effects

As the fees are set out in secondary legislation, the fee reduction will be implemented through a Statutory Instrument (SI) under the Private Security Industry Act 2001. Introduction is proposed in April 2023.

The current statutory fee is £210 for a three-year licence (£190 including the £20 rebate). Current forecasts indicate that the current statutory fee of £210 (£190 including rebate) will result in a

[1] 'Managing Public Money', HM Treasury (2012; last updated 2022): https://www.gov.uk/government/publications/managing-public-money
2 The majority of licences have a duration of three years. Thus the volume of applications typically varies over a three-year cycle.

significant surplus over the period 2023/24 to 2025/26. The SIA have therefore proposed a reduction in the statutory fees by £6 from £210 to £204. This would result in a reduction in the fee paid by applicants, inclusive of the existing rebate, from £190 to £184. Current forecasts indicate that this £6 fee reduction, in conjunction with the rebate already in place, will prevent the build-up of a significant surplus or deficit, in line with MPM requirements.

Only the three-year licences will have their fee reduced. The ACS will remain unaffected. This has the intended effect of reducing SIA revenues, and consequently the net surplus, in line with MPM requirements.

4. Policy options considered, including alternatives to regulation

Option 1: Do nothing

In this option, SIA fees will be left as they currently are.

As outlined in table 1, this is forecast to generate a surplus of £2.7million (PV) over the three-year period. It is therefore **not recommended** that the Home Office continue with the fee at the same level (£210 or £190 inclusive of rebate). Generating such a surplus would contravene MPM as the SIA would neither be passing achieved efficiencies across to industry nor breaking even. It could also result in challenge from the industry.

The Home Office may also be vulnerable to a Judicial Review (JR) challenge if a sufficiently interested party is concerned that the current fees regime is seen to be unreasonable on the basis that it contravenes the principles set out in the MPM guidance.

Whilst this risk already exists, the risk will be reduced if the situation can be regularised at the earliest opportunity.

Table 1: Income, Expenditure and Surplus/Deficit over 3 years under do-nothing option (£ million, PV)[3]

	2023/24	2024/25	2025/26	Total for 3-year cycle
Applications	157,297	167,954	140,057	465,308
Income (£m)	30.2	30.7	24.9	85.8
Rebate (£m)	3.0	3.0	2.4	8.4
Expenditure (£m)	31.4	30.7	29.4	91.5
Ongoing Surplus/Deficit (£m)	1.8	3	-2.1	2.7

Option 2:

[3] Totals may not sum due to rounding

Reduce the current level of fees, as set out below. This is the **Government's preferred option** as it achieves the Government's objective.

In this option, the SIA reduces the statutory licensing fee from April 2023 by £6. This would result in a fall in the statutory fee from £210 to £204, and a fall in the fees paid by applicants after the rebate scheme from £190 to £184. This option is forecast to approximately breakeven across the next three-year licensing cycle.

The preferred option is based on the central forecast of applications across the next three-year cycle (i.e. Financial Year 2023/24 to Financial Year 2025/26). The forecast for this option assumes a total of 465,000 applications across the next three-year cycle, based on SIA modelling. The modelling criteria for the forecast is based on the average renewal rate from the current financial year (63 per cent uptake).

Table 2: Income, Expenditure and Surplus/Deficit over 3 years under preferred option (£ million, PV)[4]

	2023/24	2024/25	2025/26	Total for 3 year cycle
Applications	157,297	167,954	140,057	465,308
Income (£m)	32.3	32.8	26.7	91.7
Expenditure (£m)	31.4	30.7	29.4	91.5
Surplus/Deficit (£m)	0.9	2.1	-2.8	0.2

5. Appraisal

General assumptions and data

A social discount rate of 3.5 per cent is used to obtain present values, in line with HM Treasury Green Book[5] guidance. Any estimate quoted (PV) or the Net Present Social Value (NPSV) is discounted using this rate. The appraisal is over a three-year period of 2023/4 to 2025/26.

Fee Analysis

Analysis has been conducted to calculate the net surplus/deficit for different levels of fees. A selection of fee levels is presented in Table 3. The analysis includes the impact of transfer of funds from accumulated reserves via the existing rebate scheme. The impact of these transfers on accumulated reserves is presented in Table 4.

[4] Totals may not sum due to rounding
[5] *The Green Book: appraisal and evaluation in central government*, HM Treasury (2020; last updated 2022): https://www.gov.uk/government/publications/the-green-book-appraisal-and-evaluation-in-central-governent

Costs

Setup costs

There are no familiarisation or set-up costs associated with the proposed fee change

Total Cost

The proposed fee reduction will result in an ongoing cost to the SIA of a reduction in income over the three-year period. The reduction in fee income is estimated in a range of **£2.3 million to £2.8 million (PV)**, with a central estimate of **£2.5 million (PV)**.

Table 3: Fee Analysis on net surplus/deficit over 3 years (£ million, PV) (including rebate)[6]

SIA fee including rebate	Volumes	Income (£m)	Rebate (£m)	Income plus Rebate (£m)	Expenditure (£m)	3 Year Surplus/Deficit (£m)
£190	465,308	85.8	8.4	94.2	91.5	2.7
£188	465,308	84.9	8.4	93.4	91.5	1.9
£186	465,308	84.1	8.4	92.5	91.5	1.0
£184	**465,308**	**83.2**	**8.4**	**91.7**	**91.5**	**0.2**
£182	465,308	82.4	8.4	90.8	91.5	-0.7
£180	465,308	81.6	8.4	90.0	91.5	-1.5

Table 4: Forecast impact of rebate payments, 2023/24 to 2025/26, on historically accumulated reserves (£ million, PV)[7]

	2022/23	2023/24	2024/25	2025/26
Rebate (£m)		-2.9	-3.0	-2.4
Reserves (£m)	9.1	6.1	2.8	0.3

Benefits

There will be an ongoing benefit to all licence applicants. While some licence application fees are initially paid by employers, these costs are understood to be subsequently recovered from the individual employees who hold the licence. Thus, while there are benefits to individual licence holders, there are no benefits to businesses and the Business Net Present Value is zero. The total benefits to licence applicants of the fee reduction are estimated in a range of **£2.3 million to £2.8 million (PV)**, with a central estimate of **£2.5 million (PV)**. The cost of reduced fee income to the SIA

[6] Totals may not sum due to rounding
[7] Totals may not sum due to rounding

is equal to the benefit of reduced application fees for applicants. Thus, the Net Present Social Value of the proposed fee reduction is zero.

Licence applicants will also benefit from the fee rebate over this period. However, as this economic note solely appraises the impact of the reduction in the statutory fee (and as the rebate scheme has already been appraised separately prior to approval) the benefits estimated here solely capture the impact of the proposed £6 reduction in the statutory fee.

Value for money metrics

The MPM guidance requires that the SIA should not make large surpluses or deficits to ensure good value for money. The measure is designed to pass the surplus from the public sector back to the users of SIA services. All lost revenue due to reduced fees is passed wholly as a benefit to users and the measure represents good value for money.

SaMBA

The fee reduction will impose no costs on the private sector.

6. Risks

There is a risk that applications received across the period are lower than forecast. There had been unusual and artificial surges experienced due to increased demand for licences for security guarding at COVID vaccination and testing centres. To counteract this, volumes of applications will be closely monitored over future periods to assess the impact of top up training on renewals and ensure demand is in line with predictions and new applications continue to be in line with expectations.

If applications reduce by 5 per cent across the three-year period, the SIA would then incur a deficit of **£4.2 million.** The sensitivity analysis also shows that if applications reduce by 10 per cent this would lead to a deficit of **£8 million**. A fee review is carried out annually which accounts for future years and action will be taken if required. The SIA may be able to absorb a reduction in income and would be able to reduce spend in certain areas at short notice. A reduction of 10 per cent is considered extremely unlikely.

Demand could end up exceeding expectations leading to a further surplus across the period, despite efforts to reduce over-recovery. The SIA will continue to carry out an annual fee review, in line with Managing Public Money requirements. The recommended option adopts the central forecast on licensing demand which has been derived from a robust predictions model.

There is a risk that the fee is reduced prematurely and needs to be increased again within a short timeframe causing reputational damage. The SIA has an obligation to adhere to Managing Public Money and to operate on a breakeven basis. The fees model has been built on this premise. The fee will continue to be reviewed on an annual basis along with a recommendation on the licensing fee level.

7. Implementation, monitoring and evaluation

The SIA fees will be monitored over the course of the year by Home Office Sponsorship Unit and Home Office Finance. The fee will be revised on an annual basis, in line with MPM guidance.

Specific Impact Test Checklist

Mandatory specific impact test - Statutory Equalities Duties	**Complete**
Statutory Equalities Duties The Public Services Equality Duty (PSED) requires public bodies to have due regard to the need to eliminate discrimination, advance equality of opportunity, and foster good relations in the course of developing policies and delivering services. The proposed fee reduction will have a positive impact on individuals due to the reduced costs. The change in fees should not adversely impact any groups with protected characteristics.	**Yes**