

|  |   |  |  |                                    |
|--|---|--|--|------------------------------------|
| <b>Title:</b> SIA Licence Fee Reduction 2019<br><b>IA No:</b> HO0320<br><br><b>RPC Reference No:</b> N/A<br><b>Lead department or agency:</b> The Home Office<br><b>Other departments or agencies:</b> Security Industry Authority | <b>Impact Assessment (IA)</b>                 |  |  |                                    |
|  | <b>Date:</b> 2 July 2019                      |  |  |                                    |
|  | <b>Stage:</b> Final                           |  |  |                                    |
|  | <b>Source of intervention:</b> Domestic       |  |  |                                    |
|  | <b>Type of measure:</b> Secondary legislation |  |  |                                    |
| <b>Contact for enquiries:</b>  |   |  |  |                                    |
| <b>Summary: Intervention and Options</b>   |   |  |  | <b>RPC Opinion:</b> Not Applicable |

| Cost of Preferred (or more likely) Option |                            |   |                   |                               |
|---|----------------------------|---|-------------------|-------------------------------|
| Total Net Present Value                   | Business Net Present Value | Net cost to business per year (EANDCB in 2014 prices) | One-In, Three-Out | Business Impact Target Status |
| -£0.02m                                   | £0.0m                      | £0.0m   | Not in scope      | Non qualifying provision      |

**What is the problem under consideration? Why is government intervention necessary?**  
 Individuals who must be SIA licensed to operate in the security industry, pay a licence fee to cover the full cost of their application. The current fee level is £220 for a three-year individual licence. The introduction of digital services at the SIA, have led to considerable cost savings. If fees are maintained at £220, then an estimated surplus of £3.7 million over 2019/20 to 2021/22 will occur. Individuals should contribute in a fair and proportionate manner to the cost of their application and licence. Government needs to legislate to reduce the fee to reflect the reduction in costs and to help maintain a balanced budget for the SIA over 2019/20 to 2021/22 and beyond.

**What are the policy objectives and the intended effects?**  
 The policy objective is for the SIA fees to meet the full costs of the service and neither produce a large loss or a surplus.  
  
 The intended effect is to ensure that individuals working in the private security industry receive 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 October 2019.

**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 remain at current levels a surplus of about £3.7million will be generated over the three year period, 2019-2022.  
  
**Option 2:** Reduce the licence fee by £10 (4.5%) in order to re-align income with the lower level of costs and allow consistency of pricing across years. Individuals will benefit from the reduced costs without distorting market conditions.  
  
 Other options, including non-regulatory options, were considered but these did not meet the Government's objectives.

|  |  |                     |                       |                      |                           |
|--|--|---------------------|-----------------------|----------------------|---------------------------|
| <b>Will the policy be reviewed?</b> It will be reviewed. <b>If applicable, set review date:</b> 10/2020                |  |                     |                       |                      |                           |
| Does implementation go beyond minimum EU requirements?   |  |                     | N/A                   |                      |                           |
| Are any of these organisations in scope?   |  | <b>Micro</b><br>Yes | <b>Small</b><br>Yes   | <b>Medium</b><br>Yes | <b>Large</b><br>Yes       |
| What is the CO <sub>2</sub> equivalent change in greenhouse gas emissions? (Million tonnes CO <sub>2</sub> equivalent) |  |                     | <b>Traded:</b><br>N/A |                      | <b>Non-traded:</b><br>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: Nick Hurd Date: 4th July 2019

# Summary: Analysis & Evidence

# Policy Option 2

Description: SIA Licence Fee Reduction

## FULL ECONOMIC ASSESSMENT

| Price Base<br>Year<br>2018 | PV Base<br>Year 2018 | Time Period<br>Years 5 | Net Benefit (Present Value (PV)) (£m) |             |                      |
|----------------------------|----------------------|------------------------|---------------------------------------|-------------|----------------------|
|                            |                      |                        | Low: -0.02                            | High: -0.03 | Best Estimate: -0.02 |

| COSTS (£m)    | Total Transition<br>(Constant Price) Years | Average Annual<br>(excl. Transition) (Constant Price) | Total Cost<br>(Present Value) |
|---------------|--|---|-------------------------------|
| Low           | 0  | 1.25  | 5.86                          |
| High          | 0  | 1.33  | 6.23                          |
| Best Estimate | 0  | 1.29  | 6.04                          |

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

There is no change to the administrative processes for individuals, and therefore no additional costs to them. There are no ongoing costs impacting businesses. As a result of the £10 fee reduction the SIA is estimated to lose £6.02 million (PV) over 5 years. There will be a small transition cost of updating Post Office systems and internal digital processes. This is expected to be between £15,000 and £25,000, with a central estimate of £20,000.

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

None.

| BENEFITS (£m) | Total Transition<br>(Constant Price) Years | Average Annual<br>(excl. Transition) (Constant Price) | Total Benefit<br>(Present Value) |
|---------------|--|---|----------------------------------|
| Low           | 0  | 1.25  | 5.85                             |
| High          | 0  | 1.33  | 6.20                             |
| Best Estimate | 0  | 1.29  | 6.02                             |

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

The main benefit from the proposed reduction in the fees charged for an individual licence accrues to individual applicants who work in the security industry and pay for a licence. Licence applicants are estimated to save per year about £1.25 million in the low scenario, £1.29 million in the central scenario and £1.33 million in the high scenario. Benefits to individuals, in the central estimate, are £6.02 million (PV) over 5 years.

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

The SIA also benefits from maintaining a balanced budget over the period, in line with the guidance provided in 'Managing Public Money' (HM Treasury, 2013). This should eliminate the potential for a large loss or surplus and keep charges in line with the cost of the service.

### Key assumptions/sensitivities/risks

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

This appraisal is over five years to reflect the fees during the life of a parliament.

*Note: Figures are rounded so may not sum.*

### Discount rate

3.5%

## BUSINESS ASSESSMENT (Option 1)

|   |               |          |   |
|---|---------------|----------|---|
| Direct impact on business (Equivalent Annual) £m: |               |          | Score for Business Impact Target (qualifying provisions only) £m: |
| Costs: 0.0  | Benefits: 0.0 | Net: 0.0 |   |
|   |               |          | N/A   |

# Evidence Base (for summary sheets)

## A. Strategic Overview

### A.1 Background

- 1.1. The Private Security Industry Act 2001 (the 2001 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 Secretary of State for the Home Department. In March 2011 the SIA was removed from Schedule 1 (a list of public bodies to be abolished) of the Public Bodies Bill (subsequently, the Public Bodies Act 2011). As such, it is currently an executive non-departmental public body sponsored by the Home Office. That is, it has an arm's length relationship with the Home Office. The SIA prepares a statement of financial accounts under the direction of the Secretary of State for the Home Department. The Home Office Permanent Secretary has designated the SIA Chief Executive as the responsible Accounting Officer<sup>1</sup>.
- 1.2. The SIA is the organisation responsible for regulating the private security industry. The SIA's main tasks are the compulsory licensing of individuals undertaking designated activities within the private security industry and to manage the voluntary Approved Contractor Scheme, which measures private security suppliers against independently assessed criteria. 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).
- 1.3. Over 800,000 individuals have so far achieved the SIA licence qualifications, of which 380,000 currently hold a licence. Over 800 ACS companies have been approved.
- 1.4. 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 financed through income generated from regulatory activities. The most recent change to the licence fee and the annual ACS registration fee came into effect in January 2012. This was a fee reduction against the first fees which were set in 2007. This application is to reduce individual licence fees only. There is no current proposal to change ACS registration fees.
- 1.5. HM Treasury's rules and guidance on fees, levies and charges are set out in '*Managing Public Money*<sup>2</sup>'. 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 2001 Act 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.
- 1.6. The SIA is required by HM Treasury to operate based on 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

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<sup>1</sup> See The Security Industry Authority, Annual Report and Accounts 2016/17 for further information on the SIA and its activities. [https://www.sia.homeoffice.gov.uk/Documents/annual-reports/sia\\_annual\\_report\\_16-17.pdf](https://www.sia.homeoffice.gov.uk/Documents/annual-reports/sia_annual_report_16-17.pdf)

<sup>2</sup> HM Treasury (2013) '*Managing Public Money*', July, London, with annexes updated in March 2018 (see section L for reference).

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 lower volumes and income in year one and higher volumes and income in years two and three.

- 1.7. The SIA has taken steps to reduce its expenditure to ensure that the regulated private security industry receives value for money. In July 2016, the SIA implemented a fully digital licensing system (SIA Technology Platform, STeP) to replace the manual system used since inception. This system is proving more effective and more efficient in granting licences and is also saving £3 to £4 million per year. The SIA has waited until the new system is sufficiently stable to confirm the savings are sustainable and this means that fees need to be reduced to ensure that unreasonable surpluses are not made.

## **A.2 Groups Affected**

- 1.8. This proposal affects individuals working in the Private Security Industry and who are currently regulated by the SIA as listed below. The licence is granted to the individual conducting designated activities, usually under a contract for services:
  - Door Supervisor.
  - 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.

## **B. Rationale**

### **2. Fee reduction**

- 2.1. The aim of the fee reduction is to ensure that the SIA can continue to be self-financing for individual licensing, without creating a surplus or overcharging licensees for the service they receive or making overall losses. This is in line with government policy to pass on the benefits of improved efficiency in 'arms-length' bodies to users. It is also to ensure that individuals pay a fair and proportionate contribution towards the service that is consumed and to ensure that they are not over-charged for this, reflecting a relatively accurate cost of service.
- 2.2. The SIA has been successful in reducing its costs more generally over the last two years. In particular:
  - Reduction in licensing costs through the implementation of a digital licence application system (STeP).
  - Improved efficiency in the delivery of licensing and ACS services.
  - Reductions in staffing and associated costs because of controls on recruitment.
  - Reductions in support costs through better management of communications, room hire, travel and subsistence, etc.
- 2.3. These savings are supported by the Government's objectives, with which the SIA comply. Together, the firm application of these measures is yielding £3 million to £4 million of savings in the

current financial year. It has now been demonstrated that this is a sustainable position to move forward from. This means fees should be reduced to reflect these savings.

2.4. The Government's Triennial Review 2016/17 reported on 7th June 2018 and stated:

*"In general, the PSI operates effectively and regulation plays a large part in this. Regulation is still required; it should be retained and improved".*

## C. Objectives

3. 'Managing Public Money' section 6.2.1, (HM Treasury, 2013) requires that fees should meet the full costs of the service and neither produce a large loss nor surplus; the policy objective is to ensure that this is the case with SIA fees.
  - 3.1. The intended effect is to ensure that private security industry licensees receive the benefit of cost reduction measures to achieve value for money and fairness. The aim is for this to take effect from 1 October 2019.
  - 3.2. This fee reduction will ensure, as far as possible, that the fees charged by the SIA in respect of individual licensing fund only the cost of the service, with no large surplus or deficit.
  - 3.3. 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 licensing activities.
    - Overheads (staff related).
    - Indirect costs incurred by the SIA, for example, corporate services (HR, IT, Finance, Communications staff) and technology infrastructure costs.

## D. Options

### 4. Options list

- 4.1. **Option 1: Do nothing, maintaining fees at current levels.** This would result in a forecast deficit of £1.1 million for 2019/20 and surpluses of £2.8 million in 2020/21 and £2.0 million for 2021/22. This gives an overall surplus of £3.7 million over the three-year period. This does not meet the Government's objectives.
- 4.2. **Option 2: Reduce the licence fee by £10 (4.5%)** to re-align income with the lower level of costs and allow consistency of pricing across years. This would result in a deficit of £2.2 million in 2019/20 (to be funded by Home Office) and surpluses of £1.5 million in 2020/21 and £0.8 million in 2021/22 based on current assumptions (see Appraisal section, **E.**). This allows for break-even over the three-year period. **This is the Government's preferred option.**
- 4.3. Other options were considered at the development stage. These included non-regulatory options, but since the whole point of the 2001 Act was to introduce regulation to the security industry then none of these options met the Government's objectives.
- 4.4. One option which may have been successful was to vary the fees to match expenditure in each year.
- 4.5. Whilst SIA would break even in all three years from 2019/20 through to 2021/22, licensees would experience a fee varying from £198 to £230 (the fee would need to be increased in years 2020/21 and 21/22). This would lead to a significant and unacceptable increase in cost which would have to be passed onto licensees. Such a licensing regime would clearly disadvantage those whose three-

year licence happen to come up for renewal in the lower demand years and, aside from being unfair, could be open to legal challenge. This would distort the market by creating price differences reflecting the random timings of renewals of different individuals (and there may also be geographical distortions). It also increases financial uncertainty for the regulatory regime. For these reasons, this option was discounted.

## **E. Appraisal (Costs and Benefits)**

### **5. GENERAL ASSUMPTIONS & DATA**

5.1. The IA covers a five-year appraisal period over 2019/20 to 2023/24. All future values are discounted using a discount rate of 3.5 per cent (the social rate of discount). The SIA produces a volume forecasts for the next financial year (2019/20) and these are extrapolated into future years. The last data point on actual volumes is for 2018/19. The SIA and the Home Office have developed a model to forecast costs and benefits of the preferred option, compared to the 'do-nothing' option, over the appraisal period. Estimates of the change in wage elasticity are taken from a broad range of academic literature. It is assumed (using that evidence base) that in the low scenario there is 2 per cent growth in licence application volumes and for the central and high cases, it is assumed there is a 4 and 6 per cent increase in applications, respectively. Given historical trend growth, 4 per cent, in the licence application data, these assumptions reflect general growth in applications and a marginal increase in labour supply, given a £10 reduction in the fee. Note: in the estimates, figures are rounded so may not sum. The analysis in this section is a proportionate effort given the proposed changes.

#### **Expenditure**

- 5.2. Current spending forecasts have been reviewed and revised by the SIA, in the light of the current trends in expenditure. Future forecasts reflect:
- Current forecast commitments for future periods with respect to business as usual.
  - Estimated costs associated with planned changes to licensing arrangements which can legitimately be charged to licence holders.
  - Forecast levels of inflation.
  - The SIA's planned cost reductions.

#### **Income**

5.3. The SIA's licensing operations are funded solely from the fees it charges to individuals.

#### **Forecast volumes**

- 5.4. Looking forward, the forecast volumes of applications for a licence are a critical driver of costs. There is a three-year cycle of applications and that means that the proportion of applications being renewed each year is relatively constant.
- 5.5. A low, central and high scenario has been developed. The low case assumes 2 per cent growth of applications across the forecast, the central scenario assumes that applications grow by 4 per cent per year and the high scenario assumes that there is 6 per cent growth in applications. Growth reflects assumptions about trend growth in applications (4 per cent) and a reduction in the fee of £10.
- 5.6. Table 1 presents both the actual and the forecast volumes for the years 2013/14 to 2018/19 and for 2019/20 to 2023/24 respectively. Forecast values are rounded to the nearest thousand. The five-year appraisal period is over 2019/20 to 2023/24.

**Table 1, Actual and forecast volumes of SIA UK licence applications, 2013/14 to 2018/19 and 2019/20 to 2023/24, (Low, Central and High scenarios).**

| <b>Actual</b>   |            |                |             |
|-----------------|------------|----------------|-------------|
| 2013/14         | 114,521    | 114,521        | 114,521     |
| 2014/15         | 134,296    | 134,296        | 134,296     |
| 2015/16         | 132,035    | 132,035        | 132,035     |
| 2016/17         | 103,083    | 103,083        | 103,083     |
| 2017/18         | 134,285    | 134,285        | 134,285     |
| 2018/19         | 149,731    | 149,731        | 149,731     |
| <b>Forecast</b> | <b>Low</b> | <b>Central</b> | <b>High</b> |
| 2019/20         | 105,000    | 107,000        | 109,000     |
| 2020/21         | 137,000    | 140,000        | 142,000     |
| 2021/22         | 153,000    | 156,000        | 159,000     |
| 2022/23         | 107,000    | 111,000        | 116,000     |
| 2023/24         | 140,000    | 146,000        | 151,000     |

Source: SIA demand forecast and Home Office internal analysis, 2019.

Note: Forecasts volumes are rounded to the nearest thousand.

### Fee reduction analysis

- 5.7. SIA financial analysts estimated income and expenditure profiles using different levels of fees to ascertain a sustainable level of income that met costs but did produce large surpluses. This analysis is presented in Table 2. The first three options (£180 to £200) are forecast to produce consistent deficit positions which would result in an unsustainable operating position for the SIA. At £220 to £230 the surpluses in 2020/21 and 2021/22 are too large to be within HM Treasury's guidelines for 'Managing Public Money.' Therefore, **the optimal fee which is proportionate and fair to the individual, allows the SIA to operate on a sustainable footing and meets HM Treasury guidance to avoid large surpluses is £210.**

**Table 2, Estimated income and expenditure for 2019/20 to 2021/22, SIA.**

| Fee         | Income        |               |               | Expenditure   |               |               | Net position (before dpn/cost of cap) |              |              | Net position (after dpn/cost of cap) |              |            |
|-------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------------------------------|--------------|--------------|--------------------------------------|--------------|------------|
|             | 19/20         | 20/21         | 21/22         | 19/20         | 20/21         | 21/22         | 19/20                                 | 20/21        | 21/22        | 19/20                                | 20/21        | 21/22      |
| £180        | 21,635        | 25,857        | 25,508        | 24,601        | 25,789        | 26,141        | (2,966)                               | 68           | (633)        | (5,442)                              | (2,408)      | (3,108)    |
| £190        | 22,709        | 27,163        | 26,792        | 24,601        | 25,789        | 26,141        | (1,892)                               | 1,374        | 651          | (4,368)                              | (1,102)      | (1,824)    |
| £200        | 23,783        | 28,469        | 28,076        | 24,601        | 25,789        | 26,141        | (818)                                 | 2,680        | 1,935        | (3,294)                              | 204          | (541)      |
| <b>£210</b> | <b>24,857</b> | <b>29,775</b> | <b>29,360</b> | <b>24,601</b> | <b>25,789</b> | <b>26,141</b> | <b>256</b>                            | <b>3,986</b> | <b>3,219</b> | <b>(2,220)</b>                       | <b>1,510</b> | <b>743</b> |
| £220        | 25,931        | 31,081        | 30,644        | 24,601        | 25,789        | 26,141        | 1,330                                 | 5,292        | 4,503        | (1,146)                              | 2,816        | 2,027      |
| £230        | 27,005        | 32,387        | 31,928        | 24,601        | 25,789        | 26,141        | 2,404                                 | 6,598        | 5,787        | (72)                                 | 4,122        | 3,311      |

Source: Security Industry Authority, July 2018. Note: A loss is indicated by brackets. Dpn = depreciation, cap = capital.

## **OPTION 2 – Reduction the licence application fee by £10**

### **COSTS**

#### **SET-UP COSTS**

- 5.8. There will be a small set up cost associated with the reduction in fees. This is expected to be in the region of £20,000.
- 5.9. Currently some licence applicants submit their documents and payment through their local Post Office, who then process and remit documents and funds to the SIA. The Post Office will therefore incur a small cost of about £10,000 to inform these applicants of the new fee and bringing any other aspect of their process in line with the change.
- 5.10. Changes to the SIA's digital licensing system will need to be made to reflect the new fee. This will result in a small cost of about £10,000 in Year 1 only. This estimate draws on assumptions from historical experience and SIA knowledge of system changes.
- 5.11. Given that the £20,000 cost is an estimate, a range of £15,000 to £25,000 is used for the appraisal.

#### **ONGOING COSTS**

- 5.12. The new fee level will result in a cost through decreased income for the SIA, as the efficiency saving associated with processing applications is passed onto the applicant. This is calculated as the forecast volumes (see Table 1) multiplied by the £10 reduction. Low, central and high scenarios were produced. These represent a decreased income of approximately £1.29 million per year, a present value (PV) of £6.02 million over the five years of the appraisal period.
- 5.13. A potential cost is wage depression in the security industry. The decrease in license fees could result in a higher demand for licenses, that is, an increased number of workers entering the market. An increase in the labour supply could result in a decrease in wages across the industry. Some academic literature suggests that an expansion of the labour supply results in a short-run reduction in wages<sup>3</sup> reduction in professional fees results in a less than proportionate decrease in wages. This means that the 5 per cent reduction in fees could result in a 1 to 2 per cent decrease in the wage. This would move average hourly wages from £10.08 to between £9.99 and £9.85. This would result in a high total cost to security workers, although the cost would be equal to the benefit seen by the employers of security workers. Other evidence shows that wages are 'sticky' so they are unlikely to change significantly because of a fee change. For these reasons, the cost of wage depression is not included in the Net Present Value (NPV).

#### **TOTAL COSTS**

- 5.14. Total costs that are included in the NPV, include the best estimates of: set-up costs from Year 1 of £20,000, and the ongoing costs over the five-year appraisal period of £6.02 million (PV). The total cost (best estimate) of the fee change over five years is estimated to be £6.04 million (PV).

#### **BENEFITS**

- 5.15. The reduction of the fee will generate a benefit to the applicant that is equal to the ongoing cost (loss of the £10 in fee income) to the SIA. This is because the saving associated with processing applications more efficiently is passed onto the applicant in the form of the £10 reduction in fees.

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<sup>3</sup> "...the average wage reduction for the unskilled and semi-skilled service sector is just under 0.2% (Nickell and Salaheen 2015)."

"...for the period 2000-2007, found that a 1% increase in the share of migrants in the UK's working-age population lowers the average wage by 0.3% (Reed and Latorre 2009)."

"Dustmann et al (2013) find that each 1% increase in the share of migrants in the UK-born working age population leads to a 0.6% decline in the wages."

"First, while some of the surveyed studies find a more significant negative effect on the wages of less educated native workers than native workers overall, most do not. While the literature reports a range of wage effects of immigration, most estimates are small and, on average, essentially zero (Peri, 2009)."

Freebairn, John (1998) Microeconomics of the Australian Labour Market.



This equates to a benefit of £1.29 million per year, a PV of £6.02 million over the five years of the appraisal period.

- 5.16. A possible benefit of the reduction is an expansion of labour supply, leading to additional applications. To estimate the costs and benefits three possible scenarios of application volumes were modelled: a 2 per cent increase, 4 per cent increase and 6 per cent increases. In the cycle, these would be weighted 50 per cent in year 1, 25 per cent in year 2, and 25 per cent in year 3. This potential expansion in the labour supply could result in a benefit to employers of security workers if wages decrease. This would be difficult to predict and equal to the cost to workers, so it is not included in the NPV. However, given that evidence from the sector points to a short supply of private security operatives, it is likely that this could be a significant short-term benefit to the industry.

## **TOTAL BENEFITS**

- 5.17. The total benefits accruing to individuals from the fee reduction over the five-year appraisal period is £6.02 million (PV).

## **NPV, BNPV, EANDCB and Business Impact Target**

- 5.18. The NPV is the Total Benefits minus the Total Costs, which results in a value of -£0.02 million. There is no significant cost to business because of the proposed fee reduction. Therefore, the estimated annual net direct cost to business (EANDCB) is £0.0 million.
- 5.19. The only cost to business is the very small adjustment made by the Post Office in Year 1 only. This has been included in the set-up costs and results in a very small negative NPV. There is no ongoing cost to business.

## **F. Risks**

### **6. Economic risks**

- 6.1. 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. This should not result in any economic risk to licensing.
- 6.2. The forecast of licence demand is by its nature unreliable and the forecast of future demand is prudent and cautious. Although actual demand is usually close to forecast, changing pressures in the security industry can affect demand in a number of ways. This and the nature of forecasting, means that forecasts may not always be accurate. Significant fluctuations in demand can occur and may increase or reduce projected surpluses and deficits.

### **Option 2**

- 6.3. The following risks have been identified in respect of **Option 2 (the Government's preferred option)** — reduce the fee by £10 from £220 to £210:
- Early applicants may complain about paying a higher fee prior to the fee reduction.
  - Distortions to patterns of individual applications (and therefore a risk to the licensing delivery system) as a result of individuals delaying their application in anticipation of the reduction.
  - Non-compliance and wilful criminality by individuals working without a licence as a result of them delaying their applications.
  - The first three risks above might be mitigated by announcing the reduction close to the change date, that is, when the regulations are laid in Parliament.

- The impact on licensing volumes is uncertain. Operational plans will be put in place to manage this. However, it is considered that the introduction of the new fees from October 2019 will help to reduce impact and risk.

### Option 1 (do nothing option)

6.4. The following risks have been identified in respect of Option 1 for the licence fee reduction:

- 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.

6.5. This approach would mean that a group of licensees would not benefit from a lower fee. Because the SIA's costs are largely fixed, there is no cost justification for such a fee and any resulting surpluses accruing to the SIA. Excess surpluses would have to be returned to HM Treasury's Consolidated Fund and it is likely that pressure will build to introduce a lower fee in the following year.

## G. Enforcement

### 7. Enforcement strategy

7.1. The SIA's compliance strategy is conducted in a fair, open and proportionate manner, and compliant with the principles of the 'Better Regulation' agenda. Governance and enforcement is conducted as per the Hampton principles.

7.2. There are many factors and influences which affect compliance levels. This is reflected in the SIA compliance strategy, which has four main strands:

- **Designing in compliance:** making it easier and more attractive commercially for the security industry, and its purchasers, to comply. For example, many insurers have made compliance a condition of issuing or renewing insurance policies. Also, during the drafting of the Licensing Act 2003, covering liquor and public entertainment licensing reform, SIA representations achieved a requirement that any door supervisors used must be SIA licensed or deployed under a licence dispensation notice by a SIA approved company. This means that the customer of licensable security operatives puts their own business at risk if unlicensed operatives are engaged.
- **Selective, consistent and proportional enforcement:** the SIA expects compliance with the law at all times. If the law is broken, prosecution is not the preferred option. The SIA aims to encourage compliance with the law in the first instance and helps organisations meet their obligations. There is a range of sanctions for non-compliance available that falls short of prosecution and proportionate action can be taken. The aim is robust and effective enforcement and, in appropriate cases, the will and capability to prosecute offenders and to seek the confiscation of assets obtained as a result of criminal activity.
- **Intelligence led operations:** intelligence is used to prioritise and inform targeted compliance activity based on risk to public safety and the regulatory regime.
- **Engaging partners:** The SIA works closely with partners where there are mutual and overlapping objectives, on a national and local basis. Each partner focuses on particular strengths to enable achievement of goals and avoid duplication of effort.

7.3. The SIA does not propose any changes to the 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

8. Table H.1 outlines the main estimated costs and benefits of the proposed changes.

| <b>Table H.1 Costs and Benefits</b> |   |                |  |                |
|-------------------------------------|---|----------------|--|----------------|
| <b>Option</b>                       | <b>Costs</b>                                | <b>£m (PV)</b> | <b>Benefits</b>  | <b>£m (PV)</b> |
| 2                                   | Set-up cost to Post Office and SIA          | 0.02           |  |                |
| 2                                   | Cost to the SIA of reduced income from fees | 6.02           | Benefit to licence applicants of the £10 reduction in fees | 6.02           |
| <b>Total Cost</b>                   |   | 6.04           | <b>Total Benefit</b>                                       | 6.02           |
| <b>Net Present Value (NPV)</b>      |   | <b>-0.02</b>   |  |                |

Source: SIA and Home Office Analysis and Insight, internal analysis.

## I. Implementation

9. The Government plans to implement the licence fee change on 1 October 2019 (the common commencement date).
- 9.1. Because under the PSIA fees are payable on electronic submission, the licence fee due will be the one prescribed in regulations on the date the completed application is submitted to the SIA. All applications received before 00.01 on 1 October 2019 will be charged at £220, all applications after that time will be charged at £210.
- 9.2. If licence renewals are submitted before the fee reduction, then the price applicable at the time that the renewal application is submitted 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 October 2019, will be processed at the current fee of £220.
- 9.3. Any licence application returned to the applicant as incomplete and then resubmitted after the fee reduction on 1 October 2019 must pay the applicable fee; that is £210.

## J. Monitoring and Evaluation

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

## K. Feedback

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

## L. References

12. The following publications were used in the preparation of this IA:
- Department for Business, Energy and Industrial Strategy (2018) *Better Regulation Framework: interim guidance*, February, London.  
see:  
[https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment\\_data/file/708066/better-regulation-framework-interim-guidance-2018.pdf](https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/708066/better-regulation-framework-interim-guidance-2018.pdf)

- HM Treasury (2018) *The Green Book: central government guidance on appraisal and evaluation*, March, London.  
see: <https://www.gov.uk/government/publications/the-green-book-appraisal-and-evaluation-in-central-government>[https://www.sia.homeoffice.gov.uk/Documents/annual-reports/sia annual report 16-17.pdf](https://www.sia.homeoffice.gov.uk/Documents/annual-reports/sia%20annual%20report%2016-17.pdf)
- HM Treasury (2013) *Managing Public Money*, July (with annexes revised as at March 2018) London.  
see <https://www.gov.uk/government/publications/managing-public-money>
- The Security Industry Authority (2018) *Annual Report and Accounts 2016/17*, January, **HC 744** London.  
see: [https://www.sia.homeoffice.gov.uk/Documents/annual-reports/sia annual report 16-17.pdf](https://www.sia.homeoffice.gov.uk/Documents/annual-reports/sia%20annual%20report%2016-17.pdf)

## Impact Assessment Checklist

The impact assessment checklist provides a comprehensive list of specific impact tests and policy considerations (as of October 2015). Where an element of the checklist is relevant to the policy, the appropriate advice or guidance should be followed. Where an element of the checklist is not applied, consider whether the reasons for this decision should be recorded as part of the Impact Assessment and reference the relevant page number or annex in the checklist below.

The checklist should be used in addition to [HM Treasury's Green Book guidance](#) on appraisal and evaluation in central government.

### Economic Impact Tests

| Does your policy option/proposal consider...?  | Yes/No (page) |
|--|---------------|
| <p><b>Business Impact Target</b><br/>           The Small Business, Enterprise and Employment Act 2015 (<a href="#">s. 21-23</a>) creates a requirement to assess the economic impacts of qualifying regulatory provisions on the activities of business and civil society organisations. [<a href="#">Better Regulation Framework Manual</a>] or</p> <p>The proposal affects fees and as such does not affect the Business Impact Target. The NPV is -£0.02 and this cost occurs in Year 1 only.</p>  | N/A           |
| <p><b>Small and Micro-Business Assessment (SaMBA)</b><br/>           The SaMBA is a Better Regulation requirement intended to ensure that all new regulatory proposals are designed and implemented so as to mitigate disproportionate burdens. The SaMBA must be applied to all domestic measures that regulate business and civil society organisations, unless they qualify for the fast track. [<a href="#">Better Regulation Framework Manual</a>] or</p> <p>This proposal affects individuals working in the private security industry and does not impose any costs on the business sector.</p> | Not Needed    |