EXPLANATORY MEMORANDUM TO

THE PRIVATE SECURITY INDUSTRY (LICENCE FEES) ORDER 2007

2007 No.

1. 1.1 This Explanatory Memorandum has been prepared by the Home Office and is laid before the House of Commons by Command of Her Majesty, under section 102(5) of the Finance (No. 2) Act 1987, for approval by resolution of that House.

2. Description

2.1 This instrument requires the Secretary of State to take into account other matters when setting the fee to be paid on application for a Security Industry Authority (SIA) licence for the financial years 2007/08 and 2008/09, namely the costs which will be incurred in the carrying out of the SIA's functions relating to licences under sections 1(2)(a) and 8 of the Private Security Industry Act 2001 ("the 2001 Act") in each of the financial years 2007/08 and 2008/09.

3. Matters of Special Interest to the Joint Committee on Statutory Instruments

3.1 None.

4. Legislative Background

4.1 The 2001 Act received Royal Assent on 11 May 2001. It provides for the regulation of the private security industry by the SIA through, among other things, a system of licensing of security operatives provided under contract. Section 8(7) of the 2001 Act enables the Secretary of State to prescribe a fee to be paid on application for an SIA licence. The current licence fee is £190 and was set in the Private Security Industry (Licences) Regulations 2004 (SI 2004 No. 255), which came into force on 1 March 2004.

5. Territorial Extent and Application

5.1 This instrument applies to all of the United Kingdom.

6. European Convention on Human Rights

The Home Office Parliamentary Under-Secretary of State, Vernon Coaker, has made the following statement regarding Human Rights:

In my view the provisions of the Private Security Industry (Licence Fees) Order 2007 are compatible with the Convention rights.

7. Policy Background

7.1 The SIA was created in April 2003 by Order of the Secretary of State. Licensing was phased in from 2004 to 2006, with that of contracted manned guarding (comprising the largest group of operatives licensable under the Act) becoming mandatory in March 2006. Most licences last for three years. Because of the recent introduction of the licensing requirement the flow of applications has not yet levelled off. Based on projected numbers of future applications it is expected that the SIA's intake of new applications will fall in 2007/08 and rise in 2008/09 (as renewal applications commence). As a result, in-year unit costs are expected to rise in 2007/08 and fall in 2008/09.

7.2 When setting a fee under a statutory power, the costs to be recovered are considered to be those incurred in the accounting period in which the function is exercised. However, because of the expected fluctuation in numbers of applications, strict adherence to in-year recovery of costs in the case of the fee prescribed under section 8(7) would require the licence fee to be raised in 2007/08 and then reduced in 2008/09. We do not regard that as an acceptable position. The Order is needed to enable a fee to be set based on estimates of unit costs over the two years.

7.3 On this basis, in order to achieve full cost recovery for the SIA's licensing function, we intend to increase the licence fee from £190 to £245 (although the exact figure is yet to be confirmed) with effect from 6 April 2007, and this Order will enable the fee to be held at that level over the two year period. It is expected that after 2008/09 the SIA's intake profile will have levelled to a point where the fee can be set based on in-year self-funding in respect of licensing.

7.4 The data on which to base the fee when it was originally set at £190 was limited both in its extent and reliability. Subsequently it has become clear that a higher amount is needed to fund the SIA's licensing function. Without this increase the SIA will face a shortfall in licence fee income of some £350,000 a month.

7.5 This Order does not increase the fee. Provided this Order is made, a separate instrument will be made under the Private Security Industry Act 2001 which will increase the fee to be paid on application for an SIA licence and which will come into force on 6th April 2007.

8. Impact

8.1 In connection with the planned increase in the licence fee, a Regulatory Impact Assessment was published on 12 January 2007 giving information setting out the reasons for the increase. A copy is attached to this Memorandum for information.

8.2 A consultation exercise has not been carried out because self-funding through recovery of costs is a requirement.

9. Contact

9.1 Chris Down at the Home Office, telephone: 020 7035 0229 or e-mail: chris.down@homeoffice.gsi.gov.uk can answer any queries regarding this instrument.



UPDATED REGULATORY IMPACT ASSESSMENT TO REFLECT NEW LICENCE APPLICATION FEE AND CHARGES

January 2007

1. Regulations to implement the Private Security Industry Act 2001 in respect of Door Supervisors and Vehicle Immobilisers

2. Regulations to implement the Private Security Industry Act 2001 in respect of Manned Guards and Keyholders

Security Industry Section
Crime Reduction and Community Safety Group
Home Office
4th floor
Peel Building
Marsham Street
London SW1P 4DF

MISSION, VISION AND AIMS

Mission

To help protect society by collaboratively developing and achieving high standards in the private security industry.

Vision

To create a Security Industry Authority that is a model of good regulation and internationally recognised as a major contributor to the quality and effectiveness of the private security industry thus helping to reduce crime, disorder and the fear of crime.

Aims[1]

1. *Enhanced protection of the public through increased public trust and confidence in the private security industry by reducing criminality, setting and maintaining standards of probity, and improving the professionalism of all who work in the industry.*

2. *Businesses in the private security industry improving their standards through the creation of a framework for developing, promoting and spreading best practice.*

3. *A private security industry centre of knowledge and expertise enabled, which supports and encourages effective industry development and investment.*

4. *A strengthened extended police family by encouraging and supporting further engagement of the private security industry.*

5. *Recognition, by all our stakeholders, of the SIA as a model of good practice.*

In pursuing these aims the authority will continue to work in partnership with the industry and its customers, the police and the public.

[1] We adjusted our vision and aims in March 2005 to ensure that our purpose and approach reflects stakeholder needs and the changing environment in which we function. The mission and direction remain unchanged.

Contents

Executive Summary

1. Background
2. Proposal
3. This RIA and Good Regulation
4. Analysis: Why is a fee increase needed?
5. Licensing security: Update to cost/benefit analysis
6. Risks and unintended consequences
7. Implementation
8. Equalities impact test
9. Small firms impact test
10. Competition assessment
11. Enforcement, sanctions and monitoring

ANNEX A: TARGET LICENCE POPULATION 2007/08 - 2008/09
ANNEX B: SUMMARY OF SIA COSTS 2007/08 – 2008/09
ANNEX C: EXPLANATION OF COMPETENCY RENEWAL STRATEGY
ANNEX D: EXAMPLE COSTS OF SIA ENDORSED TRAINING AND OVERSEAS CRIMINAL RECORD CHECKS

List of figures:

Figure 1: SIA measures of achievement
Figure 2: Dates of introduction of SIA licensing
Figure 3: Where does the licence fee go?
Figure 4: Estimations of licensable population (2003)
Figure 5: Licence applications processed by the SIA
Figure 6: Amount of Grant-in-aid received from the Home Office
Figure 7: Reviewed SIA licensable populations by sector
Figure 8: Calculation of SIA licence fee
Figure 9: Example cost impact of licence application fee by sector
Figure 10: Market breakdown of security guarding companies
Figure 11: Target licence population 2007/08 - 2008/09
Figure 12: Summary of SIA Costs 2007-08 – 2008/09
Figure 13: Examples of costs of training and qualifications
Figure 14: Examples of costs of overseas criminality certificates

EXECUTIVE SUMMARY

One of the functions of the SIA is to license specific sectors of the private security industry. The SIA intend to increase the licence application fee from £190 to £245 on 6 April 2007. The purpose of this RIA is to transparently show the case for the licence application fee increase and to show the impact of the fee increase on the private security industry and on the objectives of the licensing scheme.

The SIA is required to be self-funding through charging for the services it provides. An increase of the licence application fee is needed because income from licensing has been less than expected owing to less than predicted numbers requiring a licence. This stems from unavailable or unreliable base data in 2002/03, and from changes taking place across various industry sectors.

Further options of:

1. increasing the size of the licensable base (and therefore increasing income) and,
2. reducing the licence duration,

were considered and rejected as inappropriate (see paragraphs 4.17 – 4.21).

The fee has been calculated by dividing the predicted expenditure over the financial years 2007/08 and 2008/09 by the number of licence applications expected during the same period. This includes an element of 'churn', that is new entrants and leavers to the licensable private security industry. The SIA considered both current and future churn across the industry in identifying the licence fee increase (see paragraph 4.15 – 4.16 for details). The forecast churn rate has been set at 24% for Door Supervisors, and 20% for other manned guarding sectors. The SIA is confident that forecast numbers are accurate within a range of 10%.

From 2009/10 it is intended that the SIA will achieve cost recovery on an annual basis and the fee will be reviewed each year in line with Treasury guidelines.

It is believed that the increased licence application fee will not impact on the achievement of the objectives of licensing.

A risk remains that the increased fee will have a negative impact on the implementation of licensing including initial licence take up in Scotland, however it is believed that the launch of the Approved Contractor Scheme in April 2007 will help mitigate this risk.

The fee increase will be implemented on 6 April 2007. Any application received by the SIA before 00.01am on 6 April 2007 will be charged £190, all after £245. Licence renewal applications can be made up to four months in advance of licence expiration and, if received by the SIA before 6 April 2007, will be processed at the current fee of £190.

The fee increase proposed in this RIA is conditional upon the making of a section 102 Order under the Finance (No 2) Act 1987, followed by the appropriate negative regulations under the Private Security Industry Act 2001, to come into force by 6 April 2007.

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 Secretary of State.

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 standards. The organisation was created in 2003 and has been formed from scratch since then, including:

- Development, design and implementation of the licensing criteria and systems.
- Creation of compliance and investigation teams.
- Introduction of the voluntary Approved Contractor Scheme.

Around 270,000 individuals have achieved the SIA licence qualifications,160,000 licences have so far been granted and 260 companies approved[2].

1.3 SIA set up and development in 2003/04 was funded by the Home Office. It is intended that the organisation is financed through income generated from regulatory activities in line with rules set out by Central Government[3]. The current, and original, licence application fee is £190 and was set in 2003.

1.4 The following RIAs are updated by this document[4]:

i. Full Regulatory Impact Assessment (January 2004, updated March 2005): Regulations to implement the Private Security Industry Act 2001 in respect of door supervisors and vehicle immobilisers.

ii. Full Regulatory Impact Assessment (February 2005): Regulations to implement the Private Security Industry Act 2001 in respect of manned guards and keyholder.

iii. Regulation of the Private Security Industry in Scotland, Regulatory Impact Assessment. Published by the Home Office with the Serious Organised Crime Bill (2005).

1.5 The first two documents were issued for consultation and set out options for licensing and included questions on the nature of criminality and competency criteria. The documents also included cost benefit analysis and basic modelling. This RIA updates the cost/benefit analysis, using the best available evidence, to consider the ongoing costs of regulation and to examine the impact of the intended increase to the licence application fee.

1.6 The private security industry, across its volume sectors, is traditionally an industry with high labour needs, high staff turnover and relatively low wages. Self regulation and the market alone did not work to maintain standards and it was

[2] October 2006
[3] HM Treasury: The Fees and Charges Guide (1992) HMSO
[4] See http://www.the-sia.org.uk/home/about_sia/publications/publications_ria.htm

decided that Government intervention was needed. There were also concerns over pockets of criminality posing a risk to public safety. The SIA's strategic direction states that the introduction of the regulation is a catalyst to stimulate productive and long overdue change within the industry – enabling the industry to raise standards and consequently become equipped to contribute to increased public safety and the crime reduction agenda (as a component of the extended police family).

1.7 The objectives of the SIA licensing scheme are thus to:

- Remove from the private security industry those who seek to use their position to pursue criminal activities.
- Raise standards and competence and professionalism in the industry.
- Increase public confidence in the industry.
- Provide recognition for companies and individuals who do operate to high standards and who have invested in training and selective recruitment.

The figure below shows SIA measures of achievement in very broad terms:

Figure 1: SIA Measures of achievement

Measures of achievement		
Inputs ⇨	**Outputs ⇨**	**Outcomes**
Individuals with SIA licences – basic competency and fit and proper person checks	Less criminality in industry	Improved security business/financial performance
Approved contactor scheme – meeting quality standards throughout business	Confidence in licence holders with qualifications	Respect for industry
Compliance targets met	Better employment practices	Less crime
	Staff turn over in industry reduced	Improved public safety
	More police contacts with private security industry	Reduced public spending: health care and police
	Better supplier/purchaser relationships	

1.8 Licensing was commenced in England and Wales on the following dates:

Figure 2: Dates of introduction of SIA licensing

Sector	**Open for Business**	**Offence date**
Door Supervisor (Justices on licence)	1 March 2004 (first region)	11 April 2005 (regional roll out completed)
Door Supervisor (Events)	March 2005	12 September 2005

Vehicle Immobilisers (one year duration)	1 November 2004	3 May 2005[5]
Security Guard	10 January 2005	20 March 2006
Cash and Valuables in Transit	10 January 2005	20 March 2006
Public Space Surveillance (CCTV)	27 June 2005	20 March 2006
Close Protection	1 September 2005	20 March 2006
Key holding	14 November 2005	20 March 2006

1.9 It is planned to commence in Scotland the regulation of all manned guarding and keyholder sectors currently regulated in England and Wales during 2007. Precognition Agents will also be regulated in Scotland over future years.

1.10 There has been no increase of the licence application fee since the introduction of licensing.

2. PROPOSAL

2.1 It is intended that the SIA licence application fee will be increased from £190 to £245 on 6 April 2007.

3. THIS RIA AND GOOD REGULATION

3.1 The SIA is committed to the Government's principles of good regulation. The organisation aims to be:

- Proportionate by intervening with regulation only where justified.
- Accountable by reaching decisions in a logical and open manner.
- Consistent by working with partners in the delivery of shared initiatives and policies.
- Transparent by consulting on our policies, services and strategies and by ensuring people know what to expect from us.
- Targeted by focussing our resources on tackling issues and problem solving.

3.2 The objectives of this RIA are to:

i) Transparently show the case for the SIA licence application fee increase.
ii) Show the impact of the licence fee increase in the context of the overall costs of regulation.

3.3 The scope of this impact assessment and fee increase is the SIA's current and agreed planned remit: England, Wales and Scotland.

Business sectors affected

[5] Delayed from 28th February

3.4 The business sectors affected are those currently regulated by the SIA (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 and Wales) (includes those employed 'in-house')

It is likely that the fee increase would impact on any future sector regulated by the SIA, including Precognition Officers (Scotland only) and private investigators.

3.5 Since the commencement of regulation, certain groups are now not subject to SIA licensing[6]:

- A decision has recently been made by Ministers to remove some in-house security staff at certain sports grounds from the scope of licensing.

- The SIA has also published an exemption framework[7], which sets out how groups regulated under 'suitable alternative arrangements' can gain exemption from licensing. This has led to certain aviation security personnel being exempted.

4. ANALYSIS: WHY IS A FEE INCREASE NEEDED?

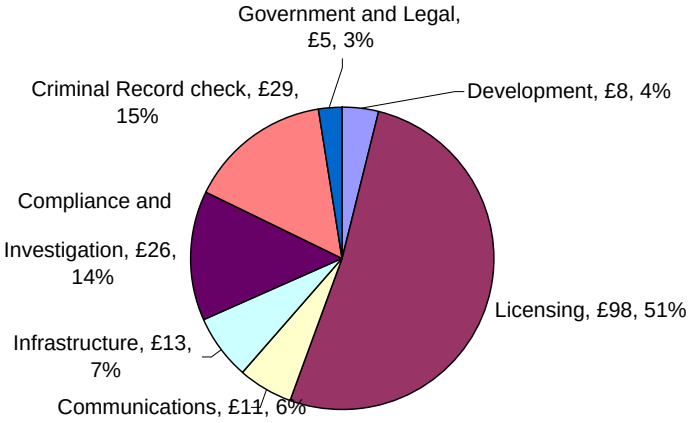
Licence fee level (principles of cost recovery)

4.1 The aim of the licence application fee increase is so that the SIA can be self-financing. This is in line with Government policy to encourage efficiency in 'arms-length' bodies. It is deemed not appropriate to use public funds to subsidise regulation of an industry or to use regulation to raise taxation.

4.2 The SIA licence application fee was originally set at the level believed necessary to meet the expected full cost of running the SIA. The fee is currently £190 including the charges to obtain the appropriate criminal record disclosure and all licence processing costs. The remainder of the licence fee is spent on the costs of enforcing the licence regime via a team of investigators and central intelligence function, infrastructure, development, legal and marketing costs (see figure 3 below).

Figure 3: Where does the licence fee go?

[6] Detailed information on the scope of the Act is available on the SIA website: www.the-sia.org.uk.
[7] See: http://www.the-sia.org.uk/home/licensing/exemption/



4.3 The SIA also recovers revenue from the Approved Contractor Scheme and from specific project/development funding e.g. to set up regulation in Scotland. This revenue contributes to infrastructure costs but does not cross-subsidise ongoing licensing costs.

4.4 Income and specific costs for sub sectors e.g. the close protection sector are not accounted for separately and cost recovery is not obtained on this basis.

Financial self-sufficiency

4.5 The SIA's financial self-sufficiency is reliant upon three fundamental factors:

- The size of the security market.
- The revenue that can be generated from regulatory activities.
- The cost base (fixed and variable).

SIA cost management

4.6 The SIA operate a continual business planning process and via this manages its costs to achieve optimum levels of productivity and the most effective use of resources.

4.7 In early 2006 the SIA introduced its second service, the Approved Contractor Scheme (ACS). The introduction of this service has allowed unit costs for licensing to be reduced by sharing overheads over the two services, previously completely recovered from the licence fee.

4.8 The SIA is continually seeking to improve value for money and customer service improvements. In particular the licensing system is being streamlined and modified.

Why an increase in licence fee is needed: SIA income

4.9 The licence fee was agreed in 2003 based on the income estimated from licence applications at that time (figure 4, below, sets out the licensable population for the period 2004 – 2007, as estimated in 2003). The business case and therefore fee calculations were based on the best available data of licensable numbers. However, the risk attached to the unreliable data and the response of the private security industry to a regulated environment was fully recognised by the SIA and the Home office.

[8]Figure 4: Estimations of licensable population (2003)[9]

Sector	2004/05	2005/06	2006/07
Door Supervisors	102,064	22,800	22,800
Vehicle Immobilisers	1,272	288	288
Other Manned Guards	31,920	114,876	30,000
Key holders	23	93	24
Private Investigators	0	0	12,300
Security Consultants	0	0	1,230
Total	**135,279**	**138,056**	**66,642**

4.10 The industry was previously unregulated and ill defined. There were also considerable difficulties in predicting the pace of implementation, the response of the industry to regulation and the impact of licensing. In particular the level of industry staff turnover (churn) was expected to reduce creating a reducing licensable population. A significant number of door supervisors were part-time or casual, often employed as part of the 'informal' economy.

4.11 Forecast numbers of licence applications and targets have been continuously amended as further information became available. The figure below compares the number of licence applications originally predicted in 2003 with the actual numbers licensed.

Figure 5: Licence applications processed by the SIA

Year	Predicted Numbers	Actual	Variance
2004/05	135,279	24,408	-110,871
2005/06	138,056	100,541	-37,515
2006/07 (latest estimate)	66,642	88,051	21,409
TOTAL	**339,977**	**213,000**	**-126,977**

4.12 The SIA has been supported financially by the Home Office from Grant in Aid as follows:

Figure 6: Amount of Grant-in-aid received from the Home Office

[8] Figures shown are inclusive of churn rate.
[9] Ref – Corporate Plan 2003

INCOME	2005/6	2004/5	2003/4
	£	£	£
Licence Fees	18,900,250	4,637,558	1,102
ACS	207,664		
Scotland (project cost recovery from Scottish Executive)	368,897		
Other	74,465	5,185	
Interest Receivable	67,035	41,114	22,406
TOTAL SELF GENERATED INCOME	19,618,311	4,683,857	23,508
EXPENDITURE			
	£	£	£
Employment Costs	6,018,245	5,451,628	4,324,248
Accommodation	971,814	853,972	746,034
Advertising and publicity	1,207,328	1,578,565	1,098,652
Licensing costs	10,603,342	5,381,316	275,487
Depreciation	3,442,349	2,719,065	390,161
Other costs	431,237	504,681	374,357
TOTAL EXPENDITURE	**22,674,315**	**16,489,227**	**7,208,939**
Surplus/Deficit (-) before grant	-3,056,004	-11,805,370	-7,185,431
Grant in Aid	2,500,141	12,512,047	7,479,932
Net Surplus/ Deficit (-)	-555,863	706,677	294,501

Year	Amount of grant-in-aid received from the Home Office	Grant-in-aid as a proportion of income %
2003/04	£ 7,479,932	100
2004/05	£12,512,047	73
2005/06	£2,500,141	11

4.13 The table below shows new estimates of licensable population and explanations of why total populations are amended.

Figure 7: Reviewed SIA licensable populations by sector

Sector	Estimate of predicted licensable population		Comments
	2003	**2006**	
Door Supervisors	71,000	46,000	Poor & unreliable original data.
Sport & Events security	24,000	16,000	Home Office policy decision to remove in house security at certain sports and events venues
Remaining Manned Guarding Sectors	125,000	120,000	
Vehicle Immobilisers	1,200	3,600	Front line licences annual, original assumption 3 years
Private Investigators	10,000	0	Policy decision to defer.
Security Consultants	1,000	0	Policy decision to defer.
Keyholding	100	0	
Scotland	0	15,000	Remit extended to Scotland
Churn	84,353	36,939	18% pa compared to original 24%
Total	**316,653**	**237,539**	

4.14 In addition to the differences of numbers of door supervisors a notable change to the two estimates relate to the regulation of the private investigation sector. The ongoing delay of this work means that potential SIA income is reduced by £2.45million. Significantly, the total licence numbers now include an additional demand for 15,000 licences as a result of the rollout of licensing in Scotland.

4.15 Churn rate is the proportion of licence holders who leave the private security industry each year and the corresponding proportion that enter the industry. The churn rate is also impacted upon the licence renewal rate, as those who have left the private security industry will not renew their licence. This leads to a slowly decreasing total demand for licences. Figure 7 illustrates the impact of a reduced churn rate from 24% to 18%. 60% of the reduction in predicted licensable population from 2003 – 2006 is accounted for by a reduced churn assumption.

4.16 Beyond the unreliable licensable population data across most sectors, determining verifiable churn rate has been most difficult. Few security businesses accurately monitor churn data and where they do, monitoring does not differentiate between 'in industry' churn and individuals joining and leaving the industry.

Options to increase SIA revenue

4.17 Options to increase revenue are to:

i. Increase size of licensable base, thus develop economies of scale.
ii. Reduce licence duration to two years.
iii. Increase licence fee.

4.18 To increase the size of the licensable base there are two approaches: increasing compliance of current sectors and regulating new groups.

i) Increasing size of licensable base

Compliance

4.19 Compliance targets are being met through targeted communications and compliance and investigation activity. Compliance levels currently remain high at over 90% and it is believed current and planned resources will mean that compliance is maintained at around 95% over the years the fee is being calculated. The SIA has a regional staff of 37 who work with enforcement partners to encourage compliance. As in all forms of enforcement, the majority of industry willingly comply through education and information and then through the threat of enforcement activity and sanctions. It is the resistant few that require most of the effort; an increase in spending on compliance then leading to diminishing returns.

New sectors

4.20 In regard to increasing the size of the licensable base, regulation would not commence for any new sector (including 'in-house' security) without a full regulatory impact assessment (RIA). The RIA would need to show evidence that licensing is appropriate to protect vulnerable members of the public from people employed in a position of trust. The SIA will not licence new groups solely in order to raise funds. This would be disproportionate and would not meet the commitment to the good regulatory agenda.

ii) Reduce licence duration to two years

4.21 Assuming the licence fee remains at £190, a reduction of the licence duration to two years would increase costs for licence holders by £95 over three years. It would also increase the administrative and processing costs to the SIA and increase the burden on individuals and companies to an unacceptable level. In addition, there is no additional risk to the public or evidence which warrants more regular identity and criminal record checks and thus a reduction in licence duration. It is therefore decided not to decrease the licence duration.

iii) Increase licence fee

4.22 The final option is to increase the licence fee to cover SIA costs. The detail of this option is set out below.

Calculating the licence fee

4.23 It is intended that on 6 April 2007 the licence application fee will increase from £190 to £245. The fee has been calculated by dividing the SIA's predicted expenditure by the number of licence applications expected during the same period (see figure 8 below). Initially the fee is modelled over a two year period, but it is expected that the SIA will obtain cost recovery on an annual basis in the future. Full details of planned SIA expenditure are given in Annex B.

Figure 8: Calculation of SIA licence fee

	2007-8	2008-9	Total
Application numbers	64,884	91,657	156, 541
Expenditure	£18,074,704	£20,198,348	£38, 273, 053

The licensing income and expenditure for the next two years would be:

	2007-8	2008-9	Total
Application numbers	64,884	91,657	156,541
	£	£	£
Income	15,896,580	22,455,965	38,352,545
Expenditure	18,074,704	20,198,348	38,273,053
Surplus/deficit (-)	-2,178,124	2,257,617	79,492

4.24 Based on the application numbers and related expenditure for the next two years the application fee for licence applications needs to be set at £245 from 6 April 2007. This reflects an increase of 29%.

4.25 These projections will now be reviewed annually to allow further fee changes if required.

4.26 Expenditure does not currently include repaying grant in aid to the Government, however it has been agreed that the level of deficit will be calculated and will be recovered gradually over future years in keeping with normal practise.

Risks and confidence of forecasts

4.27 The licensable numbers for the two years 2007/08 to 2008/09 are lower then originally estimated at the time of the Private Security Industry Bill and in the following years. Three years on from the establishment of the SIA, licensing has now been introduced to the main sectors and licensable numbers based on applications received over the last 30 months can be forecast with a degree of certainty not previously possible (see Annex A).

4.28 The following risks remain which could result in lower than expected numbers of applications and thus a reduced income:

- Impact of licence fee increase on compliance
- Licence take up, churn rate
- Exemptions, exclusions and other removals from the Private Security Industry Act 2001
- Move by purchasers of security services to avoid licensing by taking security in-house
- Security rationalisation (away from physical security presence)

4.29 It is believed that the new forecast is accurate within a range of 10%.

5. LICENSING SECURITY: UPDATE TO COST/BENEFIT ANALYSIS

5.1 The private security industry in England and Wales has already invested much time and money into the introduction of regulation: the industry is right to expect a return and benefits from its investment.

Research and evidence base

5.2 Evidence to support this RIA comes from the following sources:

- Review of security industry trade journals up to October 2006.
- Online sources and discussion groups.
- Review of recruitment and adverts for manned guarding jobs.
- Evidence from SIA investigators and senior staff who meet private security industry representatives on a regular basis.
- Discussions and evidence submitted from trade associations.

5.3 As part of the SIA's longer term research and benefit realisation strategy, and in partnership with the industry, the Authority intends to conduct research examining the impacts of licensing and the Approved Contractor Scheme. Specifically, we will be contacting stakeholders across the private security industry to get feedback on the extent to which suppliers are now passing costs onto customers; whether customers are now buying into quality; what impact licensing has had on the supplier/ customer relationship; whether regulation has resulted in improved staff retention rates (and whether this has been as a consequence of the investment in staff training and development); whether employment practises have improved (either through regulation or the ACS), and other related areas. Information on how to become involved will be available on the website nearer the time.

5.4. Research on the industry so far is patchy, but includes:

- The Impact of Licensing and other changes upon the Security Sector. Prof M. Gill and Dr A. Burns-Howell, June 2003.
- Future Earnings, Golden Vocations (January 2006) City and Guilds policy group.
- Survey from Security Management Today Magazine in conjunction with Reliance Security Services for purchasers of security services (November 2006).

Forthcoming research includes;

- SIA survey of door supervision suppliers and operatives on the impact of licensing in the door supervision sector (due for publication in January 2007)
- Labour market workforce survey to identify the size and scope of the industry across all sectors, developed by Skills for Security (due to be published in 2007).

Benefits of a licence application fee increase

5.5 There will be no increase in benefits relating to the licence application fee increase, except those already to be gained from licensing. If there is no increase in the fee then the SIA will need to continue to request grant-in-aid from the Home Office.

Costs of a licence application fee increase

Ongoing costs of SIA regulation

5.6 The licence application fee is only one component of the costs of regulation. Other costs of licensing relate to:

- Obtaining required SIA endorsed training and qualifications.
- Administration (project management, administration, legal).
- Recruitment and deployment costs.

Licence application cost and endorsed training

5.7 New entrants to the licensable private security industry must apply for their SIA licence before they commence work. From 6 April 2007 the licence application fee will be £245. The licence renewal cost will also be £245. A second licence would be £122.50 (the full-price licence must have more than four months unexpired).

5.8 If an applicant pays his own licence fee he will be able to claim tax relief against his taxable income. For example, if the basic rate of tax is paid, the relief is worth £53.90. Companies are also eligible to claim tax relief in certain circumstances.

5.9 Training costs will depend on the sector the candidate is working in, and on the extent of any recognition of recent training and qualifications held through accreditation of prior learning (APL). Example costs of training can be found in Annex D. As part of the SIA's competency renewal strategy (see Annex C) licence holders will not be required to complete any further training before the first round of licence renewals.

Costs for overseas applicants

5.10 There may be extra costs to be borne by the applicant if they reside or have lived overseas. These costs include:

- Mapping of qualifications obtained overseas against the SIA core competency criteria for APL purposes.
- Cost of overseas criminality certificate (if spent more than six months continuously overseas in the last five years).
- Translation costs.

5.11 If an applicant has spent a significant amount of time outside of the UK in the last five years then they must present information showing any criminal convictions obtained during that period (or confirming a lack of criminal

convictions). Advice on obtaining overseas records is available from the SIA[10]. Example costs are shown in Annex D.

Impact of the licence application fee on licence holders

5.12 The cost impact of the licence application fee on licence holders will differ per sector and on the business model adopted by their employer. We have been told by our regional investigators and trade associations that businesses within the private security sector are adapting to regulation in different ways. For example, some employers pay all costs relating to licensing, others might lend the licence fee to the employee and reclaim through wages and some companies will not pay any costs. The costs to individuals working in the manned guarding and key holder sectors will increase by £55 over three years (around 35p a week).

Figure 9: Example cost impact of licence application fee by sector

Sector	Impact –
Door supervisor	For example, an individual working as a door supervisor at £8.50 an hour (after tax) who pays for his licence would have to complete roughly five shifts of six hours to pay for his licence renewal. Applicants who pay their own licence fee are able to reclaim £53.90 income tax on their applications
Close protection	For example, an individual working a 37 hour week at £15 an hour (after tax) might pay for his own licence. He would have to work just over 2 days to pay for his licence renewal cost. He would also be able to reclaim £53.90 income tax on his licence application.
Security Guarding	Typically security guarding jobs currently have long hours, including 12 hour shifts and up to 60 hour weeks with few benefits. For example, an individual in the security guarding sector might have his licence initially paid by his employer and then have deductions from his wages. Wages will differ by sector and geographic location. Assuming a security guard is paid £6 an hour for a 40 hour week he would receive approximately £184.80 after tax. A typical scenario is that an individual might repay the licence fee to his employer over 10 weeks which would mean a reduced income to £160.30 for those 10 weeks.
Vehicle Immobilisers	Increased costs for vehicle immobilisers would be £55 a year.

[10] http://www.the-sia.org.uk/home/licensing/security_guarding/wizard/overseas.htm

Impact of licence application fee on companies

5.13 We understand that the private security industry is adapting to regulation in different ways, and that some companies are now undertaking the following activities (but not exclusively):

- Obtaining Approved Contractor status to market their activities and utilise the flexibility to deploy staff under a licence dispensation notice[11].
- Only recruiting staff with licences (or licences being processed).
- Offering cash bonuses to new employees holding licences, payable after a period of employment.
- Recruiting new staff without licences and paying and supporting their training and licence applications (sometimes reclaiming through salary).
- Taking on staff and employing them while the licence is being processed.
- Improving terms and conditions to retain staff.
- TUPE and contract transfers of licensed staff.

5.14 Anecdotal evidence would suggest that security companies are seeking to negotiate with their customers for licensing costs to be reflected in contracts. Some are achieving this.

5.15 Licensing has a differential impact depending on whether it is an individual or a company. Some companies will adapt to regulation by absorbing the cost of licensing through passing the costs onto purchasers. Individuals may pay for their licence directly or this may be covered by their employer. The impact depends on a range of factors, some of which are shown in para. 5.13. - 5.14.

Are the objectives of licensing being met?

5.16 It is too early to say whether the objectives of the licensing scheme (as set out in section one) are being met. Licensing has meant that within licensed groups, criminality checks and minimal levels of training have been introduced, meaning that the risk is lower of those people in a position of trust using their position to pursue criminal activities.

5.17 It is believed that the increase to the licence fee will not impact on the achievements of the objectives of licensing. Now that regulation is in effect for all currently licensable sectors, further research will be undertaken to assess the impact of regulation and licensing over time.

[11] Individuals working under a licence dispensation notice must not work with children or vulnerable adults

6. RISKS AND UNINTENDED CONSEQUENCES

6.1 This updated RIA does not contain a risk assessment related to the need for licensing or that it is a proportionate intervention into the security industry market. No changes in the scope or criteria for licensing are proposed.

Increasing the licence application fee and compliance

6.2 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 the strengths and specific focus of ourselves and each partner to enable each of us to achieve our goals and avoid duplication of effort.

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

6.4 It is estimated that the level of the licence application fee will have a minimal effect on compliance. Regardless of licence fee, a small proportion of the industry will continue to not comply. The same amount of effort will need to be applied by the SIA regardless of licence fee.

6.5 It is believed that the level of increase is such that it will not affect compliance to a level that will affect revenue from licensing.

Scotland

6.6 The licence application fee increase on 6 April 2007 will take place during the implementation period for regulation in Scotland. There are three potential consequences of this increase:

1) Licence applications are all submitted early, before 6 April 2007 leading to a small peak in licence applications and the predicted income from the fee increase post 6 April not being obtained.

2) A negative impact on application rates which could lead to higher spending on compliance in Scotland.

3) No overall impact on income and/or compliance in Scotland.

6.7 It is predicted that the increase of the licence application fee will have no significant impact on the introduction of licensing in Scotland. It is believed the introduction of the Approved Contractor Scheme in April will encourage companies to submit their licence applications in a timely manner.

7. IMPLEMENTATION

7.1 The licence application fee payable will be the one prescribed in regulations on the date the completed application is received by the SIA.

7.2 It is intended that the licence application fee increase will increase on 6 April 2007 in England, Wales and Scotland. All applications received before 00.01 on 6 April 2007 will be charged £190, all after, £245.

7.3 If licence renewals are submitted before the fee increase then the price applicable at the time that the licence 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 6 April 2007, will be processed at the current fee of £190.

7.4 Any licence application returned to the applicant as incomplete and then resubmitted after the fee increase on 6 April 2007 must pay the applicable fee.

Northern Ireland

7.5 The consultation by the Northern Ireland Office on options for regulating the private security industry in Northern Ireland has now concluded. The remit of the Security Industry Authority (SIA) is to be extended into Northern Ireland, creating a single United Kingdom regulatory scheme for the private security industry. Any fee increase would apply to Northern Ireland on commencement of regulation.

Administrative burden reductions and simplification plans

7.6 As part of the ongoing process of simplification planning, and identifying measures to reduce the administrative burden on licence applicants, the SIA is currently reviewing its service to:

i) Improve customer experience
ii) Reduce administrative burdens

Areas under consideration are:

- on-line applications
- streamlined application form for renewals
- identity document requirements (particularly for renewals)
- improving dual licence fee payment process
- call centre performance
- licence processing time

7.7 Suggestions to simplify SIA processes and policies can be submitted to the SIA via simplificationproposal@the-sia.org.uk. Please do not submit a proposal until you have read the Better Regulation Executive guidance on submission of proposals[12]. The SIA will respond within 90 days.

[12] www.betterregulation.gov.uk/upload/assets/www.betterregulation.gov.uk/full_guide.pdf

8. EQUALITIES IMPACT TEST

8.1 A basic equalities impact test has been carried out. The groups affected by the increased fee are licence applicants or security companies, depending on who pays the licence application fee. Purchasers of security services are also likely to be affected as costs may be passed on. If there is no increase in the licence application fee it is likely that central Government (Home Office) will have to fund the short fall in costs. It is known that low numbers of women and believed that high numbers of individuals from minority ethnic groups currently hold SIA licences.

8.2 The fee would be applied equally across all licence applicants. 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.

8.3 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.

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

9. SMALL FIRMS IMPACT TEST

9.1 The SIA recognises that most policies affecting business will bear on small businesses equally, if not more heavily, than on large business, even where the policy seeks to treat them equally. This is because small businesses probably have less resources and time available to manage changes resulting from regulation.

9.2 In developing the original proposals for SIA regulation the SIA consulted widely including the DTI Small Business Service, trade associations and directly with small businesses. In addition to involvement with a large number of conferences, seminars and exhibitions, the SIA has sought to target those smaller businesses who may not attend such events. This has been done though publications in the trade press, and that of security purchasers.

9.3 In relation to door supervisors and vehicle immobilisers, apart from a few of the largest companies, the majority of companies are classified as small, having less than 50 employees. The vehicle immobiliser industry sector is marked by the number of micro firms[13] which spring up very easily and quickly. The door supervisor market is more stable, though still heavily populated by small firms or self employed individuals.

9.4 The table below shows the approximate size of companies in the security guarding sector. In absolute numbers small and micro companies make up 95% of companies, however they only have a combined market share of between 10 and 17%.

Figure 10: market breakdown of security guarding companies

Classification	Size of firm	Est. no. of Security Guarding firms	Combined turnover	Combined market share of SG market (est.)
Large (250 employees or more)	Over £50m (up to £500m)	8	£1,000m	45%
Large	£5m to £50m	46	£700m	30%
Medium (fewer than 250 employees)	£500,000 to £5m	87	£170m	8%
Small (fewer than 50 employees)	£200,000 to £500,000	700	£200m	10%
Micro (fewer than 10 employees)	Under £200,000	1200	£100m+	5-7%
	Total	**c. 2,000**	**2-3bn**	**100%**

[13] SBS definitions

9.5 It is recognised that small and medium sized companies without specialised HR functions have faced the most challenges during the introduction of licensing (micro companies not needing any complicated management). With the exception of this, as licensing is a 'per head' cost, licensing costs will increase in proportion to the size of the company.

9.6 The increased fee explained in this document does not change the compliance requirements or administrative burden of licensing. The proposal is not judged to have a significant or complex impact on small businesses.

10. COMPETITION ASSESSMENT

10.1 The affected markets are represented by the various sectors of security providers. The largest sector, security guarding, is dominated by the top twenty companies which represent 75% of the market share[14]. One company holds more than 10% of the market. As above, the other sectors, including door supervision and vehicle immobilisation are characterised by smaller companies competing on a more local level.

10.2 A competition filter test has been carried out. This test did not indicate that the licence fee increase will have any impact on competition other than the current situation.

11. ENFORCEMENT, SANCTIONS AND MONITORING

11.1 The SIA's compliance strategy is flexible and adaptable as set out in section 6. The SIA does not propose any changes to their compliance and enforcement strategy in relation to this RIA; or at this time. More information on compliance can be found at: www.the-sia.org.uk

[14] www.infologue.com/

ANNEX A:

Figure 11: Target licence population 2007/08 - 2008/09

	2007/8	2008/9
Door Supervisors (46,000)		
Numbers / Renewals	10,499	11,432
Churn	14,160	14,160
Total Door Supervisors	**24,659**	**25,592**
Other Manned Guarding (120,000)		
Numbers / Renewals	101	36,931
Churn	24,900	24,900
Total other Manned Guarding	**25,001**	**61,831**
Vehicle Immobilisers (1,200)		
Numbers / Renewals	1,200	1,200
Churn		
Total VI	**1,200**	**1,200**
Scotland (15,000)	**14,000**	**-**
Total Demand (Applications)	**64,884**	**91,657**

Annex B

Figure 12: Summary of SIA Costs 2007/08 - 2008/09

	2007-8	2008-9
	£	£
MSP Costs	7,218,837	8,756,726
Salaries and Fees	4,612,846	5,060,180
Other Staff Costs	1,412,717	1,456,149
Accommodation Costs	664,350	684,281
IT Costs	260,515	268,330
Office Services	846,718	871,820
Consultancy	477,360	491,681
Depreciation, audit etc	2,582,644	2,504,874
Communications	671,317	797,508
Discounts	117,500	117,500
Costs allocated to ACS	- 690,100	- 710,700
Cost Savings	- 100,000	- 100,000
Total Expenditure	**18,074,704**	**20,198,348**

ANNEX C: EXPLANATION OF ONGOING COMPETENCY RENEWAL STRATEGY

1. The SIA has now published its competency renewal strategy (www.the-sia.org.uk). In developing the strategy they considered both the level of change ongoing across the private security industry and wider factors such as qualification sector developments relevant to the approach. The published strategy recognises the benefits of allowing for a period of stabilisation across the private security industry and represents a pragmatic approach for delivery.

Reviewing Competency Requirements for Licensing

2. The published strategy sets out short and long term approaches to maintaining the core competency specifications for each sector.

- No major changes will be made to the core competency specifications until after the first round of licence renewals.
- Until the core competency specifications are revised, applicants seeking to renew their licence will not be required to undergo refresher training or undertake a new qualification. It is believed this will allow for a necessary period of stabilisation.
- Each licensing sector's core competency specification will be reviewed in time for the second round of licence renewals[15]. The SIA will then determine the nature and extent of any revisions which may be necessary. In doing so, the SIA will take into consideration any changes undergone by the private security industry and any impact the competency for licensing requirements may have had on those working within it.
- SIA licence linked qualifications will remain current for licensing purposes until the SIA introduces any changes in the current standard / qualification for a licensable sector.
- On an ongoing basis the SIA will begin to promote methods of best practise and the importance of continued professional development (CPD) to complement our competency for licensing requirements.

Potential Costs of Future Competency Renewal

3. The potential costs of any future competency training or assessment, linked to licence renewal, will be determined following each sector specific review. Where there are any updates or changes to a sector's core competency specification, resulting in the need for a new licence linked qualification, the cost and impact on the licence holder will vary depending on the level of continued professional development undertaken in between renewals. However, it is likely that candidates will need to do one of the following:

- Undertake a new licence linked qualification.
- Accredit prior learning and experience against a new licence linked qualification, resulting in a full exemption.

[15] Except for Vehicle Immobilisers, where it will be the corresponding year; i.e. the sixth year of licensing.

- Accredit prior learning and experience against a new licence linked qualification, resulting in a partial exemption, and undertake appropriate update training.

4. For more information on our competency renewal approach, please visit our website (www.the-sia.org.uk).

ANNEX D: EXAMPLE COSTS OF SIA ENDORSED TRAINING AND OVERSEAS CRIMINAL RECORD CHECKS

Figure 13: Examples of costs of training and qualifications

Sector	Example Qualification	Example Cost (including VAT)
Door Supervisor	City and Guilds Level 2 Qualification in Door Supervision	£200 - 250
Security Guarding	City and Guilds Level 2 Qualification for Security Guards	£200 - 250
Vehicle Immobilisation	Edexcel: BTEC Level 2 Award in Vehicle Immobilisation	£400 - 500
Cash and Valuables in Transit	NOCN: Level 2 Award in Cash and Valuables in Transit	£500 - 600
Public Space Surveillance (CCTV)	Edexcel: Level 2 BTEC Award in CCTV Operations (Public Space Surveillance)	£300 – 400
Close Protection	BTEC Level 3 Qualification in Close Protection.	£1500 - 2500

Figure 14: Example of costs of overseas criminality certificates

Country	**Process**	**Cost**
Poland	Applicants can either apply via the Embassy in London or direct from within Poland. ID is only checked and no fingerprints are needed.	From UK Embassy: £51. From Poland direct: PLN 50.
Slovakia	Apply via Embassy in UK who initiate search through authorities in Bratislava.	£3 fee only.
Somalia	No government in Somalia and therefore no diplomatic representation in the UK for applicants to	Variable as sworn oath cost depends on individual solicitors, although ranges from £10

	approach for OCC's. Upon investigation (verifying claims), sworn oath approval granted to be used in lieu of OCC	- £30.
Lithuania	Applicants apply directly at Embassy providing ID and two photos only.	£17
USA	Applicants must submit request to FBI who will process request and issue certificate – fingerprints needed.	$18 certificate fee and fingerprint cost as above
Pakistan	Applicants can make a request for their certificate at the High Commission and provide ID only.	Free
Zimbabwe	No Embassy help available. Applicants must apply to Police HQ in Harare and supply fingerprints.	£45 certificate cost and fingerprint cost as above