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## **GLA Licence Fees**

### **Response by the Association of Labour Providers to the GLA consultation on licence fees for 2007/08**

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#### **Introduction**

On 27 November 2006, the Gangmasters Licensing Authority (GLA) published a consultation document on its proposals for licence fees for 2007-8. This is accessible at [http://www.gla.gov.uk/embedded\\_object.asp?id=1013044](http://www.gla.gov.uk/embedded_object.asp?id=1013044).

Comments on the consultation document are sought by 8 January 2007.

This paper is the response of the Association of Labour Providers to the proposals. The ALP was founded by 18 labour providers in January 2004. Its membership has subsequently grown to 130 labour providers. It is generally recognised as the representative body for those labour providers that are regulated under the Act.

#### **Executive summary**

The consultation is not meaningful as adequate information is not provided and the GLA's costs are regarded as given.

The GLA's operating costs, less enforcement costs which are funded by Defra, for 2007/08 are projected to be £1.15 million. When the impact of initial inspections is removed, the costs to be met by annual licence fees have more than doubled. There is no proper explanation for this increase.

Accordingly, the GLA is proposing to more than double annual licence fees. There is no explanation as to reasons for such an increase, which is unacceptable. The existing structure of the scale should be retained. However, the increase should be limited to 15%.

An application fee should be charged to all applicants for licences, sufficient to cover the costs of processing applications and those initial inspections that are considered to be necessary. This is estimated at about £1,300.

A penalty charge of £5,000 should be levied on applicants who apply for a licence while trading illegally.

## The consultation process

When the GLA consulted on the fee scale for its first year it included detailed budget figures. In the current consultation only headline figures have been included. This makes a comparison between 2006/07 and 2007/08 impossible. It is normal practice for organisations presenting a budget to show the budget for the previous year, the estimated outturn and the budget for the following year all in a single table, with any variations from the budget, changes in definitions and increases from one year to another being clearly identified and justified. The GLA has not done this; anyone attempting to understand the budget has to request specific documents and then try to understand differences in definitions. This is unacceptable for a public body. The GLA should publish a proper analysis.

The consultation process is not really meaningful as it takes the costs of the GLA as given and then offers three options –

- Leaving fees unchanged, which it promptly rejects as being contrary to Treasury guidelines.
- Increasing fees by between 125% and 140% to cover the GLA's costs.
- Increasing fees by between 104% and 133% to cover the GLA's costs but with those applicants who are inspected paying for those inspections.

Asking consultees which of the options they prefer when one is not possible and the other two both involve increases of over 100% is not meaningful consultation.

## The GLA's costs

The GLA was requested to provide a detailed budget and duly provided a limited breakdown of the 2007/08 budget. However, the categories have been changed which makes comparisons difficult. The following tables shows some of the key figures for 2007/08 as given in the forecast as at 29 December 2005 and in the budget figures provided by the GLA –

### GLA Budget 2007/08, Dec 2005 forecast and Nov 2006 budget

<i>Forecast as at 29/12/05</i>		<i>Nov 2006 Budget</i>	
<b>Pay costs</b>			
Policy and Secretariat	£176,585	Policy and communications	£179,910
Licensing and compliance	£611,357	Operations	£542,400
Finance and corporate services	£299,563	Finance and corporate services	£358,692
<b>Non pay costs</b>			
Marketing	£50,000	Marketing	£100,000
Application inspections		Application inspections	£49,992
Interpreters	£100,000	Interpreters	£35,004
Legal costs (appeals)	£150,000	Legal costs (appeals)	£50,004
Depreciation		Depreciation	£150,000

In respect of pay costs it may be assumed that "policy and secretariat" is the same as "policy and communications" and that "operations" is the major component of "licensing and compliance". There appears to have been an increase of 20% in the cost of finance and corporate services. The non pay

costs show some massive changes none of which is explained in the consultation document. Depreciation seems to have been forgotten until the November 2006 consultation paper.

In its response to the consultation on the scale of fees for 2006/07 the ALP noted that the forecast GLA costs were 40% higher than those in the two previous regulatory impact assessments. It was noted that staff and IT costs in particular seemed high. The ALP made four proposals to reduce costs by around £800,000 a year in total –

- “Abandoning the unnecessary and unworkable proposals in respect of names on licences.
- IT costs above those reasonable to support the ongoing business of the GLA (which should be independently verified) should not be paid by labour providers. This should lead to a saving of around £200,000 a year.
- The costs of corporate services and non-front line operations should be sharply reduced to reflect the smaller size of the industry being regulated. Reductions of £200,000 in year 1 and £400,000 in year 2 seem reasonable.
- Charging for inspections will increase revenue (the same effect as reducing costs) by £495,000 in year 1 and £100,000 a year subsequently.”

The fourth proposal was adopted. Generally however, the GLA seems has an excessive cost base for the function it has. It should be able to operate effectively with a budget at least 30% smaller.

However, on a comparable basis the costs of running the GLA have increased. The following table uses the limited information in the consultation document to compare the finances of the GLA in the two years.

<i>Item</i>	<b>2006/07 £000</b>	<b>2007/08 £000</b>	<b>Change %</b>
Pay costs	1,262	1,301	15
Non pay costs	1,467	751	(48)
Total costs	2,729	2,052	(24)
Less Defra funded enforcement costs	658	902	(37)
Less Defra funded set up costs	747	0	
Equals costs to be met by licence holders	1,324	1,151	(13)
Less cost of initial inspections	850	80	(91)
Equals costs to be met by fees	474	1,071	125

It can be seen that the costs that fees are expected to meet has more than doubled. There is no reasonable explanation for this. The paper argues that the annual fees in 2006/07 were “significantly discounted by income received from application inspection charges (budgeted at £850,000 for 2006/07).” The

logic for this is not accepted. Income from application inspections presumably has met the cost of application inspections. Given that the number of applications in 2007/08 is forecast to be 10% of that in 2006/07, even if every applicant was inspected the costs would be £160,000. There should therefore be a reduction in GLA costs of £590,000 instead of just £170,000. In fact the GLA is assuming that only half of applicants will be inspected so the reduction in costs should be even higher at £670,000.

The table shows enforcement costs of £658,000 in 2006/07 rising to £902,000 in 2007/08. These are met by Defra not by licence holders. However, there has been no visible enforcement activity in the current year. The GLA should provide a breakdown of how the money has been spent and the results that have been achieved with a justification of the planned expenditure for 2007/08.

The GLA has failed to explain its finances or to justify its expenditure. The only explanation the GLA as given for any increase in costs is: "The difference in the total operating costs to be recovered in 2007 – 08 as forecasted in this document is £184,313. This difference is due to a combination of a reduction in amount funded centrally by Defra and changes to the cost structure in the GLA." An increase in costs is not caused by "changes to the cost structure".

In these circumstances it is simply unacceptable for licence fees to be doubled. It is proposed that GLA costs to be met by the annual licence fee for 2007/08 be capped at 15% above the 2006/07 level, that is £550,000.

### Fee Structure

The consultation document proposes retaining the current banding, based on turnover. The basic proposal is for an across the board increase of fees of between 125% and 140%. The Association is content with the structure and the banding. It is the absolute levels and increases of between 125% and 140% that are of concern. The table below shows current and proposed fees and the ALP's proposal which would be in line with the 15% increase in GLA costs as proposed in the previous section.

Turnover	Fee 2006/07	GLA Proposed Fee 2007/08	Increase %	ALP Proposed Fee 2007/08	Increase %
Under £1m	£250	£600	140	£290	15
£1 - £5m	£750	£1,750	133	£850	15
£5 - £10m	£2,000	£4,500	125	£2,300	15
£10m	£4,000	£9,000	125	£4,600	15

### Charges for applications

Those labour providers that applied for licences in 2006/07 had to have either a TLWG inspection or a GLA inspection, at a cost of between £1,600 and £2,500. The consultation paper presents two options for 2007/08, no cost or those applicants requiring an inspection (estimated to be 50% of the total) paying for the cost of that inspection. The latter option would yield revenue of

£80,000 which would enable a reduction in the licence fee to £510 for the smallest labour providers.

In passing the ALP has some difficulty with the GLA analysis on this point. On P.7 of the consultation paper it is stated that “there will be 100 new applications in 2007 – 08, split between fee bands C and D”. By definition all applicants should be in Band D; indeed going further they must have zero turnover otherwise they would be guilty of trading without a licence. As they will have no business an initial inspection will presumably be in two parts; an initial paperwork inspection and a subsequent physical inspection after the applicant begins trading.

The figure of 100 applicants also needs to be queried. It is clear that many labour providers and agents based in the Accession States need to be licensed. This should result in many more than 100 applicants in 2007/08 if the requirement to be licensed is properly enforced.

The ALP believes that neither option in respect of applications is acceptable. There is no reason why existing licence holders should bear any of the costs that the GLA will have to meet in dealing with new licence applications. These costs (inspections plus processing costs of dealing with applications) should be divided between the number of expected applicants and a standard application fee charged. This is normal practice for regulators -

- The FSA charges an authorisation fee of £1,500.
- The Office of the Immigration Services Commissioner charges an initial fee of between £555 and £2,300.
- The Commission for Social Care Inspection charges a registration fee ranging from £518 for small care homes to £1,901 for large homes.
- The Security Industry Authority for its approved contractor scheme, there is an application fee of between £400 and £2,400.
- The Claims Management Regulator charges an application fee of between £400 and £800.

The RIA which accompanied the Bill estimated that the costs of processing an application, in addition to the inspection, would be £500 - £750. Taking the lower figure, the cost of processing 100 applications would therefore be £50,000. The cost of 50 inspections (the GLA estimates that half of all applicants will be inspected) is £80,000. The total costs that should be recovered from the 100 applicants are therefore £130,000, implying an application cost of £1,300. All Applicants should be charged this amount.

### **Late applicants**

A number of labour providers that should have applied for licences initially failed to do so and have been trading illegally. Late applicants need to be divided into two. Those who should have known that they need a licence (eg because they are a member of the ALP, had a TLWG audit or requested an application form) should, depending on circumstances, either be prosecuted or told to stop trading and apply for a licence.

However, there are businesses that should be licensed but are not as there is no reason why they should be expected to know that they should be licensed. There has been no meaningful campaign aimed at labour providers or labour users. It is disproportionate to require such businesses to cease trading. This could wreck their business and also in some cases that of their clients. From the GLA point of view if they then apply for a licence it would be inspecting a business that had no workers and no customers. It would be far better to inspect a real business.

The obvious solution is to permit such businesses to apply for a licence and, unless there is any reason to believe that they are guilty of critical noncompliances, to give them an immediate licence subject to three conditions–

1. The business must satisfactorily pass an inspection within 30 days.
2. Confirmation by the business that it complies with the licence conditions.
3. The business stops trading if it does not pass the application inspection.

Late applicants should be charged a substantial fee, say £5,000, in order to benefit from such an arrangement. This would be a proportionate and effective approach.