

GLA Licence Fees - response by the Association of Labour Providers on GLA proposals on licence fees

12 December 2005

Introduction

On 17 October 2005, the Gangmasters Licensing Authority (GLA) published a consultation document on the proposed arrangements for the licensing scheme under the Gangmasters (Licensing) Act and the fees that will be charged to labour providers. This is accessible at **the GLA website via this link**. Comments on the consultation document are sought by 12 December 2005.

This paper is the response of the Association of Labour Providers to the proposals in the consultation document on licence fees. The Association is separately submitting a response to the rest of the consultation.

The ALP was founded by 18 labour providers in January 2004. Its membership has subsequently grown to 132 labour providers. It is generally recognised as the representative body for those labour providers that will be regulated by the Act. This response is based on the practical experience of labour providers who have provided their comments on the GLA's proposals to the Association. The response should be taken to be that of all 132 members of the Association.

Executive summary

The GLA's full year operating costs are £2.1 million. This is excessive for the task that the GLA has. The costs should be reduced by 30%.

It is unreasonable for the GLA to take a full year's licence fee when it declines an application for a licence.

The GLA's current proposal is that the fee scale should range from £660 to £32,500 a year. The alternative is a flat fee of £2,130.

The proposed fees are three times higher than those identified in the initial regulatory impact assessment for the legislation. The fact that this can happen with little comment and nothing happening as a result calls into question the validity of the RIA process.

The general level of fees is far too high. The fees are disproportionate in relation to what other regulators charge, the profits of labour providers, the regulatory process and the position of other labour providers and competitors to those labour providers subject to the Act.

The proposed banded scale is illogical and unfair, particular the proposed nine-fold increase in the fee at a turnover of £5 million.

Those labour providers that have not had a TLWG audit should pay for the full cost of a GLA inspection, about £1,125. The present proposal, for a £250 discount for those labour providers that have had a TLWG audit, will not achieve the objective of encouraging labour providers to have a TLWG audit.

The fee scale should be based on turnover in the regulated sector going forward.

The fee scale should run from £250 to £2,000. Any shortfall in the running costs of the GLA should be met either by Defra or by the other beneficiaries of the scheme, in particular labour users and their customers.

The GLA costs

The GLA has estimated that its costs in a full year will be £2,134,000. It seems that on a comparable basis these costs are 40% higher than those in the two previous RIAs. Staff and IT costs in particular seem very high. The costs are analysed in detail in Appendix 1. This concludes that the costs can be reduced substantially by –

- 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.

It is reasonable to expect total savings of £800,000 a year.

The number of licence holders

The draft RIA is based on the assumption that there will be steady state of 1,000 labour providers paying licence fees (of whom 9% would not actually get licences). This is simply stated and not explained. Earlier this year the assumption was that there would be 4,000 licence holders. At the time the Association argued that this figure was far too high and suggested that 1,000 would be more reasonable. The Association now believes that this may be on the high side. This is analysed in Appendix 2. If the number of licence holders is less than 1,000 this will give the GLA further financial problems.

Licence fee or application fee

Many regulators charge an application fee and a separate licence fee. The application fee covers the costs of processing a licence application and is not refundable if a licence is not granted. The licence fee covers the ongoing cost of running the licensing regime. The GLA has chosen not to have a separate application fee but rather to call the total an “application fee” even though it is clearly a licence fee. The effect is that labour providers seeking licences will have to pay for a full year’s licence even if they are denied one. The financial calculations are based on 95 labour providers in the first year paying a licence fee but not getting a licence. This is unacceptable and probably implausible. Is it seriously the intention that a labour provider who completes an application form and then is told that a licence is not needed because it is not in a sector covered by the Act would have to pay up to £32,500? This would be little short of extortion and appears to be a money making exercise. There would be no objection to the GLA charging an application fee with correspondingly lower licence fees, but it should not charge a licence fee and call it an application fee.

The present proposals

The consultation document gives just two fee options. The first is a flat fee for all labour providers of £2,130. The GLA Board has already decided in principle that the fee should be banded. A single banded structure is proposed in the consultation document –

| Turnover | No of licences | Fee | Total revenue |
|-----------|----------------|---------|---------------|
| Under £1m | 753 | £660 | £497,000 |
| £1 - £5m | 190 | £1,600 | £304,000 |
| £5 - £10m | 30 | £15,200 | £456,000 |
| £10m | 27 | £32,500 | £878,000 |
| Total | 1,000 | | £2,135,000 |

There is no explanation as to why this structure has been proposed. Respondents are simply asked whether they want this scale or the flat fee of £2,130.

Principles to be adopted in setting the fee scale

The GLA has stated that the fee structure needs to be guided by three objectives –

- It should be justified, transparent and fair.
- It should not create an unreasonable barrier to entry.
- It should encourage the less than fully compliant labour providers to come forward for licensing.

As they stand the proposals meet only the transparency test of the first criterion.

The Association believes that these principles do not go far enough. Rather, principles need to be established which accord with the generally accepted principles for good regulation. There should be four guiding principles –

- The fee scale should be proportionate, in particular taking account of business which is complementary to or competes with that of labour providers.
- The fee scale should be fair between labour providers.
- The fee scale should be simple to understand and workable in practice.
- The fee scale should be banded but on a tapering scale.

The GLA proposals as they stand fail three of these four tests. It is not possible to comment on whether they are workable as the consultation document does not cover the operational arrangements.

Proportionality

On 30 July 2004, Defra published a consultation paper on the establishment of the GLA. This included a regulatory impact assessment. That assessment was based on the assumption that there would be 4,000 licences. The estimated licence fee was between £585 and £750 a year. The current proposal is that the average licence fee should be £2,130 a year, that is between 2.8 and 3.6 times as high. There seems little point in doing a regulatory impact assessment if such a huge jump is not commented on and makes no difference to the outcome. The consultation document states that “reaction to the Act RIA indicated that the industry could accommodate a licence fee in the region of £585 to £750 a year”. This is not correct. In its comment on the RIA which accompanied the Bill the ALP commented: “The charge for administering the licence without any auditing of £500 to £750 seems hugely excessive.” In its response to the RIA on the establishment of the GLA the ALP said: “Anything near £2,000 would be unrealistic for labour providers”. This is duly reported in Defra summary of responses to the consultation document dated 19 November 2004. The only other reported comment on fees was from the Seafish Food Legislation Expert Group which was “concerned about the impact of the average fee of £2,000 on small businesses”.

If £750 a year was proportionate in 2004 it is difficult to see how £2,100 a year can be proportionate in 2005.

The figure is disproportionate in relation to the direct competitors of labour providers and also labour providers supplying most of the economy which would be unregulated. Labour providers compete with direct employment, and employers are capable of all of the malpractices that the Act is designed to prevent when they are done by labour providers. A farmer employing three or more workers would pay no fee whereas a labour provider serving that same farmer would pay a fee of £660. A number of labour providers that serve the regulated sector (the parameters of which have yet to be settled) also serve other sectors where no fee will be payable. The problem has arisen because of the very partial coverage of the Act. If government has decided on such partial coverage there is no reason why the very small size of the market being regulated should result in a disproportionate fee being charged to those in that market.

The fee is also disproportionate in relation to fees charged by other regulators. Presumably the GLA has done its own study on this and it would be useful to see the results. A very quick analysis by the ALP shows the following –

- The Security Industry Authority, which regulates the private security industry, has a standard fee of £190 a year. This relates to individuals rather than businesses so is not directly comparable. A more relevant comparison is the approved contractor scheme. The proposed fee structure is an application fee between £1,000 and £3,000 and an annual fee, broadly speaking, of 0.1% of turnover. Except for those labour providers with turnover of between £0.5 and £5 million, the proposed annual GLA fee is more than double this. The SIA will also be doing more work for its fee including developing quality standards, ongoing compliance monitoring and raising the awareness of accreditation.
- The cost of a consumer credit licence from the Office of Fair Trading is £75 a year.
- The annual cost to a dentist of belonging to the regulatory body is £396.
- Fees charged by Boston Council range from £64 a year for an establishment that provides animal boarding services to £106 a year to private hire operators to a maximum of £1,043 for sex shops.
- The fee for a standard PSV licence from VOSA is £179 a year. Its examiners investigate and assess all maintenance arrangements and conduct interim checks.
- The Commission for Social Care Inspection charges a registration fee, ranging from £518 for small homes up to £1,901 for large homes. The annual fees range from £173 for small care homes up to £864 for children’s homes and £1,080 for domiciliary care agencies.

- The Financial Services Authority has a minimum fee for insurance intermediaries of £100 for a broker with commission income of £100,000, the figure thereafter increasing proportionately at the rate of £0.08 per £1,000.
- The Mortgage Code Compliance Board (now subsumed into the FSA) in its final full year charged a fee of £100 per registered person for up to 10 registered staff, decreasing to £75 per person for between 101 and 500 staff and £65 per person for over 1,000 staff.
- The Regulation of Fundraising Unit (which will regulate fundraising by charities) is planning a fee scale that runs from £30 to £1,500.

The figure is disproportionate in relation to the profitability of labour providers. Labour providers work on very narrow margins. If the minimum wage of £5.05 is being paid then a typical charge out rate may be £7.23 of which £6.57 would be accounted for by employment and necessary legal and administrative costs, leaving 66p which may reasonably be split equally, say, 33p management time and 33p profit. In other words the profit is 4.6% of turnover. The following table shows what the fee would be as a percentage of the profit for varying turnover figures.

| Turnover | Profit | Fee | Fee/Profit % |
|-------------|----------|---------|--------------|
| £50,000 | £2,300 | £660 | 29 |
| £100,000 | £4,600 | £660 | 14 |
| £1,000,000 | £46,000 | £1,600 | 3 |
| £5,000,000 | £230,000 | £15,200 | 7 |
| £10,000,000 | £460,000 | £32,500 | 7 |

It is of course reasonable to argue that in a normal market such costs should be passed on to the buyer. However, this is not a normal market. The prices are driven by supermarkets who effectively can determine the price at which they buy from their suppliers. Many labour providers have already had to meet the cost of expensive audits under the Temporary Labour Working Group, but there is no evidence that it is possible to recover this sort of cost in the rate charged to labour users. Each year labour providers struggle to persuade labour users to meet the costs of the increase in the minimum wage.

There would be four effects from charging a disproportionate scale (combined with onerous licence conditions) –

- Some small labour providers will close down or move to unregulated business.
- Some labour providers will continue to operate illegally.
- Labour users who have previously outsourced illegality but find that they can no longer do so may take it in-house so as to continue to enjoy the benefits of tax evasion.
- Labour providers will be more inclined to use devices to minimize the fee.

Fairness

The point has been made that the scale generally is unfair simply by being too high. It is also unfair between labour providers in two respects. Most regulators use a banding system based on turnover. The most logical system is one in which at each threshold the new percentage rate applies for business above that threshold. It is accepted that this is not feasible for labour providers as (for reasons that will be explained subsequently) there is no way of having precise information on the volume of their regulated turnover. It is therefore appropriate to have a reasonable number of bands and with logical variations between them. The proposed structure has too few bands and produces illogical variations as the following table shows.

| Turnover | Fee | Fee/Turnover % |
|----------|---------|----------------|
| £100,000 | £660 | 0.66 |
| £250,000 | £660 | 0.26 |
| £500,000 | £660 | 0.13 |
| £1m | £1,600 | 0.16 |
| £4.5m | £1,600 | 0.03 |
| £5m | £15,200 | 0.30 |
| £7.5m | £15,200 | 0.20 |
| £10m | £32,500 | 0.32 |
| £15m | £32,500 | 0.21 |

There is nothing that is logical about this structure. The fee increases by 140% at £1 million, then by a staggering 9.5 times at £5 million and then more than doubles at £10 million. This means that the fee in relation to turnover is highest (other than for the smallest labour providers) for a labour provider with turnover of £10 million, that is one of the largest. This must be unprecedented for any regulator and cannot be justified. The Association believes that the scale should follow the normal logical pattern which would involve larger labour providers paying more but on a tapered scale. A scale is suggested subsequently.

It should also be noted that such a scale would not work in practice. A labour provider with turnover of £5.5 million would create a branch with business of £0.9 million which would seek its own licence, thereby reducing its licence fee from £15,200 to £2,220.

The proposals are also unfair on those labour providers that have opted for an audit under the Temporary Labour Working Group. This Group has had the full support of the government and the GLA, with labour providers being urged to have TLWG audits with an understanding that this would help them when it came to licensing. The current proposal is that those who have had a TLWG audit would receive a discount on their licence fee of £250. The paper argues that the cost of the licence “should not be so low as to discourage those who might otherwise apply for an audit against the TLWG code to wait for a lower cost inspection under the GLA regime”. However, a

£250 discount is hardly an adequate compensation for an audit which is likely to cost rather more than £1,700 including the additional costs for interpreters and travel.

It is the GLA intention that every labour provider will need to have a TLWG audit or its own inspection. What is being proposed at present is that those who have an inspection will in effect have it for nothing whereas those who have had an audit will pay between £1,500 and £2,000, receiving just a £250 discount on their licence fee. The obvious way to deal with this is for those who have not had a TLWG audit to pay for the full cost of an inspection. On the GLA's own figures this is expected to be £1,125. This would have the added beneficial effect of preserving the momentum for companies to be audited prior to the licensing regime coming into operation.

A workable scheme

The paper is silent on how turnover on which the fee is to be based is to be assessed. This might not be an issue of principle but nevertheless it is important so as to ensure that the fee scale is understandable and workable and does not distort behaviour.

The starting point in determining how turnover is calculated is not promising –

- Even at this stage the coverage of the Act is not known, in particular whether second stage processing of food will be covered.
- There has been a significant increase in the volume of information about the labour provider market but this information is still far from perfect because of the nature of the market. Moreover, the imposition of the regulatory regime will change behaviour in the market substantially. Few very small labour providers (turnover under £200,000) are likely to seek licences and there will be some merging of existing labour providers.
- There is no data available which can be used by the GLA on turnover in any past period for business that will be regulated under the Act. This because the coverage of the Act is not yet known and because labour providers do not run a segregated business for that part of their business that may be regulated. Their accounts will not indicate turnover in the regulated sector.
- Businesses are already reorganising in anticipation of legislation. It should not be assumed that the businesses that apply for licences are businesses that are or have been operating.

All of this means that it is not feasible to base licence fees on turnover in any past period. This will not be auditable and will not be a good indication of the size of business going forward.

Accordingly, the Association believes that licence fees should be based on anticipated turnover in the regulated sector for the twelve months beginning on the date that the offence of operating without a licence comes into operation. This might sound complex in that it would require a labour provider to forecast its business for the year commencing 1 September 2006 when it applies for a licence in, say, April. However, this would not be the intention. A labour provider would be asking for a licence to do business up to, say, £1 million or £5 million or £10 million. If the labour provider subsequently wanted to do business in excess of a threshold it would pay the additional licence fee applicable.

New labour suppliers registering after 1 August should be asked to apply for a licence to do business in one of the specified licence bands in the twelve months following the date on which their licence comes into effect. Again, if they subsequently wanted to do more business they would pay an additional fee.

When licences are renewed, labour providers would be asked to certify the volume of their regulated turnover in the twelve month period of the licence and to indicate the band for the

following twelve months for which they would like a licence. The GLA could ask for the accounts of the organisation which would provide a loose check although no more than that because the accounts would probably be for a different time period and in many cases would cover a different range of business. Income tax and VAT information can provide a similar check.

Such a system would have the merit of giving the GLA an indication of the amount of business each labour provider intends doing in the coming year. This system is not perfect, in particular because it is not easily auditable, but there is no system that would be easily auditable.

A proposed fee scale

Set out below is the Association's initial proposal for a fee scale that would be defensible against the tests set out earlier in this paper. The Association has used information on its membership to assess the number of labour providers in each band although it is a very rough and ready calculation.

| Band | Fee £ | Number of Labour Providers | Revenue £ |
|-------------|-------|----------------------------|-----------|
| Up to £0.5m | 250 | 520 | 130,000 |
| £0.5-£1m | 500 | 230 | 115,000 |
| £1-£3m | 750 | 125 | 93,750 |
| £3-£6m | 1,000 | 75 | 75,000 |
| £6-£10m | 1,500 | 30 | 45,000 |
| Over £10m | 2,000 | 27 | 54,000 |
| Total | | 1,000 | 512,750 |

This scale is estimated to produce total revenue of £512,750. The average fee is £513, at the bottom end of the scale suggested in the RIA when the Bill was going through Parliament. (In practice the total revenue may be on the high side as the Association believes it is unlikely that the number of labour providers seeking to be licensed would be as high as 1,000, in particular many small labour providers will prefer to move into sectors which are not regulated. This is analysed in Appendix 2.) The total revenue is well below the estimated £2.1 million costs of running the Authority. This response has already suggested that the costs should be reduced by £800,000 to £1.3 million. The Association believes that the remaining shortfall should be made up in two ways.

It is government policy that only part of the labour provider market should be covered. Logic would suggest that if there is to be regulation of employment businesses then it should be of all employment businesses rather than those serving the market for which Defra has some responsibility. In this context it is interesting to note data from the Home Office which shows a breakdown of enforcement visits reported by the Immigration Service in the financial year 2004-5

by sector. (The data has been used to help determine what sectors should be represented on the Illegal Working Stakeholder Group, ie they are an indication of the extent of illegal working.) 42% were in the hospitality sector, 15% in home visits, 8% in carwashes/garages, 6% in food production, 6% in retail, 5% in employment/cleaning agencies, 5% in factories and warehouses, 5% in the sex industry and 1% in each of the nursing/care home, construction, sports entertainment and horticultural/agricultural (farms and packhouses) sectors. Similarly the Grabiner Report, in giving examples of where the informal economy was prevalent, mentioned agriculture but not packing.

This data suggests that the coverage of the Act is illogical and there is no reason why the labour providers already being subject to this illogical coverage should be singled out to pay the costs. It is appropriate that government should meet most of the costs for adopting this partial approach. It may be argued that it is established government policy that regulators should recover the full cost of regulation. However, there are many regulators where this is not the case (Food Standards Agency, Environment Agency, Office of the Immigration Services Commissioner and Health and Safety Executive to name but a few). A good analogy for a new regulator is the Regulation of Fundraising Unit. The Home Office and the Scottish Executive will be providing ongoing financial support on a decreasing basis for the first three years after regulation is introduced.

Secondly, the point is frequently made that the legislation is the result of a coalition which covered the whole of the supply chain (with in fact labour providers being very modestly and at times not represented at all). The rest of the supply chain will gain a benefit from the Act in that they will be able to rely on the fact that a labour provider is licensed rather than having to undertake auditing themselves as has hitherto been the case. It is therefore reasonable that those who benefit in this way should pay part of the price. It might not be possible to do this by statutory means but it is appropriate that those who will share the benefits of the licensing regime should be asked to make a voluntary contribution to the costs.

Appendix 1

GLA costs

Comparison with earliest estimates

The cost of running the GLA is stated to be £2,134,000. Unfortunately the RIA analyses costs in a different way from the two earlier RIAs and it is not possible to do a proper comparison. The Association has attempted a back-of-the envelope reconciliation.

The first RIA had a budget for a full year (2005/06) of £7.9 million. However, of this total £6.0 million was for audits, leaving non-audit costs of £1.9 million. Costs directly related to the volume of registrations were roughly £1 million. Given that the volume of business was anticipated to be four times the level now envisaged it is reasonable to assume a 75% saving on these variable costs, that is £750,000. The non-audit costs would therefore be £1.15 million. The new RIA envisages inspection costs of £495,000, therefore the comparable figure for the current estimated costs is £1,639,000. At first sight therefore, on a comparable basis, the costs in the new RIA seem to be 43% higher than those in the original RIA.

It is also appropriate for a comparison to be done with the costs in the RIA which accompanied the consultation document on the establishment of the GLA. This estimated that fixed costs would be £664,000 in 2005/06 rising to £724,000 in 2009/10. Variable costs were estimated at £3.7 million in year 1, £4.8 million in year 2, then falling to £1.85 million in year 3. If the first year variable cost is divided by 4 to reflect the anticipated lower volume of business this gives £0.9 million, together with fixed costs of £664,000, a total of £1.56 million. The current figure of £2.134 million is 37% higher.

Again, it must be stressed that these are very rough calculations; the information is not yet available to do a detailed comparison. However, at the least they call for a reconciliation and a justification of the figure of £2,134,000 that is now proposed.

Specific costs

1. Names on licences

It may be that one big area of cost stems from a faulty analysis of how the market operates which is then fed through to the GLA requiring businesses to invent a concept which in turn will require elaborate and expensive monitoring.

Section 13 of the Act provides that a person or organisation commits an offence if he enters into an arrangement with an unlicensed labour provider to supply him with workers. It will be a defence to prove that the labour user took all reasonable steps to satisfy himself that the labour provider was acting without the authority of a valid licence and that he did not know and had no reasonable grounds for knowing that the labour provider was not the holder of a valid licence.

This is a fairly unusual provision but one that is necessary given the nature of the industry and also one that is capable of being implemented fairly easily. Labour providers should receive a physical licence which gives their name, address, name of the “principal authority” and a GLA reference number. This information should be replicated on the GLA website. Most labour users, particularly those that are regular customers, will know that their labour provider is licensed but the obvious check is to ask to see a physical copy of the licence. (At present, some labour providers are asked for a copy of their ALP membership certificate.) If the labour provider wishes to make a further check it would simply be to check the physical licence against the details on the GLA website, with a telephone call being the fallback position. The cost of implementing such an arrangement to labour user, labour provider and GLA should be minimal.

However, the GLA appears to be constructing elaborate machinery to undertake a task which should be as simple as peeling an orange by hand. This stems from a misunderstanding of how the market works which is translated through to the Act. There seems to be a view that working within labour providers is a small army of people who “strike contracts” with labour users. The intention is that the members of this army should be named on the licence. This in turn will require their names to be given by labour providers to the GLA. It then seems to be the intention that a labour user will need to satisfy himself not only that the labour provider is licensed but that the individual he is dealing with is duly “named”. This in turn will require them to contact the labour provider to say that they wish to do business with them, the labour provider will then have to give the mobile phone number of the named person to the GLA which in turn will send a text, email, fax or make a phone call to the labour user confirming the person.

The analysis in the regulatory impact assessment indicates just how much the nature of the market is misunderstood. It is stated that for employment businesses turning over more than £1 million a year there will be an average of 30 people who will need to be named. A labour provider turning over £1 million a year is likely to employ at most two people. It is also envisaged that employment businesses with turnover of under £1 million will have an average of two or five (both figures are given in the regulatory impact assessment) such people.

This elaborate device needs to be killed as quickly as possible as it seems to be driving quite unreasonable costs including –

- This will be the single most difficult part of the application process because labour providers will be asked to name people who do not exist. Labour providers will have to be forewarned to invent such people, which is a charade.

- The GLA is envisaging running a database of 9,000 such named individuals. In fact, the figure would be nothing like 9,000 but nearer 1,000, but still this is a cost that can be totally dispensed with.
- The GLA's IT costs look horrific (covered subsequently), which can partly be explained by the wish to set up this elaborate system.
- The GLA seems to envisage employing staff who would be trying to log every single contract.

2. Unnecessary licence conditions

In its principle response to the consultation document, the ALP has identified a number of licence conditions that seem unnecessary in the context of the need for a proportionate and targeted approach. These include the sections on confidentiality, those parts of the section on health and safety that are not the responsibility of the labour provider and documentation of consent in respect of workers under school leaving age.

3. Unnecessary questions in the application form

Again, the Association's main response identifies some unnecessary questions in the application form. Their removal would modestly, and only modestly, reduce costs.

4. IT costs

The original RIA envisaged IT hardware costs of £150,000 and ongoing maintenance costs of £18,000 a year. The new RIA has software licences of £7,500 in year one and £10,000 in year two and IT support costs of £225,500 in year one and £235,000 in year two. These are astonishing figures for an organisation that is going to licence fewer than 1,000 organisations that are basically very simple. At the very least these figures need to be justified. (The GLA says the costs reflect "a fully automated licensing system with appropriate intelligence database". If this is the cost the system should clearly not be fully automated.) It may be that the GLA has become tied into a long term contract connected with the proposed elaborate system of "naming" individuals. If this is the case, there is no reason why labour providers should pay for such a system which is unworkable and unnecessary.

5. Staff costs

It is difficult to analyse staff costs as the breakdown has been changed since the earlier RIAs. However, at first sight, figures of £152,000 for policy and communications, £268,000 for operations (non-front line costs) and £312,000 for corporate services seem very high, particularly the last figure. (The GLA has indicated that these costs cover finance, HR and IT. There are therefore IT costs in addition to those outlined in the previous paragraph. The costs are hugely excessive for an organisation of presumably no more than 40 or so staff.) The figure for operations is planned to increase to £458,000 in year two. It is difficult to see what this figure is. The GLA has said that "operations" covers the compliance, licensing and intelligence teams. The "non front line" costs cover back office functions. It seems that there are therefore yet more IT costs. It is assumed that part of these costs reflect the elaborate machinery that is being designed in respect of "names".

6. Cost of inspections

The budget for year 1 assumes a cost of £141,000 for discounts for those labour providers that have been audited under the TLWG code. This allows for 560 labour providers to have TLWG or other approved audits. This seems implausible. There are only 480 labour providers registered on the TLWG website and the number is going down rather than up. There is capacity for just 500

audits before April 2006. This figure is therefore probably on the high side. However it follows that the cost of inspections is on the low side. There is an allowance of £495,000 for 440 application inspections. It would be prudent to allow for a further 100 – 200. Also, currently the GLA is envisaging that 30% of those who have had TLWG audits will require GLA inspections. More plausible assumptions would therefore be around 720 inspections (if the 1,000 applications is accepted). This would add over £300,000 to costs.

More importantly, these arrangements seem extremely unfair to those labour providers that have had TLWG audits. They will have incurred a cost of around £1,500 or more each for their audits and are obtaining just a £250 discount, while those labour providers that have not had a TLWG audit will have an inspection for nothing. It is proposed that the full cost of the GLA inspection of £1,200 should be charged to those labour providers who have not had a TLWG audit. This would reduce first year costs by £495,000 (on the GLA assumptions) and the cost in subsequent years by £102,000 and would also protect the GLA from the number of inspections required being different to that forecast in the RIA.

Summary

In summary, the costs of the GLA can legitimately be reduced by –

- 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 £150,000 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.

In total it is reasonable to expect such savings to total £800,000 a year.

Appendix 2

Number of labour providers

The RIA is based on the assumption that there will be steady state of 1,000 labour providers holding or seeking licences. This is simply stated and not explained. It is assumed it is derived from the Precision Prospecting research. This concluded that there are between 500 and 600 “top tier” labour providers. 75% of these (375 - 450) have turnover in the range of £1 million to £7 million and 25% (120 - 144) have turnover in excess of £7 million. About 40 labour providers have turnover in excess of £10 million. In addition, there are between 1,000 and 2,000 “small and micro labour provider businesses” which supply between 20,000 and 30,000 temporary workers.

The following table summarises the estimates of the number of labour providers.

| Annual turnover | Number of labour providers | Average number of workers supplied a month |
|-----------------------|----------------------------|--|
| £0.09 - £0.17 million | 600 -1,200 | 8 |

| | | |
|----------------------|---------------|-----|
| £0.17 - £0.5 million | 175 - 350 | 25 |
| £0.5 - £1.0 million | 225 -450 | 85 |
| £1 - £3 million | 250 -300 | 148 |
| £3 - £7 million | 125 - 150 | 177 |
| £7 - £10 million | 85 - 102 | 727 |
| Over £10 million | 35 - 42 | 727 |
| | 1,500 - 2,600 | |

It is unlikely that there will be 1,000 labour providers seeking licences given these figures. Very few labour providers with turnover of under £0.17 million would be likely to register as the costs would be excessive.

It is also significant that just 480 labour providers are registered on the TLWG website. Of the original 756 that registered, 276 have deregistered rather than have an audit, an indication of the fluidity of the sector and perhaps also an aversion to any form of regulation.

The figure of 1,000 also flies in the face of experience from other new regulatory bodies. The introduction of regulation generally leads to a reduction of businesses in the sector; the issue is by how much. Given that labour providers in the regulated sector have the easy option of becoming labour providers in the substantially larger unregulated sector one would expect a significant reduction.

The experience of the Security Industry Authority is instructive. Its business plan published in June 2003 allowed for 100,800 door supervisors to be licensed in 2004/05; half way through the following year the number of licences issued is 31,500. The budget also allowed for 25,500 security guards to be licensed by March 2005 and 123,200 by March 2006. Currently, 5,600 licences have been issued.

The initial conclusion must be that the figure of 1,000 GLA licences looks high.