

GLA 13/7.3

Licence Fee Levels for 2007 – 08

18 January 2007

BOARD PAPER REFERENCE – GLA 13/7.3 – Licence Fee Levels for 2007 – 08Issue

1. Setting of licence fees for 2007-08.

Recommendations

2. To approve the proposed post consultation licence fee levels.

Background

3. The licence fee will change on 6 April 2007 with new applications or renewals on or after that date attracting the new fee. The GLA costs to be recovered for 2007 – 08 are set out in the forecasted GLA budget at Annex A.
4. For 6 April 2006 to 5 April 2007 (hereafter 2006 – 07), the GLA is recovering its costs through the licence fee and charge for application inspections:

Annual turnover in regulated sectors	Licence band	2006 – 07 Licence fee level	2006 – 07 Application inspection charge
More than £10m	A	£4,000	£2,500 (plus VAT)
£5 – 10m	B	£2,000	£2,100 (plus VAT)
£1 – 5m	C	£750	£1,850 (plus VAT)
Less than £1m	D	£250	£1,600 (plus VAT)

5. In 2006 – 07, income generated through the licence fee was supplemented by the income from the application inspection charges (£850,000).
6. The GLA consulted on the new licence fee levels from 27 November 2006 to 8 January 2007. The consultation assumed:
 - no significant movement of licence holders between fee bands and the total in fee bands A and B remaining unchanged
 - 100 new applications in 2007 – 08, split between bands C and D
 - band D will reduce by 200 due to displacement, aggregation or closure
7. Based on these assumptions, the GLA forecast the following volumes of renewals and new applicants for 2007 - 08:

Fee Band	Total licence holders and applicants 03/11/06	Projected for 31/03/07	Non-renewals during 2007-08	New applications 2007-08	Total projected for 2007-08
A	13	13	0	0	13
B	18	18	0	0	18
C	192	192	0	50	242
D	781	1027	-200	50	877
Total	1004	1250	-200	100	1150

8. In the consultation, the GLA proposed three options.

Option 1 - Do nothing and continue with levels for 2006 – 07

9. This option was rejected as the GLA would be unable to recover its costs.

Option 2 - Revise the levels to recover the GLA budget for 2007 – 08:

Annual turnover in regulated sectors	Licence band	Proposed licence fee level for 2007 – 08
More than £10m	A	£9,000
£5 – 10m	B	£4,500
£1 – 5m	C	£1,750
Less than £1m	D	£600

10. The fee levels in this option are based on the premise that the GLA will not charge for application inspections after the risk profile is switched on. Under option 2, the forecasted GLA budget assumes no income will be generated by charging for application inspections for 2007 – 08. The fee levels in this option are in line with presented at the Board Meeting of January 2006 in a paper on fees and charges.

Option 3 - Revise the levels and charge for AIs

11. Option 3 continues to charge for application inspections after the risk profile is switched on. This allows a reduction in the level for Band D. The charge for an application inspection will remain unchanged from the 2006 – 07 levels. For the purposes of option 3, it is assumed 50 per cent of new applicants will require an application inspection, thereby generating an additional stream of income:

Annual turnover in regulated sectors	Licence band	Licence fee level	Proposed application inspection charge for 2007 – 08
More than £10m	A	£9,000	£2,500 (plus VAT)
£5 – 10m	B	£4,500	£2,100 (plus VAT)
£1 – 5m	C	£1,750	£1,850 (plus VAT)
Less than £1m	D	£510	£1,600 (plus VAT)

Consultation Responses

12. The draft summary of responses is attached at Annex B. 20 responses were received, including from the ALP and REC. The key points are:
- Broad support for continuing with four fee bands and using turnover in the regulated sector to determine band categories

- Concern at the increase in licence fee levels, particularly for the smallest businesses
- Support for continuing to charge for application inspections. Respondents considered it unfair if applicants in 2007 – 08 did not pay for an application inspection where existing licence holders had incurred the charge
- Concern at the increase and lack of clarity in the GLA operational costs to be recovered
- Penalties should be imposed for applicants applying after 1 October 2006

GLA Position Post Consultation

13. Following the public consultation the GLA proposes to continue with the same four fee bands with turnover in the regulated sector.
14. The fee levels to apply for 2007 – 08 will be influenced by the volume and possible income generated by application inspections. Subject to the Board accepting the recommendation in the Risk Profile paper (ref GLA 13/7.1) that the risk profile is not operational from April 2007, the following fee structure for 2007 – 08 is proposed:

Annual turnover in regulated sectors	Licence band	Licence fee level	Proposed application inspection charge for 2007 – 08
More than £10m	A	£9,000	£2,500 (plus VAT)
£5 – 10m	B	£4,500	£2,100 (plus VAT)
£1 – 5m	C	£1,750	£1,850 (plus VAT)
Less than £1m	D	£400	£1,600 (plus VAT)

15. This revised approach assumes 100 new applicants will be subject to an application inspection during 2007-08. Based on the assumption that these 100 new applicants will be split between fee bands C and D, the income generated for charging for application inspections is estimated to be £172,500.
16. In comparison to option 3, conducting an additional 50 application inspections will not increase the fixed costs to GLA. The estimated extra income generated allows for a reduction in the costs to be recovered through the licence fee. In order to further reduce the costs for the smallest sized businesses (who also represent over 75 per cent of the total licence holders), the GLA intends to further reduce the fee level for band D to £400. This is £100 less than was originally forecast in the Gangmasters (Licensing Conditions) Rules 2006 Full RIA. The charge for an application inspection will remain unchanged from 2006 – 07 levels.
17. The overall cost associated with renewing a licence for 2007 – 08 is significantly reduced compared with the cost of applying in year 1. The table below

compares the costs associated with the licence fee and application inspection charge for a business in band D renewing a licence:

Costs for 2006 - 07	Costs for 2007 – 08
Licence fee: £250	Licence fee: £400
Application inspection charge: £1,600	No application inspection charge
Total: £1,850	Total: £400
Difference between 2006 – 07 and 2007 – 08: £1,450	

18. However, if the Board does not accept the recommendation in the Risk Profile paper (ref GLA 13/7.1), the Board is invited to endorse either option 2 or option 3.
19. Options 2, 3 and 4 have been determined on the basis that the GLA is expected to fully recover its operating costs. However, in light of the consultation responses expressing concern over the scale of licence fee, the Board may take the view that it would be appropriate to recommend to Defra part cost recovery for 2007 – 08, to smooth the transition to the higher fee levels.
20. In response to concerns that the GLA budget and operational costs to be recovered lacks clarity:
- The GLA accounts are subject to rigorous scrutiny by the National Audit Office, Defra Internal Audit and the GLA Board's Audit and Risk Committee. The reviews have not raised any substantive concerns.
 - The forecast budget and proposed fee levels for 2007-08 is consistent with the levels published in the Gangmasters (Licensing Conditions) Rules Full Regulatory Impact Assessment and the paper presented to the Board on 11 January 2006 (ref GLA8/8.2).
21. In terms of imposing penalties for applicants who have applied after 1 October 2006 with no reasonable explanation for their late application, the GLA supports the early implementation of the recommendations in the Cabinet Office report by Professor Richard Macrory, "Regulatory Justice: Making Sanctions Effective". With regards to monetary administrative penalties, the report recommends:
- Government should consider introducing schemes for Fixed and Variable Monetary Administrative Penalties for regulators and enforcers of regulations that are compliant with the Hampton and Macrory principles and characteristics. This can include national regulators as well as local regulatory partners.

Annex A – GLA Forecast Budget 2007 - 08

Pay Costs	Total Costs	Operating Costs	Enforcement Costs
Chairman	21,900	8,760	13,140
Chief Executives Office	13,1208	52,483	78,725
Policy and Communications	179,910	80,955	98,955
Operations	542,400	271,200	271,200
Finance and Corporate Services	358,692	251,085	107,610
Helpdesk	20,860	11,473	9,388
Consultancy	0	0	0
Performance Related Pay	46,138	27,683	18,452
Total Pay Costs	1,301,108	703,639	597,470
Non Pay Costs			
Travel and subsistence	75,600	37,800	37,800
Accommodation	60,000	30,000	30,000
Office machinery	4,992	2,496	2,496
Telephone	19,992	7,992	12,000
Stationary/postage	25,776	10,308	15,468
Board expenses	10,400	10,400	0
Internal audit	10,825	7,036	3,789
External audit	27,000	18,900	8,100
Recruitment costs	15,000	9,000	6,000
Vehicle hire	0	0	0
Training	30,000	30,000	0
Software licences	7,732	4,639	3,093
IT support costs	53,100	26,550	26,550
Marketing	100,000	25,000	75,000
Annual Report	5,000	3,500	1,500
Miscellaneous	21,000	11,544	9,456
Depreciation	150,000	82,500	67,500
Application Inspection Costs	49,992	49,992	0
Interpreters	35,004	29,754	5,250
Legal costs (Appeals)	50,004	50,004	0
Total non pay costs	751,417	447,415	304,002
TOTAL EXPENDITURE	2,052,525	1,151,054	901,467