

8.2 Fees and Charges

29th December 2005

Issues

The report below considers the GLA's latest position on recommending the fee levels for the licences commencing April 2006.

Recommendation

The report below recommends a certain level of fees for 2006/7, 2007/8 and 2008/9 which the Board is asked to confirm prior to recommendation to the Secretary of State.

Introduction

As a result of Public Consultation and following the conclusions in the Paper (Section 7) regarding an Update on Budgets, the following paper seeks to inform the Board on the following aspects of the Fees and Charges Strategy of the Authority.

- A. Background and Comments from Public Consultation
- B. Re-categorisation of GLA Costs
- C. Revised Budget for 2006/7 and 2007/8
- D. Application Inspection (Charges for)
- E. Proposed Fee Levels for 2006/7 and 2007/8

A Background and Comments from Public Consultation

At the Board meeting on 24th November 2005 the GLA made its first proposals for the possible fee structure to commence in April 2006.

In summary the proposal, which was later incorporated into the Public Consultation document, suggested a banded fee level based on the Labour Providers' turnover in the regulated sector and ranged from £660 to £32,500. Businesses that had achieved a successful TLWG audit at the time of application would qualify for a discount of £250 against their first year's license fee.

The responses to these proposals are embodied in Section 8.1 of these papers and the key responses can be summarised as follows:

- The fee levels generally are much too high and may drive businesses out of the sector.
- The fee structure could remove the incentive for Labour Providers to seek a TLWG audit.
- Most respondents favour a banded approach to fees linked to turnover.

The following seeks to address the above responses and considers an approach to fee levels which is equitable and affordable to the Labour Providers who will be required to apply for licenses from the GLA.

B Re-categorisation of GLA Costs

The GLA is charged under Treasury Guidelines with recovering all of its operating costs through license fees and income and thereby breaking even financially.

Following extensive discussions with its sponsoring department (Defra) the GLA has undertaken a review of its cost structure with a view to reducing the financial burden on its license fee payers.

It can be seen from Section 7 of these papers that the original RIA produced by Defra in July 2004 did raise expectations within the market place of the possible fee levels that might be levied. However, during the period of development of GLA strategies and as a result of the number of likely license payers being reduced from 4,000 to 1,000 it has proved extremely difficult to satisfy such expectations and inevitably the likely fee regime is substantially higher than the one proposed in July 2004.

To combat the negative response from Consultation regarding fee levels the GLA, in collaboration with Defra, has undertaken a fundamental review of its cost structure with the objective of reducing the burden imposed by license fees.

The GLA now proposes to recategorise its costs into three basic elements as follows:

- Operating costs
- One-off set up costs
- Costs attributable to Enforcement

This process will be further explained later but in essence means that the GLA would only seek to recover through license fee income the costs designated as operating costs and that set up costs and enforcement costs would be covered from Defra's budgets.

Such an approach will have substantial impact on the fee level that the GLA needs to recover from Labour Providers and therefore addresses the first issue from Public Consultation i.e. the fee levels are generally too high.

Appendix I shows the revised budgets for 2006/7 and 2007/8 with the associated allocation to the three cost elements. (It should be noted that at this stage Defra has agreed to the principle of this allocation but has yet to agree to the detail.)

C Revised Budget for 2006/7 and 2007/8

The schedule overleaf entitled Three Year Financial Forecast represents the latest versions of the GLA expenditure budgets for 2005/6, 2006/7 and 2007/8.

Due to the time of preparation of these budgets (29th December 2005) they represent a much more accurate picture of the GLA's likely expenditure for the three year period.

It should be emphasised that the budgets are for revenue spend only and therefore do not include any elements of capital acquisition (e.g. computerised Licensing Application System).

In summary the budgets show the following expenditure profile:

	Pay Costs £	Non Pay Costs £	Total Costs £
2005/6	810,720	616,106	1,426,826
2006/7	1,261,577	1,467,136	2,728,713
2007/8	1,279,999	718,106	1,998,105

In comparing the schedule overleaf with previous budgets prepared by the GLA it is apparent that the profile has changed markedly. This is a reflection of better information regarding the market place and a recognition that the GLA will incur substantial one-off set up costs in the first year of licensing (characterised by the increased non pay costs in 2006/7 for expenditure on interpreters etc). This aspect is discussed further in Section E.

**GANGMASTERS LICENSING AUTHORITY
THREE YEAR FINANCIAL FORECAST 2005-2008 AS AT 29 DECEMBER 2005**

	2005/6	2006/7	2007/8	Total
Pay Costs				
All Dept's Inc Chairman	742,454			742,454
Chairman		19,000	19,588	38,588
Chief Executives Office		129,984	134,005	263,989
Policy & Secretariat		171,288	176,586	347,874
Licensing & Compliance		593,016	611,357	1,204,373
Finance & Corporate Services		290,556	299,563	590,119
Administration	13,688	0	0	13,688
Consultancy	28,900	20,000	0	48,900
Performance related pay	25,678	37,733	38,900	102,311
Total Pay Costs	810,720	1,261,577	1,279,999	3,352,296
Non Pay Costs				
Travel & subsistence	44,786	72,000	74,227	191,013
Accommodation	65,785	69,036	71,172	205,993
Office machinery	3,504	10,000	5,000	18,504
Telephone	22,960	20,000	20,619	63,579
Stationery/postage	16,078	25,000	25,774	66,852
Board expenses	14,948	15,000	15,465	45,413
Internal audit	10,000	10,500	10,825	31,325
External audit	18,000	20,000	20,619	58,619
Recruitment costs	26,150	30,000	10,000	66,150
Vehicle hire	512	30,000	30,928	61,440
Relocation expenses	6,828	10,000	0	16,828
System design consultancy	66,732	0	0	66,732
Training	16,076	30,000	30,000	76,076
Software licenses	52,170	7,500	7,732	67,402
IT Support costs	0	57,600	57,600	115,200
Marketing	105,488	75,000	50,000	230,488
Discounts	0	141,000	0	141,000
Miscellaneous	13,189	37,000	38,145	88,334
TLWG Transition	132,900	30,000	0	162,900
Application Inspection Costs	0	400,000	0	400,000
Interpreters	0	177,500	100,000	277,500
Legal Costs (Appeals)	0	200,000	150,000	350,000
Total non pay costs	616,106	1,467,136	718,106	2,801,348
TOTAL EXPENDITURE	1,426,826	2,728,713	1,998,105	6,153,644

Note: Currently no element for depreciation is being recovered through the license fee. Advice is awaited from the National Audit Office on this point.

D Application Inspection (Charges for)

One of the major issues emanating from the Public Consultation is the lack of incentive offered to Labour Providers who may undertake a TLWG audit prior to becoming licensed.

Under current arrangements the incentive of a £250 discount from the license fee (which is discontinued on 31st May 2006) does not appear substantial enough to attract Labour Providers into the TLWG regime. Therefore, it could potentially persuade Labour Providers not to go down the TLWG audit route and delay their application for licensing as late as possible with the consequence that they would receive a GLA Application Inspection at nil cost. This will have a two-fold detrimental impact on the GLA. Firstly it will put pressure on GLA inspection resources and secondly it could prejudice an even flow of applications to be processed if Labour Providers leave application for licenses to the last possible date.

After much careful consideration therefore the GLA now proposes (in line with recommendations from the ALP and others) to charge a commercial fee to any Labour Provider who has an Application Inspection up to the date that Members agree that Application Inspections are made on a risk-assessed basis. On the basis of the information already provided to Members this is unlikely to be for some time. Therefore only those Labour Providers who have successful TLWG audits at the time of applying for licences will be exempt from a chargeable GLA Application Inspection.

The price of Application Inspections will be determined by the costs incurred by the GLA. As Each Labour Provider requiring an Application Inspection will be required to pay £2,000 plus VAT as a deposit. Depending on the costs associated with the Application Inspection the Labour Provider will either receive an additional invoice or a refund after the Inspection is completed.

It should be noted that once the Risk Rating is used to determine applications for licensing that the GLA will cease to charge for Application Inspections.

This policy will have two positive effects for the GLA:

1. It is anticipated that Labour providers will re-assess whether a TLWG audit is the best approach (and thereby reduce the GLA's inspection burden).
2. It will generate around £850,000 for the GLA in 2006/7 which will be used to discount the fee levels for all Labour Providers.

The implications of this approach can be seen in Section E.

E Proposed Fee Levels for 2006/7 and 2007/8

Based on the responses from Public Consultation the GLA has striven to reduce the financial burden on Labour Providers by mitigating the proposed license fee levels. This has been done by two methods:

- Recategorisation of Costs – a recognition that some GLA costs refer to either enforcement or are indeed set up or non recurring one off costs.
- Introduction of charging for Application Inspection visits carried out by the GLA. This will have the effect of reducing the fee levels in 2006/7. (NB There will be no reduction in 2007/8 as it is not intended to charge for Application Inspections after the first year. It is anticipated that a risk based approach to Inspection will be operating at this time.)

The schedules overleaf entitled Forecast 2006-2007 and Forecast 2007-2008 illustrate the approach to the cost recategorisation. As a result of this approach the income that needs to be generated to cover GLA operating costs is as follows:

	£
2006/7	1,323,746
2007/8	966,687

Based on the further assumption that Application Inspections are charged for in 2006/7 it is budgeted that additional revenue, for that year only, of £850,000 is generated. This assumes that 500 applicants for license have not had successful TLWG audits and that on average the GLA charge around £1,700 per Application Inspection.

Therefore the expenditure to be recovered is as follows:

	£
2006/7 (£1,323,746 - £850,000)	473,746
2007/8	966,687

The following table illustrates the proposed fee structure for the two years in question (using the same banding arrangements for size of Labour Provider as were used in the GLA RIA).

2006/7

Size of business	Fee Band	Labour Providers in Band	Annual Fee £	Income Generated £
£10m+	A	27	4,000	108,000
£5-10m	B	30	2,000	60,000
£1-5m	C	190	750	142,500
>£1m	D	753	250	<u>188,250</u>
				<u>498,750</u>

2007/8

Size of business	Fee Band	Labour Providers in Band	Annual Fee £	Income Generated £
£10m+	A	27	9,000	243,000
£5-10m	B	30	4,500	135,000
£1-5m	C	190	1,750	332,500
>£1m	D	753	500	<u>376,500</u>
				<u>1,087,000</u>

It is anticipated that the fee level for 2007/8 will also pertain for 2008/9 with the caveat that GLA budgets may be impacted by merger with the Health and Safety Executive by that time.

R A Dawson
29th December 2005

**GANGMASTERS LICENSING AUTHORITY
FORECAST 2006-2007 AS AT 29 DECEMBER 2005**

	<u>Total Costs</u>	<u>Operating Costs</u>	<u>One Off Set Up Costs</u>	<u>Enforcement Costs</u>
Pay Costs				
All Dept's Inc Chairman				
Chairman	19,000	9,500	0	9,500
Chief Executives Office	129,984	38,995	25,997	64,992
Policy & Secretariat	171,288	34,258	85,644	51,386
Licensing & Compliance	593,016	237,206	118,603	237,206
Finance & Corporate Services	290,556	203,389	29,056	58,111
Administration	0	0	0	0
Consultancy	20,000	0	20,000	0
Performance related pay	37,733	22,640	3,773	11,320
Total Pay Costs	1,261,577	545,988	283,073	432,516
Non Pay Costs				
Travel & subsistence	72,000	28,800	7,200	36,000
Accommodation	69,036	34,518	0	34,518
Office machinery	10,000	5,000	0	5,000
Telephone	20,000	8,000	2,000	10,000
Stationery/postage	25,000	10,000	2,500	12,500
Board expenses	15,000	15,000	0	0
Internal audit	10,500	7,350	0	3,150
External audit	20,000	14,000	0	6,000
Recruitment costs	30,000	0	30,000	0
Vehicle hire	30,000	15,000	0	15,000
Relocation expenses	10,000	0	10,000	0
System design consultancy	0	0	0	0
Training	30,000	9,000	9,000	12,000
Software licenses	7,500	0	7,500	0
IT Support costs	57,600	23,040	11,520	23,040
Marketing	75,000	0	75,000	0
Discounts	141,000	0	141,000	0
Miscellaneous	37,000	14,800	7,400	14,800
TLWG Transition	30,000	0	30,000	0
Application Inspection Costs	400,000	400,000	0	0
Interpreters	177,500	53,250	71,000	53,250
Legal Costs (Appeals)	200,000	140,000	60,000	0
Total non pay costs	1,467,136	777,758	464,120	225,258
TOTAL EXPENDITURE	2,728,713	1,323,746	747,193	657,774

	<u>Total Costs</u>	<u>Operating Costs</u>	<u>One Off Set Up Costs</u>	<u>Enforcement Costs</u>
Pay Costs				
All Dept's Inc Chairman				
Chairman	19,588	9,794	0	9,794
Chief Executives Office	134,005	26,801	40,202	67,003
Policy & Secretariat	176,586	35,317	88,293	52,976
Licensing & Compliance	611,357	244,543	122,271	244,543
Finance & Corporate Services	299,563	209,694	29,956	59,913
Administration	0	0	0	0
Consultancy	0	0	0	0
Performance related pay	38,900	23,340	3,890	11,670
Total Pay Costs	1,279,999	549,489	284,612	445,898
Non Pay Costs				
Travel & subsistence	74,227	29,691	7,423	37,114
Accommodation	71,172	35,586	0	35,586
Office machinery	5,000	2,500	0	2,500
Telephone	20,619	8,248	2,062	10,310
Stationery/postage	25,774	10,310	2,577	12,887
Board expenses	15,465	15,465	0	0
Internal audit	10,825	7,578	0	3,248
External audit	20,619	14,433	0	6,186
Recruitment costs	10,000	0	10,000	0
Vehicle hire	30,928	15,464	0	15,464
Relocation expenses	0	0	0	0
System design consultancy	0	0	0	0
Training	30,000	15,000	0	15,000
Software licenses	7,732	3,866	0	3,866
IT Support costs	57,600	28,800	0	28,800
Marketing	50,000	15,000	20,000	15,000
Discounts	0	0	0	0
Miscellaneous	38,145	15,258	7,629	15,258
TLWG Transition	0	0	0	0
Application Inspection Costs	0	0	0	0
Interpreters	100,000	50,000	0	50,000
Legal Costs (Appeals)	150,000	150,000	0	0
Total non pay costs	718,106	417,198	49,691	251,217
TOTAL EXPENDITURE	1,998,105	966,687	334,303	697,115