

Title: Private Security Industry: Future Regulatory Regime IA No: HO0078 Lead department or agency: Home Office Other departments or agencies: Security Industry Authority (SIA)	Impact Assessment (IA)		
	Date: 01/05/2012		
	Stage: Consultation		
	Source of intervention: Domestic		
	Type of measure: Other		
Contact for enquiries: William Grant, Home Office			

Summary: Intervention and Options	RPC Opinion: RPC Opinion Status
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Cost of Preferred (or more likely) Option			
Total Net Present Value	Business Net Present Value	Net cost to business per year (EANCB on 2009 prices)	In scope of One-In, Measure qualifies as One-Out?
£0.2m	£0.2m	£-0.02m	Yes Zero

What is the problem under consideration? Why is government intervention necessary?

The Government decided as part of the Public Bodies Review in October 2010 that the Security Industry Authority (SIA) would be abolished and replaced by a new industry-led regulator, and that a new regulatory regime would be created for the new regulator to apply. These reforms are in line with the objectives of the Public Bodies Review and will help to reduce criminal and poor business practices within the private security industry. This consultation stage Impact Assessment is consulting on the new regulatory regime that the regulator would apply. It is not considering the creation of a new regulator.

What are the policy objectives and the intended effects?

The intention of this reform is to meet the objectives of the public bodies review, as well as consult on a new regulatory regime which will improve regulation of the private security industry. The intended effects are to reduce the overall regulatory cost and burden on businesses working in the private security industry, reduce criminal and poor business practices within the industry, realise greater public protection benefits, build on previous investment in the industry, and increase support for law enforcement partners, particularly those focused on disrupting serious and organised crime.

What policy options have been considered, including any alternatives to regulation? Please justify preferred option (further details in Evidence Base)

Option 1
Do nothing; continue with the current regulatory regime.

Option 2
Phased transition to a new regime focused on business licensing with individual registration. This is the preferred option as it best meets the policy objectives and intended effects outlined above

Option 3
No regulation; remove all statutory regulatory controls.

Will the policy be reviewed? It will not be reviewed. If applicable, set review date: Month/Year					
Does implementation go beyond minimum EU requirements?			N/A		
Are any of these organisations in scope? If Micros not exempted set out reason in Evidence Base.	Micro Yes	< 20 Yes	Small Yes	Medium Yes	Large Yes
What is the CO ₂ equivalent change in greenhouse gas emissions? (Million tonnes CO ₂ equivalent)			Traded: N/A	Non-traded: N/A	

I have read the Impact Assessment and I am satisfied that, given the available evidence, it represents a reasonable view of the likely costs, benefits and impact of the leading options.

Signed by the responsible SELECT SIGNATORY: _____ Date: _____

Summary: Analysis & Evidence

Policy Option 2

Description: Transition to a new regime focused on business regulation with individual registration.

FULL ECONOMIC ASSESSMENT

Price Base Year 2011	PV Base Year 2011	Time Period Years 10	Net Benefit (Present Value (PV)) (£m)		
			Low: Optional	High: Optional	Best Estimate: £0.2m

COSTS (£m)	Total Transition (Constant Price) Years	Average Annual (excl. Transition) (Constant Price)	Total Cost (Present Value)
Low	Optional	Optional	Optional
High	Optional	Optional	Optional
Best Estimate	£4.0m	£2.0m	£20.7m

Description and scale of key monetised costs by 'main affected groups'

Overall cost to business: £20.7m (PV)
 Cost of public liability insurance £1.2m (PV)
 Administrative cost of evidencing conformance with British Standards: £13.2m (PV)
 Administrative cost of applying and evidencing compliance with business licensing requirements: £6.3m (PV)

Other key non-monetised costs by 'main affected groups'

It is not yet possible to quantify the cost of fees payable to the regulator. This is because further detail on how the regime will operate in practice, particularly in regard to the regulator's activity, is still being developed.

BENEFITS (£m)	Total Transition (Constant Price) Years	Average Annual (excl. Transition) (Constant Price)	Total Benefit (Present Value)
Low	Optional	Optional	Optional
High	Optional	Optional	Optional
Best Estimate	£0m	£2.4m	£20.9m

Description and scale of key monetised benefits by 'main affected groups'

Overall Reduced burden for licensed private security businesses: £20.9m (PV)
 Reduced insurance premiums = £4.7m
 Reduced burden of processing IR of security staff = £5.6m
 Reduced burden of processing multiple licences = £1.2m
 Reduced fees due to single licence = £9.5m

Other key non-monetised benefits by 'main affected groups'

It is not yet possible to quantify the benefits from reducing the cost of fees payable to the regulator, for the same reason it is not yet possible to quantify the cost of fees (given above); increased business for licensed private security businesses in the domestic market; increased business for licensed private security businesses in the European market; reduced claims to insurance companies; exemption from/ reduced costs to meet European regulatory requirements

Key assumptions/sensitivities/risks	Discount rate (%)	3.5
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Some primary legislation is required for the full implementation; that the devolved administrations chose to opt-in to this option; that the proposed regime includes micro businesses.

BUSINESS ASSESSMENT (Option 2)

Direct impact on business (Equivalent Annual) £m:			In scope of OIOO?	Measure qualifies as
Costs: £2.3m	Benefits: £2.3m	Net: £0m	yes	Zero

Summary: Analysis & Evidence

Policy Option 3

Description: No regulation; remove all statutory regulatory controls.

FULL ECONOMIC ASSESSMENT

Price Base Year 2011	PV Base Year 2011	Time Period Years 10	Net Benefit (Present Value (PV)) (£m)		
			Low: Optional	High: Optional	Best Estimate: £232.1m

COSTS (£m)	Total Transition (Constant Price) Years		Average Annual (excl. Transition) (Constant Price)	Total Cost (Present Value)
Low	Optional		Optional	Optional
High	Optional		Optional	Optional
Best Estimate	£0m		£0.1m	£1.1m

Description and scale of key monetised costs by 'main affected groups'

Increased insurance premiums £1.1m (PV)

Other key non-monetised costs by 'main affected groups'

Potential increase in criminality and risk to public safety. Criminal individuals, including, those previously removed from the industry, could return and present a risk to public protection and community safety, as well as an increased risk from serious and organised crime. Any increase in criminal activity may cause an increase in costs to Government such as through loss of revenue or increased law enforcement spending; reduced market share for legitimate businesses; increased insurance claims; lost investment in the industry.

BENEFITS (£m)	Total Transition (Constant Price) Years		Average Annual (excl. Transition) (Constant Price)	Total Benefit (Present Value)
Low	Optional		Optional	Optional
High	Optional		Optional	Optional
Best Estimate	£0m		£27.1m	£233.3m

Description and scale of key monetised benefits by 'main affected groups'

No licence fees £217.8m (PV)

No licence application/ renewal administrative burden £15.5m (PV)

Other key non-monetised benefits by 'main affected groups'

None.

Key assumptions/sensitivities/risks

Discount rate (%)

3.5

The industry could seek to impose self-regulation; the Public Bodies Review concluded that some form of regulation of the private security industry should remain, due to the need to maintain appropriate levels of standards and compliance within the industry; Ministers in Scotland and Northern Ireland have already made clear that they would not opt-in to this option.

BUSINESS ASSESSMENT (Option 3)

Direct impact on business (Equivalent Annual) £m:			In scope of OIOO?	Measure qualifies as
Costs: £0.1m	Benefits: £25.6m	Net: £25.5m	Yes	Out

Explanatory notes

Completion of Template

The following explanatory notes accompany the completion of this template and are specific to the covering title page:

- The value in the *Type of Measure* field has been entered as *Other*. This is because the measures outlined in option 2 require both Primary and Secondary legislation to implement. However, the template allows the selection of only one value or the other; not both.
- The value in the *Will the policy be reviewed?* field has been entered as *It will not be reviewed*. This is because the policy will be scrutinised and enacted by Parliament through the secondary and primary legislative process prior to implementation.

Evidence Base

Background

1. The current arrangements for the regulation of the private security industry in the United Kingdom are set out in the Private Security Industry Act 2001 (the Act) and responsibility for delivering regulation lies with the SIA, a non-departmental public body (NDPB) responsible to the Home Secretary. Responsibility for the regulation of the private security industry is fully devolved to the governments of Scotland and Northern Ireland.
2. Currently the SIA regulates the private security industry through two measures, the compulsory licensing of individuals undertaking the designated activities set out in the Act, as well as the voluntary Approved Contractor Scheme (ACS).
3. The Act requires individuals working in specific sectors of the private security industry across the United Kingdom to be licensed to work in those sectors. The licensing operation ensures that those working in the private security industry are appropriately skilled and meet all aspects of the published criteria.

The activities currently subject to regulation under the Private Security Industry Act 2001 are:

- Manned Guarding, which includes:
 - Cash and Valuables in Transit
 - Close Protection
 - Door Supervision
 - Public Space Surveillance
 - Security Guarding
 - Immobilisation, restriction and removal of vehicles, including wheel clamping
 - Key Holding
4. The voluntary ACS provides a framework for setting, improving and monitoring the standards of business management and organisation amongst companies that provide private security services. Approved contractors are demonstrably committed to customer service and the compulsory licensing of their staff. As well as giving purchasers confirmation of the quality and standards that they could expect from approved contractors, the ACS provides confidence and reassurance to wider stakeholders such as the public, police, employees and the local community.

Rationale

5. Following the Public Bodies Review in 2010¹, the Government concluded that the time was right to move to a new regulatory regime which reflected the maturity of the industry and enabled employers and businesses to have more responsibility in a similar way to employers for other industries. Furthermore, putting in place a business focused regulatory regime was considered to be in line with the Government's key principles for the Public Bodies Review, which were to increase the transparency and accountability of all public services and ensure that the Government operates in a more efficient and business-like way.

¹ Cabinet Office Public Bodies Review published 14 October 2010: Public Bodies Reform - Proposals for Change.

6. In order to progress this reform the SIA was asked in October 2010 to consult key stakeholders, including the industry, and to produce a detailed plan of how the phased transition to a new regulatory regime could be achieved.
7. A framework plan was presented to the Home Office in the first half of 2011 and the then Home Office Minister of State, Baroness Neville-Jones, confirmed to the House of Lords during it's Report Stage of the Public Bodies Bill that:

'The key points that emerge from the proposal are that: regulation will shift from licensing individuals to registering businesses, which will have to meet a comprehensive set of conditions set by the new regulator; the regulation of individuals will become the responsibility of registered businesses, which is an important point; the new regulator will have the power to impose sanctions, including removing the right to trade in the private security industry on the part of businesses that fail to comply with conditions that it sets for registration....'

Objectives

8. This consultation stage Impact Assessment is consulting on the new regulatory regime that the new regulator would apply. It is not considering the creation of a new regulator.

Options

Option 1 - Do nothing

9. The present regime is based on compulsory licensing of individuals undertaking designated activities as specified in the PSI Act, as well as voluntary membership of the ACS.
10. Following the Cabinet Office Public Bodies Review, the Government announced on 14 October that the SIA would no longer be an NDPB, and that there would be "a phased transition to a new independent regulatory regime". Given this commitment, 'do nothing' is not a viable option.

Option 2 - Transition to a new regime focused on business licensing with individual registration

11. Under this option, the focus of regulation would primarily be on licensing businesses, rather than individuals. This will be a more efficient and cost effective way of meeting the regulatory objectives of reducing criminality, improving standards and protecting the public. Businesses supervise the working arrangements of the majority of individual security operatives. Directly regulating businesses, through a business licensing scheme, ensures businesses can be responsible for applying the proper standards, consistently, across the industry and for ensuring staff are properly registered. In addition, focussing regulatory activity on businesses allows the mitigation of risk to the public at an aggregated level.
12. The regulator would set the conditions for business licensing which would include an ensuring the business is "fit and proper" (by checking the identity, financial probity and criminality of the business and those running it) and competence (demonstrated by evidencing security specific British Standards, established by the industry itself). The regulator would also set conditions for registering an individual to work within the industry (including criminality and competence), as well as maintain a register of licensed businesses and registered individuals.
13. The responsibility for ensuring the registration of individuals, who meet competency requirements, would be moved to businesses.
14. The SIA currently regulates around 330,000 individuals who hold a licence to work within the private security industry. A further 30,000 licences are held by individuals who are licensed in more than one sector. The cost of an individual licence, which is valid for three years, is £220 and for a second and subsequent licences, £110.

15. Although the fee is the responsibility of an individual and is usually paid for by individuals, in practice it is private security industry businesses which bear the cost of regulation as the cost of licensing is ultimately carried through wages and this cost, and the administrative costs of working in a regulated industry, are passed on to the buyer or absorbed in reduced margins.
16. In addition to the licensing of individuals, under the current regulatory regime there are over 700 private security industry businesses that are a part of the voluntary ACS. Membership of this scheme requires businesses to pay both a pre-approval application fee, payable once, and a post-approval registration fee, payable each year. Some 165,000 individuals, representing 50% of the licensed population, currently work for these companies.
17. Under the proposed business licensing regime, the regulator will cease to licence individuals, apart from in exceptional circumstances, and regulation will primarily focus on the estimated 4,200² private security industry businesses.
18. The responsibility for ensuring the registration of individuals to work within the private security industry will be passed to businesses. The process for registration will maintain current standards but will be simplified and streamlined. It is expected that there will be a significant reduction in the associated regulatory cost and burden for registering individuals as a result.
19. Therefore, the proposed regime will achieve an overall net reduction in the level of regulatory costs and burdens placed on the private security industry. Although, a small additional regulatory cost and burden will be placed on businesses that are not currently in the ACS scheme to attain business licences, this increase will be off set by a greater reduction in the regulatory cost and burden for registering individuals.
20. The Home Office and SIA are not able at this time to provide an estimation of the fee payable to the regulator under a business licensing regime. This is because further detail on how the regime will operate in practice, particularly in regard to the regulator's activity, is still being developed. However, the intention is that business licence fees will recognise the relative size of the business, such as the number of registered individuals employed or deployed by the business and have regard to the particular circumstances of small and micro businesses.

Option 3 - No regulation; remove all statutory regulatory controls.

21. Under this model there would be no statutory obligation for security industry businesses to comply with regulatory requirements. There would be no standards for businesses and individuals to meet in order to work in the private security industry.
22. While this option would yield the largest financial benefit for businesses it is also assessed to have significant risks in relation to increased criminality, including organised crime, as well as an increased risk to public protection and community safety.

Self regulation

23. Self regulation has not been considered as a possible option because option 2 provides for the industry to take greater responsibility for regulation and standards within the industry, while retaining a statutory obligation and sanctions for businesses and individuals to comply with regulatory requirements.

² "Rationale: For Business Licensing Volumes v0.2 – SIA, April 2012. A summary of SIA research and analysis into the number of businesses in scope of business licensing."

24. There is a possibility that, if all statutory regulatory controls were removed, the security industry, or elements of the industry, would seek to self regulate. However, the Public Bodies Review concluded that some statutory control of the industry should be maintained in order to ensure that appropriate standards are applied across businesses and individuals working in the industry, in order to contribute to crime reduction, public protection and community safety measures. The possibility of self regulation has been considered as a risk to the calculation of benefits under option 3.

Analysis of Options

25. The Financial Model (Appendix 1) and all figures presented within this document are the Home Office and the SIA's best estimate of likely costs and benefits of the recommended option.

OPTION 2

Benefits

Reduced costs for licensed private security businesses

Reduced insurance premiums

26. Currently ACS companies gain a 10% discount on their insurance premiums. This is according to major brokers offering insurance to the private security industry. As the risks insured against are expected to reduce under a business licensing regime, over a period of time, similar reductions could apply to all licensed private security businesses delivering a saving of £0.5m per annum (3,570 licensed private security businesses less the 700 ACS companies multiplied by £1,900, the average premium, multiplied by 10%). Over a ten year period this would amount to **£5.5m (£4.7m PV)**. The derivation of this figure is contained in the Financial Model at Appendix 1.

Reduced burden of processing individual licences

27. Future regulation would focus on businesses, but a public register of individuals who are eligible to work in the industry would be maintained by the regulator.

28. It is envisaged that there would be one registration process for individuals and one application fee; subscription fees would be payable thereafter and there would be no renewal requirement as exists in the current regulatory regime. There would, therefore, be a significant reduction in administrative burden, although there may be a requirement for update of photographs, at defined timescales, e.g. every five or ten years.

29. SIA historical data shows that on average there are 120,000 applications per annum of which 43,200 are renewals rather than new applications. In the future there would be no need to renew these licences making a saving of £0.6m per annum in administrative costs. This assumes the time taken to process and manage an application is one man hour at a cost of £15 per hour³. Over a ten year period this would amount to a saving of **£6.5m (£5.6m PV)**. The derivation of this figure is contained in the Financial Model at Appendix 1.

Reduced burden of processing multiple licences

30. Currently an individual requires a separate licence for each security sector. Option 2 envisages single individual registrations, to replace the current system of multiple individual licences. This would remove both the direct additional licence application costs

³ SIA estimate of security business administrator role average salary based on Office of National Statistics - *Annual Survey of Hours and Earnings*.

paid by many businesses for their employees and reduce the associated administrative burden of applying for additional licences to operate in additional sectors.

31. SIA historical data shows that there are on average 10,000 multiple applications per annum where a single individual applies for two or more separate individual licences.
32. Under option 2 single individual registrations negate the need for multiple individual licences. There is evidence to suggest that about 90%⁴ of these multiple licences are applied for separately and therefore processed as new applications.
33. The estimated saving to businesses of not having to process multiple individual licences amounts to £0.14m per annum (10,000 multiple applications x 90% x 1 hour saving x £15 per hour). The ten year saving amounts to **£1.4m (£1.2m PV)**. The derivation of this figure is contained in the Financial Model at Appendix 1.

Reduced fees due to a single licence

34. Currently an additional individual licence for a different security sector currently attracts a 50% refund, so the cost for a three year additional licence is £110. Under option 2 there would be no need to hold a separate individual licence for each security sector. Instead, these multiple individual licences will be replaced by a single individual registration. This would result in a saving for each registered individual working in multiple sectors of £1.1m per annum (10,000 multiple applications x £110 fee). The total saving over ten years amounts to **£11m (£9.5m PV)**. The derivation of this figure is contained in the Financial Model at Appendix 1.

Costs

Costs to licensed private security businesses

35. Employers' liability insurance for a minimum of £5m is a legal requirement (with only a very few exceptions), and while public liability, efficacy and fidelity insurance are not legal requirements, FSA regulated brokers suggest that such insurance is necessary for private security businesses.
36. The typical premium for both employer and public liability is £1,900 according to major brokers offering insurance to the private security industry. More than half of this premium relates to public liability, efficacy and fidelity cover. It is assumed that 5% of non-ACS businesses would require public liability insurance (estimated as 50% of the typical £1,900 premium) to comply with the licensing criteria and that brokers would provide efficacy and fidelity cover as part of the necessary insurance package.
37. In the first year this would create an additional cost of £1.6m (5% of 3990 PSI businesses applying for a business licence, less the 700 ACS companies, which are known to have public liability insurance x £950 (50% of £1,900)). In subsequent years it would create additional premium cost of £0.1m per annum (5% of 3,570 licensed private security businesses less the 700 ACS companies multiplied by a premium of £950 (50% of £1,900)). Over ten years this amounts to a cost of £1.36m (£1.2m PV). The derivation of this figure is contained in the Financial Model at Appendix 1.

Cost of evidencing conformance with British Standards

38. Option 2 proposes the introduction of a business licensing regime that would require private security industry businesses to satisfy criteria set by the regulator in order to

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⁴ SIA Management Information System – Analysis of multiple licence holders.

obtain a business licence that would allow them to provide regulated security services. It is proposed that the attainment of existing British Standards specific to the security industry would form part of these criteria. These standards already exist and are established by the industry itself. Many security businesses have already invested in them.

39. For non ACS businesses, work to meet the business licensing criteria and to complete the business licence application would create an administrative burden.
40. The 700 ACS companies could have grand-parenting rights into business licensing; they would have already met the criteria and would not be required to prove this again to the regulator. Consequently, the administrative burden would apply only to the 3,290 non-ACS businesses that apply to be licensed.

Size	Current Number	ACS	Not Applying	Applying (excluding ACS)	Rejected	Compliant
Micro	3090	125	210	2755	360	2520
Small	520	170	0	350	45	475
Medium	490	345	0	145	15	475
Large	100	60	0	40	0	100
Total	4200	700	210	3290	420	3570

41. Of the 3,290 non-ACS businesses that apply to be licensed, 2,755 are expected to be micro businesses. It is envisaged that, unlike the larger companies, micro-businesses would not be required to evidence conformance with relevant British Standards by means of assessment and certification. Instead, they would have to demonstrate competence via e-learning or by providing a company CV.
42. Of the 535 small, medium and large businesses applying to be licensed, it is assumed that 30% (160) already have British Standards certification⁵ and would not, therefore, incur any additional cost in conforming to British Standards requirements; about 375 small, medium and large businesses could incur additional costs to achieve British Standards certification.
43. In determining the administrative cost of applying for a Business Licence the following estimated times and costs have been used:
- Average cost of buying British Standards - £300⁶
 - Small, medium and large business administrative burden to comply with British Standards - £1,000 (5 days at £200 per day⁷)
 - Small, medium and large business external assessment costs to obtain British Standards - £1,300 (2 days at £650 per day⁸)
 - Small, medium and large business administrative burden to manage the British Standards assessment process - £400 (2 days at £200 per day)

⁵ Assumption based on SIA knowledge of ACS companies. It is expected that a relatively small number of non-ACS companies will have British Standards in place. The majority of private security businesses that comply with British Standards are likely to also already be ACS members.

⁶ <http://shop.bsigroup.com/>

⁷ SIA estimate of blended average daily cost of security manager and administrator time on this activity.

⁸ SIA estimate based on discussions with several Conformity Assessment Bodies in 2011.

- Micro business administrative burden in demonstrating competence - £400 (2 days at £200 per day)
44. The estimated cost to the private security industry of applying for British Standards is £3.1m. $375 \times (\text{£}300 + \text{£}1,000 + \text{£}1,300 + \text{£}400) + 2755 (\text{£}300 + \text{£}400) = \text{£}3.1\text{m}$.
 45. The ongoing administrative burden of conforming to British Standards would fall on those businesses granted a business licence, which did not previously conform to British Standards.
 46. 535 small, medium and large non-ACS companies are expected to apply for a Business Licence and 60 (circa 10%) are expected to be rejected because they fail to demonstrate that they meet the required licensing conditions. Of the 375 small, medium and large businesses that did not have British Standards certification previously, but which apply for a Business Licence, it is therefore estimated that 42 businesses (circa 10%) would be rejected. This means 333 small, medium and large businesses (375 less the 42 which are expected to be rejected) would incur the ongoing costs of conformance with British Standards.
 47. It is anticipated that the cost of maintaining standards would be less than obtaining them, because there would be no 'set-up' and it is assumed that the administrative burden of conforming to British Standards would reduce from £1,000 to £500 (2.5 days at £200 per day) for small, medium and large businesses. The administrative burden for micro businesses to demonstrate competence is assumed to reduce from £400 to £200 (one day at £200 per day).
 48. In subsequent years, it is expected that about 250 micro businesses would leave and 250 would join the industry each year, this assumption is based on SIA knowledge. This means that 2145 micro businesses would be maintaining the competence standards while 250 would be applying to obtain the competence standards (the figure of 2145 was derived by subtracting the 125 ACS companies from the 2520 compliant companies (see table in paragraph 41 above) and then subtracting 250 leaving and joining).
 49. The on-going cost to the private security industry of evidencing conformance with British Standards is estimated to be £1.3m per annum $(333 \times (\text{£}500 + \text{£}1300 + \text{£}400) + 2145 \times \text{£}200 + 250 \times (\text{£}300 + 400)) = \text{£}1.3\text{m}$.
 50. Over a ten year period the total additional cost to the private security industry for conformance with British Standards is estimated to be **£15.1m (£13.2m PV)**. The derivation of this figure is contained in the Financial Model at Appendix 1.

Administrative cost of applying for a Business Licence and complying with business licensing criteria

51. The management time it would take to apply and subsequently collate documentary evidence of compliance each year is estimated to be four hours.⁹ In addition, an estimated one hour would be needed to process the initial application payment and subsequent annual subscription payments. At a management cost of £50 per hour¹⁰ this amounts to £250 per annum per business.

⁹ SIA estimate based on analysis (performed by M. Horton, SIA) of the time taken to administer compliance with fit and proper requirements.

¹⁰ SIA estimate of security business manager role average salary based on Office of National Statistics - *Annual Survey of Hours and Earnings*.

52. The burden of applying for and complying with the business licensing regime should create no additional burden for ACS companies on the basis that ACS companies would have already fulfilled the criteria for business licensing in obtaining and maintaining ACS status.
53. In the first year it is estimated that 3,290 non-ACS businesses would apply for a Business Licence. The cost to the private security industry is estimated to be £0.8m (to see how the figure of 3,290 was derived see the table in paragraph 41, above).
54. In subsequent years, the burden would apply to non-ACS companies that have been granted a business licence. The estimated number of businesses affected is 2,870 (3,570 compliant businesses less 700 ACS companies - the figure of 2,870 businesses remains constant because the number of micro businesses leaving the industry is equal to the number joining). The estimated additional on-going cost to the private security industry is £0.7m per annum.
55. Over ten years, the additional burden on the industry would be **£7.3m (£6.3m PV)**. The derivation of this figure is contained in the Financial Model at Appendix 1.

Non-monetised benefits

56. The following potential benefits are not included in the Financial Model because of the high degree of uncertainty around the financial modelling, but they are nevertheless worthy of consideration.

Transfer of business from unlicensed to licensed private security businesses

57. The Republic of Ireland introduced regulation of the private security industry from 2006. Based on their regulatory experience the 15% of businesses that left the industry when regulation was introduced held 5%¹¹ of market share.
58. The SIA estimate that 5% of existing businesses would not apply to be licensed because the managers/owners anticipate that the business would not meet the necessary criteria; the implication being that these businesses are linked to criminality and are a potential threat to public safety. It is anticipated that these will all be micro-businesses. This means that of the estimated 4,200 security businesses in the UK, 210 (5% of 4,200) would not apply to be licensed i.e. 3990 would apply to be licensed.
59. Furthermore, evidence from the introduction of business licensing in the Republic of Ireland suggests that an additional 10% of private security businesses would leave the industry through failure to meet the business licensing criteria, i.e. 420 (10% of 4,200) would fail to meet the licensing criteria, it is anticipated the majority of these will be micro-businesses, leaving 3,570 licensed businesses (3990 – 420)

Size	Current Number	ACS	Not Applying	Applying (excluding ACS)	Rejected	Compliant
Micro	3090	125	210	2755	360	2520
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Medium	490	345	0	145	15	475
Large	100	60	0	40	0	100
Total	4200	700	210	3290	420	3570

¹¹ SIA meeting with the PSA, April 2011. PSA provided views on the percentage of businesses that left the industry when contractor licensing was introduced.

60. In the Republic of Ireland, an estimated 5% of the private security market share was previously held by businesses which either did not apply to be licensed or did not meet the licensing criteria. On the basis that the criteria for business licensing in the UK would be similar to those used in the Republic of Ireland a similar market share is, therefore, assumed to be likely to become available to be taken up by licensed businesses in the UK once business licensing is introduced.
61. This would be a transfer of business within the available market and is recorded in this section as it would represent an opportunity for those businesses that would meet the required licensing standards.

Reduced insurance claims

62. Research by Strathclyde Police¹² indicates a lower incidence of crime where security is provided by SIA approved contractors. The introduction of better business practices, improved governance and accountability and a reduction in the opportunity for and influence of those engaged in more serious and organised crime should also lead to a reduction in the number of claims being made by the industry, and by those who rely on the industry, on their insurers.

Increased income from the European private security market

63. Company registration is standard in the European private security market with 25 member states already having some form of company registration scheme in place. It is likely that UK licensed security businesses would benefit from greater customer confidence associated with their statutory regulation, which would allow for growth in the European market. Being licensed in the UK should enable businesses to comply with overseas regulation at lower cost, thereby making it easier and more cost effective for UK companies to tender for overseas business.
64. According to the Confederation of European Security Services (CoESS) 2011 statistics, the size of the European private security market is £29,910m (€35,000m at conversion rate of 1/1.17). As an example, if UK licensed private security businesses were able to increase their share of the European security market by just an additional 0.1% each year; this could generate additional income of around £31m over ten years.

Exemption from/ reduced costs to meet European regulatory requirements

65. It is likely that UK licensed private security companies would gain exemption from, or have reduced costs of compliance with, European regulatory requirements by virtue of being licensed in the UK. For example, the licence fee for a large business operating in one sector in the Republic of Ireland is equivalent to £17,000 per annum, but the Private Security Authority, which regulates private security in the Republic of Ireland, is likely to recognise UK business licensing as having interoperability in the Republic of Ireland and vice versa.
66. As an example, if one large UK licensed private security business gains an exemption from regulation each year in just one sector in only one of the EU member states that regulate businesses, it could amount to a potential saving of around £0.9m over ten years.

Non-monetised costs

¹² *Tackling Organised Crime within the Private Security Industry*, 2011, DS Gillian Gardner

Net reduction in regulatory cost and burden to industry

67. It has not been possible at this time to provide an estimation of the fee payable to the regulator under a business licensing regime. This is because further detail on how the regime will operate in practice, particularly in regard to the regulator's activity, is still being developed. However, it is assumed that there will be an overall reduction in the regulatory cost and burden placed on businesses working in the private security industry.
68. The responses received to this consultation Impact Assessment will help to calculate the costs and fee levels of the new regime.

Risks and issues

Legislation

69. There are risks associated with the legislative requirements and timetable. Although it is likely that many of the legislative changes required for the proposed regime could be achieved through secondary legislation under the Private Security Industry Act 2001, some primary legislation is required for full implementation. The schedule for any primary legislation is not yet confirmed.

Devolved Administrations

70. The future regulatory regime for Scotland and Northern Ireland will ultimately be decided by their devolved administrations. The lack of interoperability for businesses across the UK that might occur should an inconsistent approach to regulation be developed would have adverse impacts on business costs and benefits.
71. Any programme of implementation of changes to regulation must take account of the requirement to avoid disruption to the security arrangements for the Commonwealth Games 2014.

Micro-Businesses

72. A continuing moratorium on new regulation for micro businesses, or failure to gain a waiver from the existing moratorium would seriously limit the benefits to be gained. See micro-business impact assessment.

Geographical Breakdown

73. The following tables illustrate the impact of option 2 proposals by country. The figures have been calculated proportionally based on the population of each country.
74. Regulation of the private security industry is fully devolved to the governments of Scotland and Northern Ireland. Both administrations have indicated that their preference would be for a UK wide regime. However, it remains entirely for the Scotland and Northern Ireland Governments to decide whether they wish to opt into the preferred option for England and Wales. This approach would avoid additional burden and confusion for businesses operating in more than one jurisdiction. The SIA intends to seek views on considerations specific to each geographical area of the UK by way of the public consultation. Further information in regard to Scotland, Northern Ireland, and England and Wales is contained at appendix 2.

O100

75. This is a zero in as the net benefit of £0.2m would not contribute to One-In-One-Out as it is not resulting from a deregulation measure. The net cost to business per year (EANCB on 2009 prices) is £-0.02m.

OPTION 3

Benefits

No licence fees

76. Regulation currently places a direct cash burden on industry through the three year licence fee. The current cost to businesses (industry and customers) associated with the licence fee is £22.77m per annum (120,000 licence applications x £220 licence fee less 10,000 multiple licences x £110). Over ten years this would amount to **£253.0m (£217.8m PV)**. This cost would not be incurred under this option.

No licence application/ renewal administrative burden

77. SIA historical data for the UK shows an average of 120,000 applications per annum of which 43,200 are renewals. Existing regulation creates an administrative burden on the industry through the requirement to complete an application form for both new and renewal applications and the collation of supporting documentation.

78. It is estimated that the time taken to process and manage a licence application is one man hour at a cost of £15 per hour.

79. There are about 120,000 applications per year at £15 each, creating an annual administrative burden of £1.8m per annum. Over ten years, the removal of this administrative burden would reduce costs by **£18.0m (£15.5m PV)**.

Costs

Increased insurance premiums

80. Under the current regime ACS companies gain a 10% discount on their insurance premiums. Without regulation the whole amount of premium required by insurers for security businesses would be greater and all legitimate businesses, including those previously holding ACS accreditation, would meet this cost through higher premiums of £0.1m per annum, amounting to **£1.33m (£1.1m PV)** over ten years (700 ACS businesses x £1,900 average premium x 10% reduction x 0.9).

Non-Monetised Costs

81. The following potential costs are not included in the Financial Model because of the high degree of uncertainty around the financial modelling, but they are nevertheless worthy of consideration.

Potential increased in criminality and risk to public safety

82. Removal of all regulatory controls would enable the 50,000 plus individuals removed from the industry by existing regulatory controls to return. Through poor and criminal business practises they could present a risk to public protection and community safety.

83. Before the introduction of regulation there were concerns about the criminal histories and competence of those working in the industry. Regulation and enforcement activity has created a barrier to entry in the security industry, raising standards and driving out elements of criminal activity. There is a risk that unregulated, the industry would become an easy target for serious and organised criminals, who may see it as an opportunity to facilitate a range criminality, including serious organised crime such as dealing in Class A drugs, people smuggling and trafficking, and money laundering. Any increased criminal activity may cause an increase in costs to the Government such as through loss of revenue or increased law enforcement spending.

84. The licensing of individuals has required a national standard of competence from those working in the industry. This includes training in conflict management and, for door supervisors (who account for over 60% of all licensees), physical intervention training. In the absence of training, there would be no guarantee that security staff are trained to minimum standards and there could be an increased risk to the public of serious injury or deaths.

Reduced market share for legitimate businesses

85. Based on the Republic of Ireland's experience, it is assumed that about 5% of the private security market is held by businesses with poor and criminal business practices. This option would prevent the transfer of this market share to those businesses that would meet the required licensing standards.

Increased Insurance claims

86. The removal of any required business practices, improved governance and accountability and no regulatory control over those engaged in serious and organised crime would also lead to an increase in the number of claims being made by the industry on its insurers.

Lost investment

87. Since the creation of the SIA the private security industry has invested more than £200m in licensing costs alone in the current regulatory regime, return on this investment, which is unquantifiable, would be lost.

Risks and issues

Self regulation

88. It is possible that the industry would seek to impose some self regulation upon itself with a fee chargeable to those businesses and/or individuals that wish to be compliant. While this possibility and the potential costs could not be quantified at this time, such a move would have an indirect impact on this option and would alter, potentially by a significant amount, the calculated costs and benefits.

89. The impact of self regulation in all or part of the industry could be significant on the financial modelling of costs and benefits. The intention is that this impact will be better defined by responses to this consultation stage impact assessment, as well as the public consultation document.

Conclusion of Public Bodies Review

90. While the Government recognises the increased maturity of the private security industry since the creation of the SIA in 2003, the Public Bodies Review concluded that some statutory control of the industry should be maintained. This is due to the need to maintain appropriate levels of standards and compliance within the industry, and to build on the industry's contribution to combating crime, including serious and organised crime.

91. The intention is that the risk of an increase in criminality and risks to public protection and community safety, should all statutory regulatory controls be removed, will be better defined by responses to this consultation stage impact assessment, as well as the public consultation.

Devolved Administrations

92. Both Scotland and Northern Ireland have devolved responsibility for private security industry regulation. Ministers in both countries have stated that they will not support the removal of all statutory regulatory controls. However, calculations specific to Scotland and Northern Ireland have been included in the modelling of this option, so that it is possible to compare options 2 and 3 like for like.

OIOO

93. This is a net benefit to business of £232.1m resulting from the abolition of fees and regulatory burdens. This would all be in scope for One-In-One-Out as a change in the level of fees is linked to removing regulatory activity. The direct impact on business (Equivalent Annual) is a net figure of £25.5m.

Overview

Option	Benefits (PV)	Costs (PV)	Net benefits ten years (£m PV)	Benefits outweigh costs?
1. Do nothing	£0	£0	£0	N/a
2. New regime	£20.9	£20.7m	£0.2m	Yes
3.No regulation	£233.3m	£1.1m	£232.1m	No (Due to significant community safety risks)

94. **Option 2 is the preferred option.** A transition to a business licensing regime would reduce the overall cost and regulatory burden on businesses working in the private security industry, reduce criminal and poor practice within the industry, achieve greater public protection benefits, build on previous investment in the industry and increase support for law enforcement partners, particularly those focused on disrupting serious and organised crime.
95. **Option 3 is not the preferred option** due to the Public Bodies Review concluding that some statutory control of the industry should be maintained in order to ensure that appropriate standards are applied across the private security industry, in order to contribute to crime reduction, public protection and community safety measures.

Appendix 1: Financial Model

See accompanying attachment titled: *2012-03-12 Appendix 1 - IA Financial Model Version 014.xlsx*

Appendix 2: Specific Impact Tests

Small Business Impact

Option 2

- 1 The preferred option is that all businesses would be required to meet the regulatory requirements of business licensing. However, the regulator would give special consideration to the conditions imposed upon small and start-up businesses.
- 2 For micro and start-up businesses with less than ten employees, the Chancellor of the Exchequer announced a moratorium on new domestic regulation in England and Wales for three years (until 31 March 2014).
- 3 As the majority of private security industry businesses have less than ten employees, achieving the Government's aim of a new regulatory regime focussed on businesses would not be possible without a waiver from the moratorium on new regulation for micro businesses. Therefore, a waiver would be sought in tandem with the Reducing Regulation Committee clearance at Final Impact Assessment stage.
- 4 It is estimated that there are some 4,200 businesses in the private security industry, 3,090 of which are micro businesses. Without a waiver from the moratorium, the new regulatory regime would not license a significantly greater number of businesses than are currently members of the voluntary ACS and a significant majority of businesses would remain unlicensed.
- 5 Such limited business licensing would leave unaddressed the main areas of risk posed by the industry, such as low standards of business practice, organised crime using small businesses as fronts, individuals with inappropriate criminality controlling businesses and phoenix companies¹³ that abuse the provisions in the Insolvency Act 1986.
- 6 Under the current regulatory regime, 26%¹⁴ of all cases of non-compliance over the last year related to micro-businesses. Moreover, 30%¹⁵ of all ACS refusals involving non-compliance related to micro businesses.
- 7 Without a waiver, the de-regulatory benefits and cost savings anticipated across the industry would be lost as 73% of businesses would be unlicensed and those in controlling mind positions in 3090 businesses may not be subject to criminality or identity checks.
- 8 It is anticipated that self-employed persons who deploy only themselves, or are only deployed through another licensed business and do not directly contract with a buyer of designated security service, would not require a business licence.
- 9 125 ACS companies are micro and 170 are small. They would have grand-parenting rights into business licensing; they would have already met the criteria and would not be required to prove this again to the regulator. Consequently the application fee and administrative burden of applying would be confined to the 2755 non-ACS micro businesses that apply to be licensed.
- 10 Informal consultation with procurers and buyers of security services suggests that small businesses may benefit from the introduction of business licensing as some buyers say

¹³ Where the assets of a failed limited company are moved to another legal entity. This can lead to criminal insolvent trading activity

¹⁴ SIA Compliance and Enforcement statistics, October 2011

¹⁵ SIA Compliance and Enforcement statistics, October 2011

they are more likely to purchase from licensed small businesses in future than to purchase from them under the current regulatory regime.

Option 3

11 The removal of all regulatory controls would have no impact on small businesses

Community safety impact

Option 2

1. Option 2 provides a phased transition to a new regime that offers additional community safety benefits through business regulation, building upon the benefits of current regulation.

Option 3

2. Before the introduction of regulation there were concerns about the criminal histories and competence of those working in the industry. Regulation and enforcement activity has created a barrier to entry in the security industry, raising standards and driving out elements of criminal activity. There is a risk that unregulated, the industry would become an easy target for serious and organised criminals, who may see it as an opportunity to facilitate a range of serious criminality, including dealing in Class A drugs, people smuggling and trafficking, money laundering and other serious offences
3. Police and other enforcement partners have been able to use the PSIA offences to target serious and organised crime. An absence of regulation would mean that there would be no opportunity to improve community safety through joint enforcement operations.

Equality impact assessment

Option 2

1. In accordance with Section 149 of the Equality Act 2010, the SIA has a legal duty to investigate how policy is likely to impact the protected characteristics contained in that Act. Where a potential disadvantageous effect is identified, the SIA is required to show how that is either mitigated or justified by the objectives of the policy. We record our fulfilment of this duty by completing an Equality Impact Assessment (EIA).
2. We have considered the impact of the proposals for regulating private security businesses against our statutory obligation under the Equality Act 2010. Our initial assessment is that we do not anticipate any adverse impact on any of the equality strands for the private security industry. The policy would impact all businesses and they would be treated equally, with regard to the nine protected characteristics, under the new regime.
3. Evidence from the current ACS suggests there would be equality benefits from licensing businesses; the current ACS key criteria (Section 6) require applicant businesses, regardless of the number of employees, to be compliant with legal requirements in relation to employment and equality legislation. Business licensing criteria would place the same requirement on all private security businesses in the future.
4. We also anticipate that the policy would have positive consequences for equality in the wider public arena due to its crime reduction and increased community safety impacts.

Option 3

5. We have considered the impact of the proposals for non-regulation of private security businesses against our statutory obligation under the Equality Act 2010. Evidence from the current voluntary ACS scheme suggests that a no regulation option would lead to the loss of equality benefits which have been realised as a result of ACS. The current ACS key criteria (section 6) requires applicant business, regardless of the number of

employees, to be compliant with legal requirements in relation to employment and equality legislation.

Geographical summary

Scotland

- 1 SIA regulation of the private security industry in Scotland was introduced in November 2007 to all industry sectors. The Regulatory Impact Assessment described the objectives as,
 - a. *'...intended to protect the rights and safety of the public by reducing criminality in the private security industry and to enable the public to have confidence in the quality of service and reliability of the private security industry. Consistent regulation across the United Kingdom will also enable companies to operate on an equal footing on both sides of the border.'*
- 2 The success of PSI regulation in Scotland has led to ACS status becoming a requirement for all public sector security guard contracts and for all housing grants that require security services.
- 3 The SIA has formed effective partnerships with the Strathclyde Police and Scottish Crime and Drugs Enforcement Agency to disrupt those operating in the private security industry who are suspected to be linked to serious organised crime. Through co-ordinated investigations and the effective sharing of intelligence, the SIA has challenged individual licence holders and ACS companies. This has resulted in a significant number of licence revocations and disruption to companies believed to be fronts for serious crime. The partnerships are working well and all parties are positive about the progress being made.
- 4 The Scottish Government has been closely involved in the development of the model proposed in option 2 for the future regulation of the private security industry. The Cabinet Secretary for Justice has made clear in the Chamber of the Scottish Parliament that the Scottish Government would not allow this sector of industry to be un-regulated in Scotland and that the adoption of a consistent approach across the whole of the UK in conjunction with the Home Office would be the Scottish Government's preference. The Scottish Government reserve the right to act independently if the good standard of safety and protection that currently exists in Scottish communities is under threat.
- 5 In line with the principles laid out in the Scottish Firms Impact Test (SFIT), informal consultation with Scottish businesses and other Scottish stakeholders about option 2 proposals took place in 2011/12 at ACS Forums in Edinburgh and East Kilbride, a Future Regime road show in East Kilbride and meetings with the Skills for Security Scottish Section, British Security Industry Association (BSIA) Scotland and the Scottish Business Crime Centre. Representatives from Scottish firms and other Scottish stakeholders have also attended individual meetings with SIA representatives, industry working groups, routine network meetings, SIA conferences, the Buyers Forum and the Strategic Consultation Group. Feedback on the proposals has been received from 63 Scottish businesses. The general view has been supportive of the introduction of business licensing and changes to individual registration. Stakeholders have suggested a need for one regime for the whole UK to avoid additional burden and confusion for businesses operating in more than one jurisdiction. Stakeholders want to understand costs before committing to any specific arrangements. They have emphasised the need to avoid adverse impact on the 2014 Commonwealth Games.

Northern Ireland

- 6 The SIA has been working closely with the security industry to develop a framework for the new regime, which would be capable of working across the United Kingdom, but

which would be subject to any contrary decisions by the devolved administrations. Whilst the aim is to develop a consistent regulatory regime across the United Kingdom, the future regulatory regime for Northern Ireland would ultimately be decided upon by the devolved administration in Northern Ireland.

- 7 SIA regulation of the private security industry in Northern Ireland was introduced in December 2009 to all industry sectors other than in house Door Supervisors where regulation followed in April 2010.
- 8 SIA research surveys provide some positive indications regarding regulation of the private security industry in Northern Ireland. These include the view that regulation is perceived as having benefited the industry and its employers, employees and buyers through exclusion of criminals from the industry, improved standards and increased public confidence.
- 9 The SIA has licensed close to 11,000 individuals and there are over 50 businesses with ACS accreditation operating in Northern Ireland, including 12 companies based in Northern Ireland.
- 10 Since 2009, various issues have arisen in relation to the regulation of the industry in Northern Ireland, including: interoperability within the United Kingdom and with the Republic of Ireland - a consistent approach, so as to realise benefits and reduce burdens on the many businesses and individuals that operate both north and south of the border is recognised as important; the treatment of individuals with conflict related convictions; training for door supervisors; regulation of private investigators and vehicle immobilisation on private land.
- 11 Consideration of conflict related convictions in making licensing decisions has been an important issue and regulatory policy work in relation to this has been complex and significant. Both the current and the proposed future regulatory approaches are intended to accommodate successfully the particular circumstances of many applicants from Northern Ireland who are ex-prisoners, whilst also ensuring that the public in Northern Ireland, as in the rest of the United Kingdom, are protected through reducing criminality and raising standards. Some cases are currently the subject of judicial review.
- 12 There is little evidence of serious and organised crime playing a significant role in the private security industry in Northern Ireland, but the Organised Crime Task Force and the Police Service of Northern Ireland have agreed to engage with the regulator where a multi agency approach is considered appropriate.
- 13 On 7 March 2011 the Justice Minister, David Ford, agreed that work should be taken forward in Northern Ireland to establish a body of research, evidence and opinion so that policy options for the future regulation of the private security industry could be developed for Northern Ireland. He advised the SIA and the Home Office that decisions in Northern Ireland would have to be based upon Northern Ireland specific evidence and consultation and that he would undertake a review into how the industry could best be regulated in Northern Ireland.
- 14 A separate consultation by the Department of Justice Northern Ireland, launched on 30 April 2012, sets out options for how the private security industry in Northern Ireland should be regulated. Options include the transition to a new United Kingdom wide regime described here as option 1; option 2 do nothing – continue with the current regime; option 3, self regulation and; option 4, Northern Ireland specific regime. A pre-consultation paper setting out these options was presented to the Justice Committee in January 2012.
- 15 The objective of the Northern Ireland review is to make recommendations aimed at creating a more effective and efficient private security industry in Northern Ireland, one which would see:

- a reduction of criminality within the private security industry in Northern Ireland;
- an improvement of standards within the industry;
- a reduction of fear of crime for the general public in Northern Ireland;
- increased confidence in the integrity of the industry; and
- reduced cost and regulatory burden on both individuals working in the industry and the businesses that employ them.

16 The Department of Justice' view is that regulation of the private security industry remains necessary in light of the industry's increasing contact with the public and the attendant risk to public safety, particularly to the most vulnerable members of society. The Department of Justice also want to have a regime that inhibits crime gangs from exploiting the industry and so consider it vital that the industry is regulated and that only 'fit and proper' individuals are deployed.

17 The Department of Justice see the advantages of option 2 as including:

- Overall reduction in the regulatory burden;
- Maintain competitiveness of Northern Ireland businesses in the United Kingdom market;
- Business licensing would represent a step towards interoperability with the Republic of Ireland.

18 And the disadvantages as including:

- The opportunity cost to businesses who would have greater responsibility in carrying out identity and criminality checks on employees;
- The absence of a renewal requirement requires the regulator to keep criminality under review.

England and Wales

19 The SIA has consulted stakeholders through the Strategic Consultation Group (representatives of the private security industry) conferences, the Small Business Network and Door Supervision Network. Ten approved contractor forums have been held across the UK and a series of road shows were held for non ACS companies.

20 The plans for the new regime have been presented at meetings and conferences including:

- a. International Professional Security Association Annual General Meeting
- b. National Doorwatch
- c. British Institute of Innkeepers conference
- d. UK Crowd Management Association conference
- e. Skills for Security Cash and Valuables in Transit Group meeting
- f. Association of University Chief Security Officers conference
- g. Security Institute
- h. GMB Union security sector conference
- i. Skills for Security cross sector conference

21 There is regular engagement with key stakeholders on the proposals for transition; including Association of Chief Police Officers, British Security Industry Association,

Security Institute, Skills for Security, GMB Union, Home Office and other Government departments.