

<b>Title:</b> Licensing Act 2003: fees regulations  <b>IA No:</b>  <b>Lead department or agency:</b> Home Office <b>Other departments or agencies:</b>	<b>Impact Assessment (IA)</b>		
	<b>Date:</b> 28 January 2013		
	<b>Stage:</b> Consultation		
	<b>Source of intervention:</b> Domestic		
	<b>Type of measure:</b> Secondary legislation		
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<b>Summary: Intervention and Options</b>			<b>RPC Opinion:</b> Awaiting Scrutiny

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?
-£12.4m	-£125m	£1.3m	Yes   IN

**What is the problem under consideration? Why is government intervention necessary?**  
 The Licensing Act 2003 came into force in November 2005 and extends to England and Wales. It is primarily administered by local authorities in their capacity as "licensing authorities" (LAs). Fees are payable to LAs by holders of licences and certificates, and those applying for licences and certificates or issuing notices. They are intended to recover the costs of LAs in discharging their functions under the 2003 Act. Fees levels were set centrally in 2005, but have not been revised since. There is evidence of a net deficit of income against costs and therefore that costs are not being fully recovered locally. Also, there is evidence that the burden of fee payments is not properly aligned between fee categories and the current classes of fee-payer within those categories. The Government intends to introduce regulations, as enabled by the Police Reform and Social Responsibility Act 2011, prescribing that fees levels are set locally to achieve cost recovery.

**What are the policy objectives and the intended effects?** To enable each LA to (as nearly as possible) achieve cost recovery for the discharge of functions under the 2003 Act without cross-subsidisation between fee categories and classes of fee-payers within those categories (i.e. without one class of fee-payers being charged at higher than cost recovery so that another class can be charged less). This will remove unintended public subsidy of LA's administration of the 2003 Act (benefitting tax-payers), and spread the cost more equitably between fee-payers, based on cost.

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

**Option 1:** Do nothing (retain centrally-set fees at current levels).  
**Option 2:** Revise centrally-set fees to so that they recover average costs, retaining the band structure under which premises with different non-domestic rateable value (NNDR) pay different amounts for the main (application and annual) fees.  
**Option 3:** Enable locally-set licence fees (LSLF) retaining the NNDR band structure.  
**Option 4:** LSLF with flat fees in each fee category.  
**Option 5:** LSLF with the discretionary option for licensing authorities (LAs) to charge variable fee amounts for the main fees only on the basis of whether or not the premises are authorised to conduct licensable activities to a late terminal hour.  
**Option 6:** LSLF with the discretionary option for LAs to charge variable fee amounts for the main fees only on the basis of whether or not the premises is primarily used for the sale of alcohol for consumption on the premises.  
**Option 7:** LSLF with the discretionary option for LAs to charge variable fee amounts for the main fees on the basis of both late terminal hour and whether the premises are primarily used for alcohol sales.  
**Preferred options:** The preferred options are 5-7 (variants of LSLF without NNDR) at this stage, subject to consultation.

<b>Will the policy be reviewed?</b> It will be reviewed. <b>If applicable, set review date:</b> TBC through consultation					
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.		<b>Micro</b> Yes	<b>&lt; 20</b> Yes	<b>Small</b> Yes	<b>Medium</b> Yes
What is the CO <sub>2</sub> equivalent change in greenhouse gas emissions? (Million tonnes CO <sub>2</sub> equivalent)				<b>Traded:</b> None	<b>Non-traded:</b> None

**I have read the Impact Assessment and I am satisfied that (a) it represents a fair and reasonable view of the expected costs, benefits and impact of the policy, and (b) that the benefits justify the costs.**

Signed by the responsible Minister \_\_\_\_\_ Date: \_\_\_\_\_

# Summary: Analysis & Evidence

# Policy Option 2

**Description:** Revise centrally-set fees so that they recover average costs, maintaining the current non-domestic rateable value (NDR) band structure.

## FULL ECONOMIC ASSESSMENT

Price Base Year 2013/14	PV Base Year 2013/14	Time Period Years 10	<b>Net Benefit (Present Value (PV)) (£m)</b>		
		<b>Low:</b>	<b>High:</b>	<b>Best Estimate: 0.9</b>	

<b>COSTS (£m)</b>	<b>Total Transition (Constant Price) Years</b>		<b>Average Annual (excl. Transition) (Constant Price)</b>	<b>Total Cost (Present Value)</b>
<b>Low</b>	Optional			
<b>High</b>	Optional			
<b>Best Estimate</b>			13.3	<b>115</b>

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

The achievement of cost recovery is estimated to result in a net change in fee income in England and Wales of 25%, £13.2m, paid by the overall population of fee payers. We estimate that there will be shifts in the balance of fee income between different fees (and therefore fee payers) with, for example, the costs to new applicants increasing relatively more. Providing information to enable centrally-set fees is expected to cost licensing authorities £0.1m annually. We would expect this cost will be recovered from the overall population of fee-payers.

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

As costs vary significantly between LA areas, fee payers will be charged at higher than cost in many areas if fee levels are based on average costs. Some fee payers may be deterred from licensable activities if the relevant fee increases.

<b>BENEFITS (£m)</b>	<b>Total Transition (Constant Price) Years</b>		<b>Average Annual (excl. Transition) (Constant Price)</b>	<b>Total Benefit (Present Value)</b>
<b>Low</b>	Optional			
<b>High</b>	Optional			
<b>Best Estimate</b>			13.2	<b>114</b>

**Description and scale of key monetised benefits by 'main affected groups':** Estimated increase in fee income for LAs of £13.2m. We estimate that there will be shifts in the balance of fee income between different fees with, for example, the cost of annual fees paid by the existing population of licensed premises falling or increasing relatively less. We estimate that annual fees paid by the existing population of club premises certificate holders are particularly likely to be subject to lower relative increases or reductions.

**Other key non-monetised benefits by 'main affected groups':** Will achieve an approximation of cost recovery with reduced cross-subsidisation (i.e. a reduction in the extent to which one class of fee-payers is charged at higher than cost recovery and another class is charged less than). In areas where costs are higher than current fee income, unintended public subsidy will be marginally reduced. Therefore, the administration of the 2003 Act will be funded in a more equitable way.

<b>Key assumptions/sensitivities/risks</b>	<b>Discount rate (%)</b>	3.5
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This is a pre-consultation IA and a number of assumptions and estimates have been made. Estimated changes to the balance of fee income between fee categories have been obtained from a relatively small number of LAs that may not reflect national outcomes. The likely change in net fee income has been estimated on the basis of a survey conducted in 2006 (supplemented by recent work). Therefore, there is a risk that the extent of these changes has been overestimated or underestimated. The costs of providing evidence of costs may have been underestimated or overestimated. The estimates of income and costs are derived from 2011/12 and uprated on an assumption that activity levels and costs will be broadly similar in the future. Therefore, the baseline of income and costs may have been overestimated or underestimated.

## BUSINESS ASSESSMENT (Option 2)

<b>Direct impact on business (Equivalent Annual) £m:</b>			<b>In scope of OIOO?</b>	<b>Measure qualifies as</b>
<b>Costs: 0.1</b>	<b>Benefits:</b>	<b>Net: -0.1</b>	YES	IN

# Summary: Analysis & Evidence

# Policy Option 3

**Description:** Prescribe that fee levels under the 2003 Act are set by the authority to which they are payable (referred to as “locally-set licensing fees”, LSLF) and maintain the national non-domestic rateable value (NDR) bands

## FULL ECONOMIC ASSESSMENT

Price Base Year 2013/14	PV Base Year 2013/14	Time Period Years 10	Net Benefit (Present Value (PV)) (£m)		
			Low:	High:	Best Estimate: -12.9

COSTS (£m)	Total Transition (Constant Price) Years	Average Annual (excl. Transition) (Constant Price)	Total Cost (Present Value)
Low	Optional		
High	Optional		
Best Estimate		16.0	138

### Description and scale of key monetised costs by ‘main affected groups’

The achievement of cost recovery is estimated to result in a net change in fee income in England and Wales of 27%, £14.5m, paid by the overall population of fee payers. We estimate that there will be shifts in the balance of fee income between different fees (and therefore fee payers) with, for example, the costs to new applicants increasing relatively more. The process of setting fees locally is expected to cost licensing authorities £1.5m annually - this cost will be recovered from the overall population of fee-payers.

### Other key non-monetised costs by ‘main affected groups’

Fee payers will need to familiarise themselves with the correct fee in their LA area and whether they are subject to a higher or lower fee amount. Some may be deterred from licensable activities if the relevant fee increases.

BENEFITS (£m)	Total Transition (Constant Price) Years	Average Annual (excl. Transition) (Constant Price)	Total Benefit (Present Value)
Low	Optional		
High	Optional		
Best Estimate		14.5	125

**Description and scale of key monetised benefits by ‘main affected groups’:** Estimated increase in fee income for LAs of £14.5m. We estimate that there will be shifts in the balance of fee income between different fees with, for example, the cost of annual fees paid by the existing population of licensed premises falling or increasing relatively less. We estimate that annual fees paid by the existing population of club premises certificate holders are particularly likely to be subject to lower relative increases or reductions.

**Other key non-monetised benefits by ‘main affected groups’:** Will enable cost recovery for LAs, (removing unintended public subsidy) and reduce cross-subsidisation (i.e. a reduction in the extent to which one class of fee-payers is charged more so that another class is charged less) more than Option 2. LSLF will enable fee levels that take account of variations in costs between different areas. Therefore, the administration of the 2003 Act will be funded in a more equitable way.

### Key assumptions/sensitivities/risks

Discount rate (%) 3.5

Individual LAs will use local evidence to set fee levels to achieve cost recovery. This is likely to result in considerable variation between LAs. This is a pre-consultation IA and a number of assumptions and estimates have been made. Estimated changes to the balance of fee income between fee categories have been obtained from a relatively small number of LAs that may not reflect national outcomes. The likely change in net fee income has been estimated on the basis of a survey conducted in 2006 (supplemented by recent work). Therefore, there is a risk that the extent of these changes has been overestimated or underestimated. The costs of the new duty to determine fees locally may have been underestimated or overestimated. The estimates of income and costs are derived from 2011/12 and updated on an assumption that activity levels and costs will be broadly similar in the future. Therefore, the baseline of income and costs may have been overestimated or underestimated.

## BUSINESS ASSESSMENT (Option 3)

Direct impact on business (Equivalent Annual) £m:	In scope of OIOO?	Measure qualifies as
Costs: 1.3	YES	IN
Benefits:		
Net: -1.3		

# Summary: Analysis & Evidence

# Policy Option 4

Description: LSLF with flat fees in each fee category

## FULL ECONOMIC ASSESSMENT

Price Base Year 2013/14	PV Base Year 2013/14	Time Period Years 10	Net Benefit (Present Value (PV)) (£m)		
			Low:	High:	Best Estimate: -12.0

COSTS (£m)	Total Transition (Constant Price) Years	Average Annual (excl. Transition) (Constant Price)	Total Cost (Present Value)
Low	Optional		
High	Optional		
Best Estimate		15.9	138

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

The achievement of cost recovery is estimated to result in a net change in fee income of 27% in England and Wales, £14.5m, paid by the overall population of fee payers. We estimate that there will be shifts in the balance of fee income between different fees (and, therefore, fee payers) with, for example, the costs to new applicants increasing relatively more. The process of setting fees locally is expected to cost licensing authorities £1.4m annually - this cost will be recovered from the overall population of fee-payers.

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

Fee payers will need to familiarise themselves with the correct fee in their LA area. Some may be deterred from licensable activities if the relevant fee increases.

BENEFITS (£m)	Total Transition (Constant Price) Years	Average Annual (excl. Transition) (Constant Price)	Total Benefit (Present Value)
Low	Optional		
High	Optional		
Best Estimate		14.5	125

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

Estimated increase in fee income for LAs of £14.5m. It is estimated that there will be shifts in the balance of fee income between different fees with, for example, the cost of annual fees paid by the existing population of licensed premises falling or increasing relatively less. We estimate that annual fees paid by the existing population of club premises certificate holders are particularly likely to be subject to lower relative increases or reductions.

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

Will enable cost recovery for LAs (removing unintended public subsidy) and reduce cross-subsidisation (i.e. a reduction in the extent to which one class of fee-payers is charged more so that another class is charged less) more than Option 2. LSLF will enable fee levels that take account of variations in costs between different areas. Therefore, the administration of the 2003 Act will be funded in a more equitable way.

Key assumptions/sensitivities/risks

Discount rate (%)

3.5

Individual LAs will use local evidence to set fee levels to achieve cost recovery. This is likely to result in considerable variation between LAs. This is a pre-consultation IA and a number of assumptions and estimates have been made. Estimated changes to the balance of fee income between fee categories have been obtained from a relatively small number of LAs that may not reflect national outcomes. The likely change in net fee income has been estimated on the basis of a survey conducted in 2006 (supplemented by recent work). Therefore, there is a risk that the extent of these changes has been overestimated or underestimated. The costs of the new duty to determine fees locally may have been underestimated or overestimated. The estimates of income and costs are derived from 2011/12 and updated on an assumption that activity levels and costs will be broadly similar in the future. Therefore, the baseline of income and costs may have been overestimated or underestimated.

## BUSINESS ASSESSMENT (Option 4)

Direct impact on business (Equivalent Annual) £m:	In scope of OIOO?	Measure qualifies as
Costs: 1.3	YES	IN
Benefits:		
Net: -1.3		

# Summary: Analysis & Evidence

# Policy Option 5

**Description:** LSLF with the option for licensing authorities (LAs) to charge variable fee amounts for the main fees on the basis of whether or not the premises is authorised to conduct licensable activities to a late terminal hour.

## FULL ECONOMIC ASSESSMENT

Price Base Year 2013/14	PV Base Year 2013/14	Time Period Years 10	Net Benefit (Present Value (PV)) (£m)		
			Low:	High:	Best Estimate: -12.2

COSTS (£m)	Total Transition (Constant Price) Years	Average Annual (excl. Transition) (Constant Price)	Total Cost (Present Value)
Low	Optional		
High	Optional		
Best Estimate		16.0	137

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

The achievement of cost recovery is estimated to result in a net change in fee income of 27% in England and Wales, £14.5m, paid by the overall population of fee payers. We estimate that there will be shifts in the balance of fee income between different fees (and, therefore, fee payers) with, for example, the costs to new applicants increasing relatively more. The process of setting fees locally is expected to cost licensing authorities £1.4m annually - this cost will be recovered from the overall population of fee-payers.

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

Fee payers will need to familiarise themselves with the correct fee in their LA area and whether they are subject to a higher or lower fee amount. Some may be deterred from licensable activities if the relevant fee increases.

BENEFITS (£m)	Total Transition (Constant Price) Years	Average Annual (excl. Transition) (Constant Price)	Total Benefit (Present Value)
Low	Optional		
High	Optional		
Best Estimate		14.5	125

**Description and scale of key monetised benefits by 'main affected groups':** Estimated increase in fee income for LAs of £14.5m. It is estimated that there will be shifts in the balance of fee income between different fees with, for example, the cost of annual fees paid by the existing population of licensed premises falling or increasing relatively less. We estimate that annual fees paid by the existing population of club premises certificate holders are particularly likely to be subject to lower relative increases or reductions.

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

Will enable cost recovery for LAs (removing unintended public subsidy) and reduce cross-subsidisation (i.e. a reduction in the extent to which one class of fee-payers is charged more so that another class is charged less) more than Options 2-4. LSLF will enable fee levels that take account of variations in costs between different areas. The proposed discretion to vary fee amounts should enable LAs to further reduce cross-subsidisation. Therefore, the administration of the 2003 Act will be funded in a more equitable way.

Key assumptions/sensitivities/risks Discount rate (%) 3.5

Individual LAs will use local evidence to set fee levels to achieve cost recovery. This is likely to result in considerable variation between LAs. This is a pre-consultation IA and a number of assumptions and estimates have been made. Estimated changes to the balance of fee income between fee categories have been obtained from a relatively small number of LAs that may not reflect national outcomes. The likely change in net fee income has been estimated on the basis of a survey conducted in 2006 (supplemented by recent work). Therefore, there is a risk that the extent of these changes has been overestimated or underestimated. The costs of the new duty to determine fees locally may have been underestimated or overestimated. The estimates of income and costs are derived from 2011/12 and updated on an assumption that activity levels and costs will be broadly similar in the future. Therefore, the baseline of income and costs may have been overestimated or underestimated.

## BUSINESS ASSESSMENT (Option 5)

Direct impact on business (Equivalent Annual) £m:			In scope of OIOO?	Measure qualifies as
Costs: 1.3	Benefits:	Net: -1.3	YES	IN

# Summary: Analysis & Evidence

# Policy Option 6

Description: LSLF with the option for LAs to charge variable fee amounts for the main fees on the basis of whether or not the premises is primarily used for the sale of alcohol for consumption on the premises

## FULL ECONOMIC ASSESSMENT

Price Base Year 2013/14	PV Base Year 2013/14	Time Period Years 10	Net Benefit (Present Value (PV)) (£m)		
			Low:	High:	Best Estimate: -12.2

COSTS (£m)	Total Transition (Constant Price) Years	Average Annual (excl. Transition) (Constant Price)	Total Cost (Present Value)
Low	Optional		
High	Optional		
Best Estimate		16.0	137

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

The achievement of cost recovery is estimated to result in a net change in fee income of 27% in England and Wales, £14.5m, paid by the overall population of fee payers. We estimate that there will be shifts in the balance of fee income between different fees (and, therefore, fee payers) with, for example, the costs to new applicants increasing relatively more. The process of setting fees locally is expected to cost licensing authorities £1.4m annually- this cost will be recovered from the overall population of fee-payers.

**Other key non-monetised costs by 'main affected groups':** Fee payers will need to familiarise themselves with the correct fee in their LA area and whether they are subject to a higher or lower fee amount. Some may be deterred from licensable activities if the relevant fee increases.

BENEFITS (£m)	Total Transition (Constant Price) Years	Average Annual (excl. Transition) (Constant Price)	Total Benefit (Present Value)
Low	Optional		
High	Optional		
Best Estimate		14.5	125

**Description and scale of key monetised benefits by 'main affected groups':** Estimated increase in fee income for LAs of £14.5m. It is estimated that there will be shifts in the balance of fee income between different fees with, for example, the cost of annual fees paid by the existing population of licensed premises falling or increasing relatively less. We estimate that annual fees paid by the existing population of club premises certificate holders are particularly likely to be subject to lower relative increases or reductions.

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

Will enable cost recovery for LAs (removing unintended public subsidy) and reduce cross-subsidisation (i.e. a reduction in the extent to which one class of fee-payers is charged more and another class is charged less) more than Options 2-4. LSLF will enable fee levels that take account of variations in costs between different areas. The proposed discretion to vary fee amounts should enable LAs to further reduce cross-subsidisation. Therefore, the administration of the 2003 Act will be funded in a more equitable way.

Key assumptions/sensitivities/risks	Discount rate (%)	3.5
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Individual LAs will use local evidence to set fee levels to achieve cost recovery. This will result in considerable variation between LAs. This is a pre-consultation IA and a number of assumptions and estimates have been made. Estimated changes to the balance of fee income between fee categories have been obtained from a relatively small number of LAs that may not reflect national outcomes. The likely change in net fee income has been estimated on the basis of a survey conducted in 2006 (supplemented by recent work). There is a risk of dispute about which premises are primarily used for alcohol sales, and, therefore, that the costs of the new duty to determine fees locally may have been underestimated. The estimates of income and costs are derived from 2011/12 and uprated on an assumption that activity levels and costs will be broadly similar in the future. Therefore, the baseline of income and costs may have been overestimated or underestimated.

## BUSINESS ASSESSMENT (Option 6)

Direct impact on business (Equivalent Annual) £m:			In scope of OIOO?	Measure qualifies as
Costs: 1.3	Benefits:	Net: -1.3	YES	IN

## Summary: Analysis & Evidence

## Policy Options 7

Description: LSLF with the option for LAs to charge variable fee amounts on the basis of both late terminal hour and whether the premises are primarily used for alcohol sales.

### FULL ECONOMIC ASSESSMENT

Price Base Year 2013/14	PV Base Year 2013/14	Time Period Years 10	Net Benefit (Present Value (PV)) (£m)		
			Low:	High:	Best Estimate: -12.4

COSTS (£m)	Total Transition (Constant Price) Years	Average Annual (excl. Transition) (Constant Price)	Total Cost (Present Value)
Low	Optional		
High	Optional		
Best Estimate		16.0	138

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

The achievement of cost recovery is estimated to result in a net change in fee income of 27% in England and Wales, £14.5m, paid by the overall population of fee payers. We estimate that there will be shifts in the balance of fee income between different fees (and, therefore, fee payers) with, for example, the costs to new applicants increasing relatively more. The process of setting fees locally is expected to cost licensing authorities £1.4m annually this cost will be recovered from the overall population of fee-payers.

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

Fee payers will need to familiarise themselves with the correct fee in their LA area and whether they are subject to a higher or lower fee amount. Some may be deterred from licensable activities if the relevant fee increases.

BENEFITS (£m)	Total Transition (Constant Price) Years	Average Annual (excl. Transition) (Constant Price)	Total Benefit (Present Value)
Low	Optional		
High	Optional		
Best Estimate		14.5	125

**Description and scale of key monetised benefits by 'main affected groups':** Estimated increase in fee income for LAs of £14.5m. It is estimated that there will be shifts in the balance of fee income between different fees with, for example, the cost of annual fees paid by the existing population of licensed premises falling or increasing relatively less. We estimate that annual fees paid by the existing population of club premises certificate holders are particularly likely to be subject to lower relative increases or reductions.

**Other key non-monetised benefits by 'main affected groups':** Will enable cost recovery for LAs (removing unintended public subsidy) and reduce cross-subsidisation (i.e. a reduction in the extent to which one class of fee-payers is charged more so that another class is charged less) more than Options 2-4. LSLF will enable fee levels that take account of variations in costs between different areas. The proposed discretion to vary fee amounts should enable LAs to further reduce cross-subsidisation. Therefore, the administration of the 2003 Act will be funded in a more equitable way.

Key assumptions/sensitivities/risks

Discount rate (%)

3.5

Individual LAs will use local evidence to set fee levels to achieve cost recovery. This will result in considerable variation between LAs. This is a pre-consultation IA and a number of assumptions and estimates have been made. Estimated changes to the balance of fee income between fee categories have been obtained from a relatively small number of LAs that may not reflect national outcomes. The likely change in net fee income has been estimated on the basis of a survey conducted in 2006 (supplemented by recent work). There is a risk of dispute about which premises are primarily used for alcohol sales, and, therefore, that the costs of the new duty to determine fees locally may have been underestimated. The estimates of income and costs are derived from 2011/12 and updated on an assumption that activity levels and costs will be broadly similar in the future. Therefore, the baseline of income and costs may have been overestimated or underestimated.

### BUSINESS ASSESSMENT (Option 7)

Direct impact on business (Equivalent Annual) £m:			In scope of OIOO?	Measure qualifies as
Costs: 1.3	Benefits:	Net: -1.3	YES	IN

# Evidence Base (for summary sheets)

## A. Strategic Overview

### Context

- 1) The Licensing Act 2003 (the 2003 Act) regulates “licensable activities”. These are the sale of alcohol (and the supply of alcohol by members’ clubs); the provision of late night refreshment; and the provision of regulated entertainment. The 2003 Act made local authorities, each acting in their capacity as a “licensing authority” (LA), responsible for the administration of licensing in their respective areas. Licensing fees are paid to LAs and are intended to recover their costs in discharging their functions under the 2003 Act.
- 2) The current fees were set centrally, and have not changed<sup>1</sup> since the 2003 Act came into force in November 2005. The Government decided in 2010 that cost recovery should be achieved by fee levels being set locally, because variations in costs mean that it is difficult to achieve a close approximation to cost recovery with centrally-set fee levels. The Police Reform and Social Responsibility Act 2011 (the 2011 Act) contains provision to amend the 2003 Act by inserting a power (in section 197A) for the Home Secretary to prescribe by regulations that fee levels under the 2003 Act are set by the LA to which they are payable, based on cost recovery. The Government intends to consult on these regulations before implementing them. This Impact Assessment (IA) considers the options to be put forward in that consultation, alongside options reflecting the status quo, which are presented for comparison.

### Groups Affected

- 3) LAs are responsible for the administration of the 2003 Act, and would be responsible for the administration of locally-set licensing fees.
- 4) Fee payers include a wide array of businesses, especially those who sell alcohol and provide late night refreshment; not-for-profit organisations, including private members’ clubs (such as political or British Legion clubs); and individuals (such as personal licence applicants). In addition, over 120,000 Temporary Event Notices (TENs) are given each year by a variety of businesses and not-for-profit groups, to authorise the carrying on of licensable activities on an occasional basis.

### Consultation

- 5) This is a pre-consultation IA and is based on the best available evidence at the point of publication. The IA sets out a number of areas in which we intend to expand our evidence base during the consultation process. Estimates therefore remain subject to change following consultation.
- 6) The “Rebalancing the Licensing Act” consultation (2010) sought views on enabling local authorities to increase licence fees so that they are based on cost recovery. 66% of respondents to the consultation question on fees agreed that they should be increased based on cost recovery. Furthermore, 37 of the 46 LAs who responded on this matter were in support of the proposal.
- 7) A description of data-gathering conducted with LAs in preparation for this consultation is set out below. Representatives of both fee-payers and LAs were represented on the locally-set fees working group. Technical discussions will continue during the consultation process.

## B. Rationale

- 8) The aim of these proposals is to enable each LA to, as nearly as possible, achieve cost recovery for the discharge of functions under the 2003 Act. This will remove, as nearly as possible, unintended public subsidy of the administration of the 2003 Act by LAs in areas where costs are higher than current fee income, and thus benefit tax payers. It will avoid unintended excess costs on fee-payers in areas with lower costs, and therefore benefit fee-payers.

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<sup>1</sup> Except for the addition of new fees for new processes, e.g. an application for a minor variation.



## C. Objectives

- 9) In achieving the objective of cost recovery there are a number of subsidiary objectives that the Government seeks to fulfil. These are set out below alongside further details on the background of the consultation.

### Avoidance of cross-subsidisation

- 10) It is the Government's intention that cost recovery is achieved without cross-subsidisation. That is, that one class of fee-payers should not be charged at higher than cost recovery to enable another class of fee payers to be charged at less than cost recovery. For example, one consequence of this principle is that small or micro businesses should not be charged less if this means that larger businesses are charged more. Micro businesses are therefore *not* exempt from this policy.
- 11) It is therefore intended that the change should result in a distribution of fees between different fee categories and different categories of payer that is more closely related to costs.

### Evidence-based rationale for variable fee amounts

- 12) The current fee regulations prescribe that the amount of the "main fees"<sup>2</sup> depends on the national non-domestic rating (NNDR<sup>3</sup>) of the premises to which the fee relates, with higher fees for premises with higher NNDR. The *LA sample survey* (see Section E below) was used to test for statistically significance differences between the costs incurred by premises within each NNDR band<sup>4</sup> in an area. The evidence did not support the use of NNDR as a criterion of variable costs because the costs incurred by premises within each band were not significantly linked to cost differences. This supports the general view of licensing officers licensing officers, expressed in technical groups and discussions in preparation for this consultation, that NNDR levels are not linked to costs.
- 13) The retention of NNDR bands will, therefore, not assist in reducing public subsidy or cross-subsidisation, but will add marginally to the cost of setting fees (see Section E). However, abandoning the use of NNDR bands is not expected to significantly affect the overall cost of the policy in terms of the overall increase in fee income.
- 14) Discussions with licensing officers indicate that alternative approaches to variable fee amounts may:
- better reflect variations in licensing authority costs and;
  - be practical and cost-effective to implement as the basis for variable fee amounts.
- 15) These alternative approaches were:
- variable fee amounts for the main fees on the basis of whether or not the premises are authorised to conduct licensable activities to a late terminal hour; and
  - variable fee amounts for the main fees on the basis of whether or not the premises are primarily used for the sale of alcohol for consumption on the premises.
- 16) If made available in regulations, these criteria would only be implemented locally as the basis for variable fee amounts if there is evidence that (and to the extent that) they are linked to costs in that area. They will therefore enable LAs to more closely achieve the objective of the avoidance of cross-subsidisation in their respective areas. The consultation will seek further views on the link between these criteria and costs.
- 17) It is expected that the higher fee amount would be applicable to premises whose latest terminal hour is between midnight and 6am and that LAs will be able to define the terminal hour to which the higher fee applies. (For example, some authorities may determine that, in their area, higher costs are only associated with premises that serve alcohol after 1am on any day). The consultation will seek views on the hours at which the variable fee amount may apply. The consultation will also seek views on whether LAs should be able to exempt premises whose latest terminal hour is

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<sup>2</sup> The "main fees" are: the fees paid in respect of applications for new premises licences and club premises certificates; applications for full variations to premises licences and club premises certificates; and annual fees in respect of premises licences and club premises certificates.

<sup>3</sup> Rateable value represents the open market annual rental value of a business/ non-domestic property - the rent the property would let for if it was being offered on the open market.

<sup>4</sup> Premises with no NNDR up to a NNDR of £4,300 are Band A; £4,301 to £33,000 Band B; £33,001 to £87,000 Band C; £87,001 to £125,000 Band D; and above £125,001 Band E.

occasional only (e.g., for special events such as New Year's Eve and St. Patrick's day), if occasional late opening is not connected to higher costs.

### **Practicality and cost effectiveness of classes**

- 18) The availability of classes creates marginal costs (see Section E). The consultation will therefore also seek views on the practicality and cost effectiveness of the criteria. For example, we will invite views on the practicality of determining whether premises are in each class and whether there is a possibility of dispute about which premises are in each class.

### **Commitment to setting fee maxima**

- 19) The Government is committed to setting a maximum fee level for each fee. The consultation invites views on proposed fee maxima. These "caps" will provide reassurance to fee payers that fees cannot be set at excessive levels to, for example, generate income or be used as an economic deterrent. The Government is also committed to providing guidance to licensing authorities on the avoidance of gold-plating. The Government does not intend to set fee maxima at levels that will prevent cost recovery, however, as costs that are incurred in the discharge of functions under the 2003 Act ought to be recovered.
- 20) The maxima will not be, to any extent, recommended fee levels: locally-set fee levels should be based on evidence of what is required for cost recovery, and it will be unlawful to merely set them at the level of the maxima or at a proportion of the maxima, without regard to costs.
- 21) The evidence from the *LA sample survey* (see below) and discussions with LAs indicates that the costs of any particular fee category vary greatly in different LAs. This variation is largely driven by variations in the level of intervention (as opposed to merely variations in the cost of, for example, processing applications or notifications that are not subject to representations or objection notices).
- 22) For example, one central London LA that responded to the *LA sample survey* (see below) reported that the average cost of administering a Temporary Event Notice (TEN) was £414 in 2011/12. The combined average cost of the other respondents was £55. Some of the other LAs had rarely or never received objection notices to TENs (which are likely to result in a hearing held by the LA and, therefore, to significant costs). However, 17% of TENs in the central London LA resulted in those costs in 2011-12. Similar considerations apply to other duties of LAs, such as how often they have received objection notices from the police to an application to vary a licence to specify a new Designated Premises Supervisor, or how often they have received representations on applications for premises licences. (All of these processes can potentially result in the need for a hearing administered by the LA).
- 23) The result of this is that areas with the highest costs in any fee category deviate very greatly from the average, whilst it is likely that the costs in the majority of LAs will fall below the average in any fee category. The maximum fee levels proposed in the consultation are designed to ensure that LAs with the highest costs are not prevented from recovering those costs. They are therefore much higher than the estimated average fee levels that are used as the basis of this impact assessment and are assumed to have no impact on these estimates.

### **Legal parameters**

- 24) This IA concerns regulations to be made under Section 197A Act of the 2003 Act. This legislation sets out constraints on those regulations. In particular, LAs will be able to charge different amounts for different "classes of case" (or criteria) specified in the regulations, but may not otherwise prescribe different amounts for different cases. In other words, the legislation enables the Home Secretary to prescribe that licensing authorities set fee levels, but not that they determine their own fee structure. The current NNDR fee bands are examples of different "classes of case" being charged different amounts, based on the criterion of NNDR. LAs will not be able to determine variable fee amounts dependent on NNDR, or any other criteria, unless the criteria are specified in the regulations.
- 25) It should be noted that nothing in section 197A of the 2003 Act enables regulations that change the circumstances under which a fee is payable under the 2003 Act (See Annex B). For example, regulations under section 197A cannot enable fees to be charged for processes or activities for which fees are not already chargeable or exempt premises or activities from the licensing regime.

These subjects are, therefore, not addressed by this IA. Recent consultations on the Government's Alcohol Strategy and regulated entertainment have invited views on proposals to de-regulate and reduce the burden of the 2003 Act<sup>5</sup>.

## Background

### Licensing functions

- 26) LAs are required to perform a range of functions under the 2003 Act. In particular, LAs must process and determine a number of different types of application and notice in relation to premises licences and club premises certificates, administer temporary authorisations and process and determine applications for personal licences. Applications and notices may trigger hearings held by the LA and, in rare cases, lead to appeal procedures involving the LA. LAs are responsible for advertising certain licensing applications on their website or by notices.
- 27) LAs must hold review hearings to determine applications for the review of existing licences and certificates. A necessary component of fulfilling these responsibilities is the monitoring of compliance with the terms of licences and certificates in their areas. This may comprise inspections of premises, liaison with bodies with whom they work in partnership (e.g. the police, other arms of local authorities, licensed premises) and conciliation between parties to avert the need for a review.
- 28) Under the 2003 Act, application processes, and certain processes under which notification must be sent to LAs, must be accompanied by a fee. Additionally, LAs are required to recover an annual fee from premises licence and club premises certificates holders. The existing levels of these fees (including the scheme of variable fee amounts for different types of premises) are set out in **Annex A** and the powers to prescribe these fees are set out in **Annex B**.
- 29) LAs must also carry out other functions under the 2003 Act for which no fee is specifically chargeable. For example, they must determine and periodically update their statements of licensing policy and they are responsible for maintaining a register of licensing information. Under the proposals for locally-set fees, they will also be responsible for setting fee levels. Under section 197A of the 2003 Act, the "general costs" arising from these functions are to be recovered through fees, with a "reasonable share" of these costs included in fee levels.

### Scope of IA

- 30) This impact assessment therefore assesses the following key outcomes:
  - a. the estimated change in net fee income that will result from the fees being set on the basis of cost recovery,
  - b. the estimated change in the distribution of fee income arising from different fee categories,
  - c. the estimated change in the distribution of fee income arising from proposed change to the classes of fee payer that may be charged different amounts for the same fee category, and
  - d. the costs of a new duty to set fees locally.

## D. Options

31) The options considered in this IA are as follows:

- Option 1: Do nothing (retain centrally-set fees at current levels).
- Option 2: Revise centrally-set fees to so that they recover average costs, retaining the band structure under which premises with different non-domestic rateable value (NNDR) pay different amounts for the main (application and annual) fees.
- Option 3: Prescribe that fee levels under the 2003 Act are set by the authority to which they are payable (referred to as "locally-set licensing fees", LSLF) retaining the NNDR band structure.

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<sup>5</sup> The recent "Consultation on delivering the Government's policies to cut alcohol fuelled crime and anti-social behaviour" invited views on measures to free up responsible businesses. The Department for Culture, Media and Sport has recently brought forward proposals to de-regulate entertainment. More information is available at <http://www.homeoffice.gov.uk/> and <http://www.culture.gov.uk/>.

- Option 4: LSLF with flat fees in each fee category.
- Option 5: LSLF with the discretionary option for LAs to charge variable fee amounts for the “main fees” only on the basis of whether or not the premises is authorised to conduct licensable activities to a late terminal hour.
- Option 6: LSLF with the discretionary option for LAs to charge variable fee amounts for the “main fees” only on the basis of whether or not the premises is primarily used for the sale of alcohol for consumption on the premises.
- Option 7: LSLF with the discretionary option for LAs to charge variable fee amounts on the basis of both late terminal hour and whether the premises are primarily used for alcohol sales.

## E. Appraisal (Costs and Benefits)

### GENERAL ASSUMPTIONS AND DATA

- 32) The impact of a move to cost recovery on total fee income in England and Wales is very difficult to estimate. Several uncertainties exist due to local variations in activity levels and costs and the discretionary nature of licensing at a local level. Areas of uncertainty (considered in more detail below) include:
- The number of licence applications and other related processes over the next 10 years; and their costs;
  - For Option 2, what fee levels would be set centrally;
  - The possible deterrent (or incentive) effect of increased (reduced) fee levels for applications, notices, and annual fees;
  - For Options 3 to 7, what fee levels each LA will determine for each type of fee to recover their costs;
  - For Options 5 and 7, whether the LA decides that the local evidence of costs justifies variable fee amounts; the amount of the variation (within boundaries set centrally); and what is defined as a late terminal hour (between the hours of midnight and 6am);
  - For Options 6 and 7, the number of premises that fall into this category. The LA will decide whether the local evidence of costs justifies variable fee amounts; and the amount of the variation (within boundaries set centrally).

### Scope for One-in-two-out (OITO)

- 33) The purpose of Options 2 to 7 is to enable each LA to recover the cost of service provision as nearly as possible without cross-subsidisation between fee-payers. This is not a policy change: the current fees also had this intention. As described above (constraints), the circumstances for which a fee is chargeable will remain (see **Annex B**). In particular, it is not the objective of the policy to regulate or de-regulate the market, i.e. to use fees to control the number of businesses using the service. Under Options 3-7, it will be unlawful for LAs to set fees on any basis other than cost recovery, for example, so as to raise income, or act as an economic disincentive. Therefore, the adjustment of fees to achieve cost recovery is out of scope for OITO<sup>6</sup>.
- 34) However, the administrative cost to LAs in providing information to enable centrally-set fees (Option 2), and setting LSLF (Options 3 to 7) (estimated below) will be transferred to fee-payers through fees. This is an additional function in administering the 2003 Act and is therefore in scope for OITO. Paragraph 4 describes the groups that are encompassed by the term ‘fee payers’ in this appraisal.

### Baseline fee income

- 35) The current total fee income in England and Wales in 2011/12 is estimated to be **£53.2m**. (See Table 8 in Annex A)<sup>7</sup>.

<sup>6</sup> The One-in, One-out (OIOO) Rule: Frequently Asked Questions, July 2012: “where a fee/charge is altered to cover the cost of service provision this is not considered an expansion in regulatory activity and would be considered out-of-scope of OIOO”.

<sup>7</sup> This estimate is based on national statistics where possible. The 2011-12 national statistics bulletin does not provide a breakdown of applicants for new premises licences and club premises certificates (CPCs); or full variations to premises licences and CPCs, by fee band. The breakdown by fee band for these classes was estimated by extrapolation from the population of annual fee payers. Income from fee processes that were not available in the 2011-12 survey were estimated by extrapolation from the most recent national statistics bulletin in which they were recorded. Income from fee processes that have never been recorded in a national statistics bulletin (reflecting a small proportion of total estimated income) was estimated from extrapolation from the sample survey (see below for explanation). This sample of LAs may not be nationally representative of all LAs and these figures should therefore be treated with caution.

### Estimates of LA costs (“LA sample survey”)

- 36) The Home Office, working with the Local Government Association, conducted a survey of the relationship between costs and income with 20 LAs in preparation for this consultation. The LAs approached were a mix of different types of authority (such as Welsh County Borough; District; Unitary; and London Borough); different sizes (in terms of the number of licences held); and different parts of the country. However, the final sample was not statistically representative of the total 350 LAs in England and Wales<sup>8</sup>. The LAs provided estimates on the actual costs that they had incurred in respect of all fee-paying process under the 2003 Act in 2011-12<sup>9</sup>. This was based on the full employment costs of each task, as well as applicable overheads (such as office rents). Where relevant, this was broken down by fee-band. In addition to the base cost of administering a non-contentious application, notice, or annual fee payment, the incidence and cost of the main additional “interventions” that may or may not be required was estimated for each fee category. Examples of “interventions” measured in the survey included: hearings on application or to consider an objection to a TEN; conciliation processes to avert the need for a hearing; and review applications or inspections to monitor compliance in respect of existing premises paying annual fees.
- 37) Each LA was also invited to provide an estimate of the overall relationship between cost and income for the total cost of service. This included, for example, the costs of preparing a statement of licensing policy. The sum of average costs for fees was not required to equal the total cost of service, because there are additional functions under the 2003 Act that are not directly attributable to a fee-paying process (see above) and because the estimates of the costs of fee-paying processes were not able to capture all possible interventions.

### Future fee income

- 38) To estimate total future fee income, the report of the Independent Fee Review Panel (the Elton Report) (2006) was used which estimated that a 7% increase in all fees would have broadly ensured cost recovery for the following three years, at that time, and that fee levels should be reassessed after that.<sup>10</sup> Taking account of inflation since this assessment and assuming implementation in 2013/14, then fees would have to rise by approximately **25%** from the baseline.
- 39) The *LA sample survey* provided information on the costs to LAs of individual processes, and from this, average costs were calculated. We know that these average costs are likely to be underestimates of the actual fee levels charged, due to the additional costs incurred by LAs, as explained above. The average costs for individual processes were therefore weighted according to the required increase in total fee income, to show the distribution of the total fee increase across fee categories. Average reported costs were used to estimate how fees in each category will change to achieve cost recovery. Therefore, individual fees do not all increase by 25%. For example, the cost of a TEN is currently £21. The average cost estimated by the LAs in the *LA sample survey* was £55. This was scaled up to £80 to reflect the required increase in total fee income.
- 40) The required increase in total fee income was estimated to be **£13.1m**, from £53.2m to £66.3m. This does not include the cost to LAs of providing information to enable centrally-set fees (Option 2), or administering LSLF (Options 3 to 7), which are expected to be recovered through fees (see below).
- 41) To sense-check these estimates, an alternative estimate of future total fee income was calculated using the *LA sample survey*. Respondents were asked to state an estimate of total costs to the licensing authority of discharging its functions under the 2003 Act. As mentioned above, it was stated that there was no expectation that these should be equal to the sum of average costs associated with each fee process (as there are other costs not associated with individual fee processes), and the survey did not ask the respondents to explain how they reached their total figures. These estimates of total costs were then modelled up to a national figure according to the

<sup>8</sup> Not all participants provided responses on each element of the survey. In addition, three further LAs provided responses on one element only (the average cost of a TEN).

<sup>9</sup> With the exception of some rare processes, such as applications by community premises with existing licences to dis-apply the requirement for a Designated Premises Supervisor; and provisional statements.

<sup>10</sup> Elton et al (2006), The Licensing Act 2003: Report of the Independent Fees Review Panel, <http://www.almr.org.uk/legislativepdfs/91.pdf>. HMT GDP deflators were used to uprate the figures for inflation. [http://www.hm-treasury.gov.uk/data\\_gdp\\_fig.htm](http://www.hm-treasury.gov.uk/data_gdp_fig.htm)

ratio of the number of premises in the sample to the total in England and Wales. Estimated future fee income is hence this total cost of service for all LAs, assuming cost recovery.

- 42) Using this alternative estimate, future total fee income was estimated to increase by £17.5m, from £53.2m to £70.7m. This does not include the cost to LAs of providing information to enable centrally-set fees (Option 2), or administering LSLF (Options 3 to 7) which will be translated into higher fees (see section below).
- 43) As the total costs in the Elton Report were viewed as more robust than an extrapolation of the *LA sample survey* to the entire population of LAs, the former has been used to estimate the impact on individual fee processes. The total cost estimates from the *LA sample survey* are included for illustrative purposes and as a sense check.
- 44) The *LA sample survey* showed that the costs incurred by LAs for the various processes and activities varied significantly, thus supporting the argument for LSLF. For example, for premises licence applications, the average amount that LA's costs differed from the mean was £264 (58% of the mean) (excluding one outlier) with a range of £79-£897(see Table 11 in Annex A). This implies that a centrally-set fee to recover average costs would result in very large over- or under-payments for many LAs, and thus be inequitable. For example, if the premises licence application fee was set at £264, one LA could be charging as much as £633 less than their average costs. We will seek further evidence on costs, and cost variation, through the consultation process.

### **Additional costs to LAs of providing information to enable centrally-set fees, or administering LSLF**

- 45) For Option 2, we assume that LAs will provide central Government with estimates of their costs in order to calculate centrally-set fees, and we expect that this will result in costs to LAs, recovered from fee-payers through licensing fees. This cost will be an "IN" for the purpose of "One in Two Out". We have assumed that a re-evaluation of fees will be done every three years.
- 46) For Options 3-7, the new duty to determine fees locally will result in a cost to LAs, recovered from fee-payers through licensing fees, and, therefore, an "IN" for the purpose of "One in Two Out".
- 47) For each fee, LAs will need to assess the costs that are referable to the discharge of the functions to which the fee relates. They will also need to assess their general costs in discharging licensing functions for which no fee is otherwise payable, and apportion a reasonable share of these costs to each fee.
- 48) LAs will need to publish proposed fees and enable fee payers to comment. The final determination of the fees will require internal consideration by the council. The task of determining fees will therefore involve costs to the LA associated with initial cost assessment; external publication and consideration of responses; and final internal decision-making.
- 49) We expect that LAs will incur the majority of these costs in each financial year, and assume for the purposes of this IA that they are incurred in each year. However, in some years, the cost assessment process may reveal that the existing fees are correct and no change is required. This will remove the need for publication of revised fee levels and consideration of responses, and may reduce the cost of consideration by the council. There is therefore a risk that this assumption results in an over-estimate of the costs of determining fees locally over a 10-year period.

- 50) The estimated costs are outlined in Table 1 below. For a full explanation of these costs please see [Annex C](#).

**Table 1: Average annual cost of providing information to enable centrally-set fees (Option 2) / administering LSLF (Option 3-7) (2013/14 prices)**

	Option 2	Option 3	Option 4	Option 5	Option 6	Option 7
Calculating fees	£300*	£900	£610	£660	£660	£720
Advertising	-	£720	£720	£720	£720	£720
Further consideration, discussion and reports	-	£1,660	£1,660	£1,660	£1,660	£1,660
Council decision	-	£1,010	£1,010	£1,010	£1,010	£1,010
<b>Total</b>	<b>£300*</b>	<b>£4,290</b>	<b>£3,990</b>	<b>£4,060</b>	<b>£4,060</b>	<b>£4,110</b>

\*Whilst the cost of calculating fees is estimated to be £900 for Option 2, this will be done every three years, rather than yearly (like Options 3-7), therefore the average annual cost over 10 years is approximately £300.

- 51) In order to estimate the impact on net fee income, the estimated annual costs of providing information to enable centrally-set fees (Option 2), or administering LSLF (Options 3-7), have been added to the estimated total future fee income based on Elton (see above).
- 52) For Option 2, the estimated total annual cost of providing information to enable centrally-set fees is **£0.1m**. This leads to an overall increase of **25%, £13.2m** in fee income, based on Elton, with a total estimated fee income of £66.4m (see Table 9 in Annex A for full breakdown). As an illustration, using the total costs of service from the LA sample survey, adjusting national fees is estimated to lead to an increase of 33%, £17.6m in fee income, with a total estimated fee income of £70.8m. This will effectively be a transfer from fee-payers to LAs.
- 53) For Options 3-7, whilst these vary slightly by option (see Table 1, above) we have applied an average cost to the total fee income in order to avoid showing spuriously accurate figures. For all LAs the estimated total annual cost of administering LSLF is £1.4m (350 LAs x £4,100).
- 54) The added cost of administering LSLF leads to an overall increase of **27%, £14.5m** in fee income, based on Elton, with a total estimated fee income of £67.8m. It is estimated that 2% of this results from the administration of LSLF. (See Table 10 in Annex A for full breakdown). As an illustration, using the total costs of service from the LA sample survey, LSLF is estimated to lead to an increase of 36%, £19.0m in fee income, with a total estimated fee income of £72.2m. This will effectively be a transfer from fee-payers to LAs.
- 55) It is important to note that these are rough estimates of total future fee income as this is a discretionary policy with a number of factors that would determine the actual fee levels charged and overall fee income (including, for example, the number of licence applications and other processes). It is however using the best available information and therefore is viewed as our best estimate. We will invite views in the consultation on the costs of implementing LSLF, including the practicality of determining whether premises are in each class and the extent to which the criteria for variable fee amounts might result in disputes about the classification of individual premises.
- 56) Options 2-7 are all estimated to incur approximately the same overall costs to fee-payers and LAs (whilst recognising that marginal variations exist, as set out in paragraphs 46-54). The main difference will be the spread of costs between different classes of fee payer depending on whether there are variable fee amounts for the “main fees”.

### **Evidence on the use of NNDR as a basis for variable fee amounts**

- 57) As described in Section C, the *LA sample survey* was used to test for statistical significance between the costs incurred by each NNDR band within an area. The evidence did not support the use of NNDR as a criterion of variable costs because the costs incurred by premises within each band were not significantly linked to cost differences. This supports the general view of licensing officers, expressed in technical groups and discussion in preparation for this consultation, that NNDR levels are not linked to costs and, therefore, potentially lead to cross-subsidisation.

## Fee Maxima

- 58) As described in Section C, the Government will consult on proposed fee maxima. Fee maxima have not been estimated in this Impact Assessment and should not have any impact on the costs and benefits of this policy.

## Number of premises affected by variable fee amounts based on late terminal hour

- 59) As set out in paragraph 16, we expect that variable fee amounts for the “main fees” on the basis of whether or not the premises has a late terminal hour may be used by LAs if they are justified by higher costs incurred in this class. Use of variable fees will vary by LA and anecdotal evidence from licensing officers indicated that approximately 25-50% would potentially use this class.
- 60) Data obtained by the Home Office in 2010<sup>11</sup> indicated that around 33% of premises licensed to sell alcohol in the on-trade are open after midnight on a typical Saturday. The majority of these, around 21% of those in the study, were shut at or before 1am. A further 6% closed at or before 2am. Only about 6% of those in the study were open after 2, with various terminal hours. We will assume that LAs will not charge higher amounts to only a very small proportion of their premises because this is unlikely to reflect costs or be efficient, and that the average proportion of premises affected if higher fees apply will vary between 33% (all the premises estimated to be open after midnight) and 12% (those estimated to be open later than 1am).
- 61) There were 202,000 premises licences and 15,900 club premises certificates authorising regulated entertainment in force in England and Wales on 31 March 2012.<sup>12</sup> It is therefore estimated that between **6,500-36,000 premises** ( $25-50\% \times (12-33\% \times 217,900 \text{ premises})$ ) would be charged a higher amount and the remainder a smaller amount if variable fee amounts for the main fees are applicable from midnight onwards.
- 62) This does not have any impact on the overall costs and benefits of this policy as this is based on what the average fee may be to achieve cost recovery. The result of this option would be that some premises may be charged a higher amount whilst others would be charged a lower amount.

## Number of premises affected by higher fees due to being used primarily for the sale of alcohol for consumption on the premises

- 63) We cannot be sure how many LAs will adopt higher fees for applications, full variations and annual fees in respect of premises primarily used for the sale of alcohol for consumption on the premises. As set out in paragraph 16, any decision to charge such an amount will have to be justified by evidence that the premises in this class lead to higher costs to the LA in the discharge of licensing functions in that area. Such costs could arise due to, for example, higher inspection costs or because premises in that class can be shown to be more likely to be subject to representations or review applications that lead to hearings conducted by the LA. In some areas, there may be no link to higher costs.
- 64) Use of variable fee amounts will vary by LA and anecdotal evidence from licensing officers indicated that approximately 25-50% would potentially use this class. In 2011/12 approximately 15% of premises in Band D and Band E were subject to a higher fee amount on the basis that they were “used exclusively or primarily for the purposes of the sale of alcohol for consumption on the premises”.<sup>13</sup> If we assume that the same proportion of premises in Bands A-C would fall into this category, as well as club premises, an estimated **8,200-16,300 premises** ( $25-50\% \times (15\% \times 217,900 \text{ premises})$ ) could be subject to a higher fee amount because they are primarily used for the sale of alcohol for consumption on the premises.
- 65) This does not have any impact on the overall costs and benefits of this policy as this is based on what the average fee may be to achieve cost recovery. The result of this option would be that some premises may be charged a higher amount whilst other may be charged a lower amount.

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<sup>11</sup> From CGA Strategy, commercially obtained.

<sup>12</sup> Alcohol and Late Night Refreshment Licensing, England and Wales, 2011/12 <http://www.homeoffice.gov.uk/publications/science-research-statistics/research-statistics/home-office-science/alcohol-lnr-licensing-1112-tabs>

<sup>13</sup> Alcohol and Late Night Refreshment Licensing, England and Wales, 2011/12 <http://www.homeoffice.gov.uk/publications/science-research-statistics/research-statistics/home-office-science/alcohol-lnr-licensing-1112-tabs>



### **Deterrence effect of higher fees**

- 66) An increase in fees may lead to some businesses or individuals being deterred from making an application, issuing a notice, or continuing to hold an authorisation; particularly when the profits of doing so are relatively small. This includes, in particular, the issuing of Temporary Event Notices (TENs). If, for example, the fee for a TEN (currently £21) rose by £60, some potential users may not see the benefit of carrying out licensable activities at their temporary event.
- 67) It is not possible to estimate the number of businesses that would be deterred by higher fees due to the discretionary nature of the policy as well as the lack of information on businesses' profits. It is assumed that the maximum loss of profit from being deterred from making an application, issuing a notice, or continuing to hold an authorisation would be equal to the rise in fee otherwise there would still be an economic incentive to make an application, issue a notice, or continue to hold an authorisation.
- 68) Potential implications include reduced availability of licensable activities but also a greater awareness of the costs involved for each process. This may indirectly lead to a fall in costs, and thus fees, if it deters irresponsible behaviour. If this is the case then the required fee could be lower than estimated in this appraisal.
- 69) For example, anecdotal evidence indicates that TENs may generate high average costs in some areas as they are issued irresponsibly despite a high likelihood that they will be subject to a counter-notice, or withdrawn following police objection. TENs that are subject to a counter-notice or withdrawn in these circumstances have no benefits to issuers, but cause significant administrative costs. If TEN fees are significantly higher in order to recover costs, and subsequently deter the irresponsible issuing of TENs, this may have an unintended effect on those costs, in reducing the total administrative cost of that process. If this is the case, there would therefore be a reduction in the required fee.

### **OPTION 1: Do nothing**

- 70) The 'do nothing' option is provided as a baseline for comparison with the potential impacts of a moving to LSLF. There would be no impact on fee-payers from this option but it would maintain the current problems of unintended public subsidy and cross-subsidisation.

**OPTION 2:** Revise centrally-set fees so that they recover average costs, retaining the NNDR band structure

### **COSTS**

#### **Public Sector**

##### Transition costs

- 71) None.

##### Annual costs

- 72) The cost of providing information to enable centrally-set fees every three years is estimated to be £300 per annum per LA (**£0.1m per annum** for 350 LAs in England and Wales). (See General assumptions for a detailed explanation).

#### **Business**

##### Transition costs

- 73) A change in fee level should not lead to any significant cost to business in terms of processing the payment.

##### Annual costs

- 74) The direct cost of this option is an overall rise in the total fees paid by business estimated at **£13.2m** per year, which is an increase of 25% of current fee income (see General assumptions). Following consultation with LAs, the impact on individual fees is expected to vary. In particular, preliminary evidence suggests that premises application and variation fees, except for premises in

Band D and E, will rise by up to 512% (from £100 to £612 for premises in Band A) whilst annual fees will rise by up to 58% for premises in Band A (from £70 to £111). Likewise fees for club applications and variations are estimated to rise by up to 507% (from £100 to £607 for premises in Band A). The cost of a temporary event notice (TEN) is expected to rise by up to 272% (from £21 to £78). See Annex A Table 3 for full breakdown of estimated fee changes. As costs vary significantly between LA areas, fee payers will be charged at higher than cost in many areas if fee levels are based on average costs.

## **Individuals**

- 75) Businesses may pass on the higher fees to customers through higher prices. It is not possible to know what the impact would be as it would depend on whether a business was already operating at competitive prices and whether they are in a position to pass on costs to customers. If there is a deterrent effect of a higher fee level this may result in the reduced availability of licensable activities for individuals.

## **COSTS (OITO)**

- 76) Whilst setting fees in order to achieve cost recovery is out of scope for OITO, the cost of providing information to enable centrally-set fees will be transferred to businesses and be in scope. This policy therefore leads to an IN of **£0.1m per annum**.

## **BENEFITS**

### **Public Sector**

- 77) The purpose of adjusting fees is to ensure that they enable cost recovery. It is estimated that LAs will receive **£13.2m** more per year as a result of Option 2. As costs would still vary significantly between LA areas, centrally-set fees based on average costs will not result in full cost recovery in all areas.

### **Business**

- 78) Option 2, by revising fees so that they recover average costs (and thus improving cost recovery within each fee category) will result in a reduction of cross-subsidisation between fee categories. Therefore, whilst there is an overall increase in fees, and thus cost to fee-payers, within this, some fee-payers are expected to experience a fall in fees due to the adjustment in fees. For example, preliminary evidence (Table 3 in Annex A) shows that premises within Band C-E are expected to pay up to 84% lower annual fees (from £1,050 to £164 for premises in the multiplier in Band E) and up to 77% less for club premises certificate annual fees (from £350 to £81 for premises in Band E).

### **Individuals**

- 79) N/A

## **BENEFITS (OITO)**

- 80) N/A

## **NET EFFECT**

- 81) The purpose of adjusting fees is to enable LAs to achieve cost recovery, removing, as nearly as possible, unintended public subsidy of the costs of the administration of the 2003 Act by LAs (thus benefitting tax-payers). Under Option 2, unintended public subsidy will remain in areas with higher than average costs, and excess fee payments will occur in areas with lower than average costs. LAs will incur additional costs in providing information to enable centrally-set fees, which will be translated into higher fees for business. There will therefore be an overall cost to business of **£0.1m per annum**.

## **OITO NET EFFECT**

- 82) This policy will be a net IN of **£0.1m per annum** due to the cost to LAs of providing information to enable centrally-set fees, which is translated into an increase in fees for fee-payers. NB: The Equivalent Annual Net Cost for the summary pages is in 2009 prices.

### **OPTION 3: enable locally-set licence fees (LSLF) but retain the NNDR band structure.**

#### **COSTS**

##### **Public Sector**

###### Transition costs

- 83) None. We expect that LAs will incur the majority of the costs associated with setting fees locally in each financial year, and have assumed for the purposes of this IA that they are incurred in each year. However, in some years, the cost assessment process may reveal that the existing fees are correct and that no change is required.

###### Annual costs

- 84) The cost of administering LSLF is assumed to be the same each year (see General assumptions for detailed explanation). In practice the costs may vary depending on decisions made by LAs. This includes the cost of calculating fees (including the according of costs to NNDR bands), advertising, administrative and resource costs and the cost of any council hearing. It is estimated that the cost of administering LSLF is £4,300 per annum per LA (**£1.5m in total** for 350 LAs in England and Wales).

##### **Business**

###### Transition costs

- 85) A change in fee level should not lead to any significant cost to business in terms of processing the payment. Fee payers will need to check the correct fee level when paying fees. This is expected to be a negligible cost. All fee payers may choose to comment on proposed fee levels when they are published by the LA in which they operate but are expected to only do so when it is in their interests.

###### Annual costs

- 86) The direct cost of Option 3 is an overall rise in the total fees paid by fee payers estimated at **£14.5m** per year, which is an increase of 27% of current fee income (see General assumptions). The impact on individual fees is expected to vary. In particular, it is estimated that premises application and variation fees, except for premises in Band D and E, will rise by up to 524% (from £100 to £624 for premises in Band A) whilst annual fees will rise by up to 62% for premises in Band A (from £70 to £113). Likewise fees for club applications and variations are estimated to rise by up to 519% (from £100 to £619 for premises in Band A). The cost of a temporary event notice (TEN) is expected to rise by up to 280% (from £21 to £80). See Annex A Table 5 for full breakdown of estimated fee changes.

##### **Individuals**

- 87) Businesses may pass on the higher fees to customers through higher prices. It is not possible to know what the impact would be as it would depend on whether a business was already operating at competitive prices and whether they are in a position to pass on costs to customers. If there is a deterrent effect of a higher fee level this may result in the reduced availability of licensable activities for individuals.

#### **COSTS (OITO)**

- 88) Whilst setting fees in order to achieve cost recovery is out of scope for OITO, the cost of administering LSLF will be transferred to fee payers and be in scope. This policy therefore leads to an IN of **£1.5m per annum**.

#### **BENEFITS**

## Public Sector

- 89) The purpose of adjusting fees is to ensure that they enable cost recovery. It is estimated that LAs will receive **£14.5m** more per year as a result of Option 3. Option 3 will remove, to a greater extent than Option 2, unintended public subsidy of the costs of the administration of the 2003 Act in each LA area (thus benefitting tax-payers) by taking account of variations in costs between different LAs in order to avoid significant under- and over-payments in certain areas.

## Business

- 90) Option 3, by allowing LAs to set fee levels in order to achieve cost recovery, will result in some reduction of cross-subsidisation between fee categories. Therefore, whilst there is an overall increase in fees, and thus cost to fee-payers, within this, some fee-payers are expected to experience a fall in fees due to the move to LSLF. For example, Table 5 in Annex A shows that premises within Band C-E are expected to pay up to 84% lower annual fees (from £1,050 to £167 for premises in the multiplier in Band E) and up to 76% less for club premises certificate annual fees (from £350 to £83 for premises in Band E).

## Individuals

- 91) N/A

## BENEFITS (OITO)

- 92) N/A

## NET EFFECT

- 93) The purpose of adjusting fees is to enable LAs to achieve cost recovery, removing, as nearly as possible, unintended public subsidy of the costs of the administration of the 2003 Act by LAs as a (thus benefitting tax-payers). LSLF will enable cost recovery in high cost areas without causing excess fee payments in lower cost areas. LAs will incur additional costs in the maintenance of LSLF which will be translated into higher fees for business. There will therefore be an overall cost to business of **£1.5m per annum**.

## OITO NET EFFECT

- 94) This policy will be a net IN of **£1.5m per annum** due to the cost to LAs of maintaining LSLF which is translated into an increase in fees for fee-payers. NB: The Equivalent Annual Net Cost for the summary pages is in 2009 prices.

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## **OPTION 4: LSLF with flat fees in each fee category**

### COSTS

#### Public Sector

##### Transition costs

- 95) None. We expect that LAs will incur the majority of the costs associated with setting fees locally in each financial year, and have assumed for the purposes of this IA that they are incurred in each year. However, in some years, the cost assessment process may reveal that the existing fees are correct and that no change is required.

##### Annual costs

- 96) The cost of administering LSLF is assumed to be the same each year (see General assumptions for detailed explanation). In practice the costs may vary depending on decisions made by LAs. This includes the cost of calculating fees, advertising, administrative and resource costs and the cost of any council hearing. It is estimated that the cost of administering LSLF with flat fees is £3,990 per annum per LA (**£1.4m in total** for 350 LAs in England and Wales).

## Business

### Transition costs

97) A change in fee level should not lead to any significant cost to business in terms of processing the payment. Fee payers will need to check the correct fee level when paying fees. This is expected to be a negligible cost. All fee payers may choose to comment on proposed fee levels when they are published by the LA in which they operate but are expected to only do so when it is in their interests. Abandoning the use of NNDR bands would lead to a negligible saving for business in that they no longer have to check their NNDR.

### Annual costs

98) The direct cost of Option 4 is an overall rise in the total fees paid by business estimated at **£14.5m per year**, which is an increase of 27% of current fee income (see General assumptions). The impact on individual fees is expected to vary. In particular, premises licence application fees are expected to rise by 207% on average (from £222 to £683) whilst Club Premises Certificates are expected to rise by 220% (from £182 to £583). The cost of a temporary event notice (TEN) is expected to rise by up to 280% (from £21 to £80). See Annex A Table 6 for full breakdown of estimated fee changes.

## Individuals

99) Businesses may pass on the higher fees to customers through higher prices. It is not possible to know what the impact would be as it would depend on whether a business was already operating at competitive prices and whether they are in a position to pass on costs to customers. If there is a deterrent effect of a higher fee level this may result in the reduced availability of licensable activities for individuals.

## COSTS (OITO)

100) Whilst setting fees in order to achieve cost recovery is out of scope for OITO, the cost of administering LSLF will be transferred to businesses and be in scope. This policy therefore leads to an IN of **£1.4m per annum**.

## BENEFITS

### Public Sector

101) The purpose of adjusting fees is to ensure that they enable cost recovery. It is estimated that LAs will receive **£14.5m** more per year as a result of Option 4. Option 4 will remove, to a greater extent than Option 2, unintended public subsidy of the costs of the administration of the 2003 Act in each LA area (thus benefitting tax-payers) by taking account of variations in costs between different LAs in order to avoid significant under- and over-payments in certain areas.

## Business

102) Option 4, by allowing LAs to set fees in order to achieve cost recovery and abandoning NNDR bands, will result in a reduction of cross-subsidisation between fee categories. Whilst there is an overall increase in fees, and thus cost to business, abandoning the use of NNDR bands may result in businesses with a higher NNDR experiencing reductions in fees. It is not possible to know exactly what the impact would be without more information on the current degree of cross-subsidisation between fees categories and, therefore, the extent to which LAs will alter the distribution of costs across fees to avoid it. For example, Table 6 in Annex A shows that premises licence and club premises certificate annual fees are expected to fall by 20% and 23% respectively, on average (from £202 (£159) to £161 (£121)).

## Individuals

103) N/A

## BENEFITS (OITO)

104) N/A

## **NET EFFECT**

105) The purpose of adjusting fees is to enable LAs to achieve cost recovery, removing, as nearly as possible, unintended public subsidy of the costs of the administration of the 2003 Act by LAs (thus benefitting tax-payers). LSLF will enable cost recovery in high cost areas without causing excess fee payments in lower cost areas. LAs will incur additional costs in the maintenance of LSLF which will be translated into higher fees for business. There will therefore be an overall cost to business of **£1.4m per annum**. Unlike Option 2, Option 4 will allow for variations of costs between LAs.

## **OITO NET EFFECT**

106) This policy will be a net IN of **£1.4m** due to the cost to LAs of maintaining LSLF which is translated into an increase in fees for fee-payers. NB: The Equivalent Annual Net Cost for the summary pages is in 2009 prices.

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**OPTION 5: LSLF with flat fees in each fee category with the option for licensing authorities (LAs) to charge variable fee amounts for the “main fees” on the basis of whether or not the premises is authorised to conduct licensable activities to a late terminal hour.**

## **COSTS**

### **Public Sector**

#### Transition costs

107) None. We expect that LAs will incur the majority of the costs associated with setting fees locally in each financial year, and have assumed for the purposes of this IA that they are incurred in each year. However, in some years, the cost assessment process may reveal that the existing fees are correct and that no change is required.

#### Annual costs

108) The cost of administering LSLF is assumed to be the same each year (see General assumptions for detailed explanation). In practice the costs may vary depending on decisions made by LAs. This includes the cost of calculating fees, advertising, administrative and resource costs and the cost of any council hearing. It is estimated that the cost of administering LSLF with flat fees and a late terminal hour is £4,060 per annum per LA (**£1.4m in total** for 350 LAs in England and Wales).

### **Business**

#### Transition costs

109) A change in fee level should not lead to any significant cost to business in terms of processing the payment. Fee payers will need to check the correct fee level when paying fees. This is expected to be a negligible cost. All fee payers may choose to comment on proposed fee levels when they are published by the LA in which they operate but are expected to only do so when it is in their interests. Abandoning the use of NNDR bands would lead to a negligible saving for business in that they no longer have to check their NNDR.

#### Annual costs

110) The direct cost of Option 5 is an overall rise in the total fees paid by business estimated at £14.5m per year, which is an increase of 27% of current fee income (see General assumptions). The impact on individual fees is expected to vary. This will be highly dependent on the use of the variable fee amount for a late terminal hour. (See Table 6 in Annex A for estimates of average future fees).

111) It is assumed that premises subject to a higher fee amount due to their late terminal hour may be charged up to a maximum of double the fee compared to those not subject to it. The fee charged will depend on how much greater the costs incurred for LAs are for those open late. The

consultation will seek views on the extent to which average costs can vary in an area on the basis of this criterion. This will indicate the appropriate maximum degree of variation in fee amounts, and the likely average degree of variation that will be applied locally.

## **Individuals**

- 112) Businesses may pass on the higher fees to customers through higher prices. It is not possible to know what the impact would be as it would depend on whether a business was already operating at competitive prices and whether they are in a position to pass on costs to customers. If there is a deterrent effect of a higher fee level this may result in the reduced availability of licensable activities for individuals. In particular, if a higher fee based on a late terminal hour is applied and businesses are deterred from opening beyond midnight this would lead to less availability for consumers.

## **COSTS (OITO)**

- 113) Whilst setting fees in order to achieve cost recovery is out of scope for OITO, the cost of administering LSLF will be transferred to businesses and be in scope. This policy therefore leads to an IN of **£1.4m per annum**.

## **BENEFITS**

### **Public Sector**

- 114) The purpose of adjusting fees is to ensure that they enable cost recovery. It is estimated that LAs will receive **£14.5m** more per year as a result of Option 5. Option 5 will remove, to a greater extent than Option 2, unintended public subsidy of the costs of the administration of the 2003 Act in each LA area (thus benefitting tax-payers) by taking account of variations in costs between different LAs in order to avoid significant under- and over-payments in certain areas.

### **Business**

- 115) Option 5, by allowing LAs to set fees in order to achieve cost recovery, abandoning NNDR bands and prescribing additional classes in which LAs can charge variable fee amounts for the “main fees”, will result in a significant reduction of cross-subsidisation between fee categories and classes of fee payer. Therefore, whilst there is an overall increase in fees, and thus cost to business, abandoning the use of NNDR bands may result in businesses with a higher NNDR experiencing reductions in fees. It is not possible to know exactly what the impact would be without more information on the current degree of cross-subsidisation between fees categories and, therefore, the extent to which LAs will alter the distribution of costs across fees to avoid it, including the extent of the use of the variable fee amounts for late terminal hour. By charging premises more if they have a late terminal hour this policy may lead to those premises not in scope for the higher fee amount facing lower fees than estimated. As explained above, it is not possible to know the exact impact. (See Table 6 in Annex A for estimates of average future fees). The availability of additional classes means that Option 5 should better reflect the costs incurred for each class of fee payer in comparison to Option 2-3 and, potentially, Option 4.

### **Individuals**

- 116) Any indirect deterrent on premises operating with a late terminal hour could be a benefit to individuals in the area who may experience reductions in alcohol-related crime and disturbance.

## **BENEFITS (OITO)**

- 117) N/A

## **NET EFFECT**

- 118) The purpose of adjusting fees is to enable LAs to achieve cost recovery, removing, as nearly as possible, unintended public subsidy of the costs of the administration of the 2003 Act by LAs (thus

benefitting tax-payers). LSLF will enable cost recovery in high cost areas without causing excess fee payments in lower cost areas. LAs will incur additional costs in the maintenance of LSLF which will be translated into higher fees for business. There will therefore be an overall cost to business of **£1.4m per annum**. NB: The Equivalent Annual Net Cost for the summary pages is in 2009 prices. Unlike Option 2, Option 5 will allow for variations of costs between LAs and should also better reflect the costs incurred for each class of fee payer compared to Options 2-3 and, potentially, Option 4.

### **OITO NET EFFECT**

119) This policy will be a net IN of **£1.4m per annum** due to the cost to LAs of maintaining LSLF which is translated into an increase in fees for fee-payers.

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**OPTION 6: LSLF with flat fees in each fee category with the option for LAs to charge variable fee amounts for the “main fees” on the basis of whether or not the premises is primarily used for the sale of alcohol for consumption on the premises.**

### **COSTS**

#### **Public Sector**

##### Transition costs

120) None. We expect that LAs will incur the majority of the costs associated with setting fees locally in each financial year, and have assumed for the purposes of this IA that they are incurred in each year. However, in some years, the cost assessment process may reveal that the existing fees are correct and that no change is required.

##### Annual costs

121) The cost of administering LSLF is assumed to be the same each year (see General assumptions for detailed explanation). In practice the costs may vary depending on decisions made by LAs. This includes the cost of calculating fees, advertising, administrative and resource costs and the cost of any council hearing. It is estimated that the cost of administering LSLF with flat fees and a variable fee amount on the basis of whether or not premises are subject to a higher fee amount because they are primarily used for the sale of alcohol for consumption on the premises is £4,060 per annum per LA (**£1.4m in total** for 350 LAs in England and Wales).

#### **Business**

##### Transition costs

122) A change in fee level should not lead to any significant cost to business in terms of processing the payment. Fee payers will need to check the correct fee level when paying fees. This is expected to be a negligible cost. All fee payers may choose to comment on proposed fee levels when they are published by the LA in which they operate but are expected to only do so when it is in their interests. We have not attempted to estimate these costs. Abandoning the use of NNDR bands would lead to a negligible saving for business in that they no longer have to check their NNDR.

##### Annual costs

123) The direct cost of Option 6 is an overall rise in the total fees paid by business estimated at **£14.5m per year**, which is an increase of 27% of current fee income. The impact on individual fees is expected to vary (see General assumptions). This will be highly dependent on the use of the variable fee amounts. (See Table 6 in Annex A for estimates of average future fees).

124) It is assumed that premises subject to a higher fee amount because they are primarily used for the sale of alcohol for consumption on the premises may be charged up to a maximum of double the fee compared to those not subject to it. The higher fee charged will depend on how much greater the costs incurred for LAs are for those in that class. The consultation will seek views on the extent to which average costs can vary in an area on the basis of this criterion. This will indicate the appropriate maximum degree of variation in fee amounts, and the likely average degree of variation that will be applied locally.



## Individuals

- 125) Businesses may pass on the higher fees to customers through higher prices. It is not possible to know what the impact would be as it would depend on whether a business was already operating at competitive prices and whether they are in a position to pass on costs to customers. If there is a deterrent effect of a higher fee level this may result in the reduced availability of licensable activities for individuals.

## COSTS (OITO)

- 126) Whilst setting fees in order to achieve cost recovery is out of scope for OITO, the cost of administering LSLF will be transferred to businesses and be in scope. This policy therefore leads to an IN of **£1.4m per annum**.

## BENEFITS

### Public Sector

- 127) The purpose of adjusting fees is to ensure that they enable cost recovery. It is estimated that LAs will receive **£14.5** more per year as a result of Option 6. Option 6 will remove, to a greater extent than Option 2, unintended public subsidy of the costs of the administration of the 2003 Act in each LA area (thus benefitting tax-payers) by taking account of variations in costs between different LAs in order to avoid significant under- and over-payments in certain areas.

### Business

- 128) Option 6, by allowing LAs to set fees in order to achieve cost recovery, abandoning NNDR bands and prescribing additional classes in which LAs can charge variable fee amounts for the “main fees”, will result in a significant reduction of cross-subsidisation between fee categories and classes of fee payer. Therefore, whilst there is an overall increase in fees, and thus cost to business, abandoning the use of NNDR bands may result in businesses with a higher NNDR experiencing reductions in fees. It is not possible to know exactly what the impact would be without more information on the current degree of cross-subsidisation between fees categories and, therefore, the extent to which LAs will alter the distribution of costs across fees to avoid it, including the extent of the use of variable fee amounts for the “main fees”. In addition charging premises a higher fee amount because they are primarily used for the sale of alcohol for consumption on the premises may lead to those premises not in scope for the higher fee amount facing lower fees than estimated. As explained above, it is not possible to know the exact impact due to the discretionary nature of the policy. (See Table 6 in Annex A for estimates of average future fees). The availability of additional classes means that Option 6 should better reflect the costs incurred for each class of fee payer in comparison to Option 2-3 and, potentially, Option 4.

## Individuals

- 129) N/A

## BENEFITS (OITO)

- 130) N/A

## NET EFFECT

- 131) The purpose of adjusting fees is to enable LAs to achieve cost recovery, removing, as nearly as possible, unintended public subsidy of the costs of the administration of the 2003 Act by LAs (thus benefitting tax-payers). LSLF will enable cost recovery in high cost areas without causing excess fee payments in lower cost areas. LAs will incur additional costs in the administration of LSLF which will be translated into higher fees for business. There will therefore be an overall cost to business of **£1.4m per annum**. Unlike Option 2, Option 6 will allow for variations of costs between LAs and should also better reflect the costs incurred for each class of fee payer compared to Options 2-3 and, potentially, Option 4.

## OITO NET EFFECT

- 132) This policy will be a net IN of **£1.4m per annum** due to the cost to LAs of maintaining LSLF which is translated into an increase in fees for fee-payers. NB: The Equivalent Annual Net Cost for the summary pages is in 2009 prices.

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## **OPTION 7: LSLF with flat fees with the option for LAs to charge variable fee amounts on the basis of both late terminal hour and whether the premises are primarily used for alcohol sales.**

### COSTS

#### **Public Sector**

##### Transition costs

- 133) None. We expect that LAs will incur the majority of the costs associated with setting fees locally in each financial year, and have assumed for the purposes of this IA that they are incurred in each year. However, in some years, the cost assessment process may reveal that the existing fees are correct and that no change is required.

##### Annual costs

- 134) The cost of administering LSLF is assumed to be the same each year (see General assumptions for detailed explanation). In practice the costs may vary depending on decisions made by LAs. This includes the cost of calculating fees, advertising, administrative and resource cost and the cost of any council hearing. It is estimated that the cost of administering LSLF with flat fees and the option of variable fee amounts on the basis of both late terminal hour and whether they are primarily used for the sale of alcohol for consumption on the premises is £4,110 per LA per annum (**£1.4m in total** for 350 LAs in England and Wales).

#### **Business**

##### Transition costs

- 135) A change in fee level should not lead to any significant cost to business in terms of processing the payment. Fee payers will need to check the correct fee level when paying fees. This is expected to be a negligible cost. All fee payers may choose to comment on proposed fee levels when they are published by the LA in which they operate but are expected to only do so when it is in their interests. Abandoning the use of NNDR bands will lead to a negligible saving for business in that they no longer have to check their NNDR.

##### Annual costs

- 136) The direct cost of Option 7 is an overall rise in the total fees paid by business estimated at **£14.5m per year**, which is an increase of 27% of current fee income (see General assumptions). The impact on individual fees is expected to vary. This will be highly dependent on the use of the different classes of variable fee amounts. (See Table 6 in Annex A for estimates of average future fees).
- 137) It is assumed that those subject to a higher fee amount due to late terminal hour or due to being used primarily for the sale of alcohol for consumption on the premises may be charged up to a maximum of double the fee compared to those not subject to them. Those who are subject to both may be charged up to three times the fee of those not subject to either. The amounts charged will depend on how much greater the costs incurred by LAs are for those in those classes. The consultation will seek views on the extent to which average costs can vary in an area on the basis of this criterion. This will indicate the appropriate maximum degree of variation in fee amounts, and the likely average degree of variation that will be applied locally.
- 138) It is not known how many premises would be subject to higher fee amount because they have a late terminal hour and are primarily used for the sale of alcohol for consumption on the premises. Some LAs may choose to apply one class and not the other and vice versa, based on local evidence.

## Individuals

- 139) Businesses may pass on the higher fees to customers through higher prices. It is not possible to know what the impact would be as it would depend on whether a business was already operating at competitive prices and whether they are in a position to pass on costs to customers. If there is a deterrent effect of a higher fee level this may mean a reduced availability of licensable activities for individuals. In particular, if a higher amount were charged for late night provision and premises were deterred from opening beyond midnight this would lead to less availability for consumers.

## COSTS (OITO)

- 140) Whilst setting fees in order to achieve cost recovery is out of scope for OITO, the cost of administering LSLF will be transferred to businesses and be in scope. This policy therefore leads to an IN of **£1.4m per annum**.

## BENEFITS

### Public Sector

- 141) The purpose of adjusting fees is to allow LAs to charge fees that enable cost recovery. It is estimated that LAs will receive **£14.5m more per year** as a result of this change. LSLF is intended to remove, to a greater extent than Option 2, public subsidy of the costs of the administration of the 2003 Act by LAs (thus benefitting tax-payers) by taking account of variations in costs between different LAs in order to avoid significant under- and over-payments in certain areas.

### Business

- 142) Option 7, by allowing LAs to set fees in order to achieve cost recovery, abandoning NNDR and prescribing additional classes in which LAs can charge variable fee amounts for the “main fees”, will result in a significant reduction of cross-subsidisation between fee categories and classes of fee payer. Therefore, whilst there is an overall increase in fees, and thus cost to business, abandoning the use of NNDR bands may result in businesses with a higher NNDR experiencing reductions in fees. It is not possible to know exactly what the impact would be without more information on the current degree of cross-subsidisation between fees categories and, therefore, the extent to which LAs will alter the distribution of costs across fees to avoid it, including the extent of the use of the variable fee amounts for the “main fees”. In addition, charging a higher fee amount for premises for (i) with a late terminal hour and/or (ii) primarily used for the sale of alcohol for consumption on the premises may lead to those premises not subject to higher fees facing lower fees than estimated. As explained above, it is not possible to know the exact impact. (See Table 6 in Annex A for estimates of average future fees). The availability of additional classes means that Option 7 should better reflect the costs incurred by each class of fee payer in comparison to Option 2-3 and, potentially, Option 4.

### Individuals

- 143) Any indirect deterrent on premises operating with a late terminal hour could be a benefit to individuals in the area who may experience reductions in alcohol-related crime and disturbance.

## BENEFITS (OITO)

- 144) N/A

## NET EFFECT

- 145) The purpose of adjusting fees is to enable LAs to achieve cost recovery, removing, as nearly as possible, unintended public subsidy of the costs of the administration of the 2003 Act by LAs (thus benefitting tax-payers). LSLF will enable cost recovery in high cost areas without causing excess fee payments in lower cost areas. LAs will incur additional costs in the maintenance of LSLF which will be translated into higher fees for business. There will therefore be an overall cost to business of **£1.4m per annum**. Unlike Option 2, Option 7 will allow for variations of costs

between LAs and should also better reflect the costs incurred for each class of fee payer compared to Options 2-3 and potentially Option 4.

## **OITO NET EFFECT**

- 146) This policy will be a net IN of **£1.4m per annum** due to the cost to LAs of maintaining LSLF which is translated into an increase in fees for fee-payers. NB: The Equivalent Annual Net Cost for the summary pages is in 2009 prices.

## **F. Risks**

- 147) Due to a number of uncertainties, the overall estimates in this IA may be either overestimates or underestimates. These estimates will be updated in the post-consultation IA and therefore are subject to change. In particular, sources of uncertainty include:
- a. Under Options 3-7, LAs will reflect local circumstances in setting fees to achieve cost recovery. This will result in considerable local variation in fee levels. The estimates of current income and costs in respect of 2011/12 have been updated to 2013-14 figures on the assumption that activity levels and costs will be broadly similar in the future. However, we consider that the estimate of overall change to fee income is made using the best available information and therefore is viewed as our best estimate (as described in paragraphs 35-56).
  - b. Estimated changes to the balance of fee income between fee categories and fee-payers, and the cost variations between LAs, have been obtained from a relatively small number of LAs. However, we consider that they have been made using the best available information (as described in paragraphs 36-44).
  - c. A number of assumptions have been made about the future costs of the duty to determine fees. For example, it was assumed that the process will be the same in each year, and that the costs of local consultation and decision-making will be similar to those reported by LAs when increasing taxi licensing fees. The small sample of LAs that provided estimates may not be representative of LAs in England and Wales. However, we consider that the estimates and assumptions (as described in paragraphs 45-56) are reasonable and they will be considered further through the consultation process.
  - d. There is a risk that the local implementation of variable fee amounts depending on whether or not premises are used exclusively or primarily for the sale of alcohol for consumption on the premises (Options 6 and 7) will lead to dispute about whether or not this category is applicable to certain premises, and, therefore, to costs to LAs and fee-payers. We will explore this question further during the consultation process.
  - e. An increase in some fee levels may lead to some businesses being deterred from applying for or continuing to hold a licence; or from issuing a notice, deterring economic activity. An increase in fee levels may deter those who make applications or issue notices speculatively, despite the likelihood of refusal or objection notices, and have the unintended consequence of reducing net LA costs. There is therefore a risk that this IA underestimates the benefits of options 3-7. It is assumed that the maximum loss of profit would be equal to the rise in fee level otherwise there would still be an economic incentive to make an application, issue a notice, or continue to hold an authorisation (as described in paragraphs 66-69).
  - f. We expect the duty to set fees to result in a demand on LAs to show that they are working efficiently and setting fees appropriately. There is a risk that this may lead to costs to LAs. Alternatively, this may result in efficiency savings. There is therefore a risk that this IA overestimates or underestimates the benefits of proposals 3-7.

## **G. Enforcement**

- 148) Local implementation of the Licensing Act 2003 is conducted by LAs, the police, and other Responsible Authorities. Fees must be paid for applications and notices to be validly made. In the

case of annual fees, LAs must suspend licences and certificates if they are not paid. Therefore, there are expected to be no enforcement costs caused by changes to fee levels.

## H. Summary and Recommendations

The table below outlines the costs and benefits of the proposed changes.

<b>Table H.1 Costs and Benefits</b>		
<b>Option</b>	<b>Costs</b>	<b>Benefits</b>
<b>2</b>	The increase in fees is estimated to cost business £114m (PV over 10 years). It is estimated to cost LAs £0.1m per annum due to the cost of providing information to enable centrally-set fees	The increase in fees will enable cost recovery. This will lead to an increase in revenue of £114m (PV over 10 years). Some fee-payers are expected to experience lower fees as a result of the adjustment in fees. For example, annual fees are expected to fall for most fee-payers.
<b>3-7</b>	The increase in fees as a result of LSLF is estimated to cost business £125m (PV over 10 years). It is estimated to cost LAs £1.4m-£1.5m per annum due to the cost of administering LSLF.	LSLF will enable LAs to charge fees based on cost recovery. This will lead to an increase in revenue of £125m (PV over 10 years). Some fee-payers are expected to experience lower fees as a result of a move to LSLF. For example, annual fees are expected to fall for most fee-payers.
<b>3-7</b>	Some fees (especially fees for new applications or notices) expected to rise relatively more. Fee payers will need to ascertain the correct fee in their LA area and whether they are subject to a higher or lower fee amount. Some may be deterred from licensable activities if the relevant fee increases.	Annual fees expected to fall for some premises and certificate holders. Enabling LAs to (as nearly as possible) achieve cost recovery without cross-subsidisation will mean that the administration of the 2003 Act is funded in a more equitable way. We estimate that annual fees paid by the existing population of club premises certificate holders are particularly likely to be subject to lower relative increases or reductions.
<b>3</b>	Slightly higher costs in setting fees compared with Options 4-7.	
<b>4</b>		Slightly lower costs of setting fees compared with options 3, 5, 6 and 7.
<b>5</b>		Enable LAs to more closely achieve the objective of the avoidance of cross-subsidisation in their areas.
<b>6</b>		Enable LAs to more closely achieve the objective of the avoidance of cross-subsidisation in their areas.
<b>7</b>	Slightly higher costs in setting fees compared with Options 4, 5 and 6.	Enable LAs to more closely achieve the objective of the avoidance of cross-subsidisation in their areas.
Source:		

- 149) Options 5-7 are considered the more likely and preferred options at this stage. However, we will seek further views through the consultation process before proceeding.

## I. Implementation

- 150) Options 3-7 require secondary legislation and guidance.

## J. Monitoring and Evaluation

- 151) The Government will consider the appropriate review process through the forthcoming consultation.

## K. Feedback

152) In order to accurately assess the effectiveness of Options 3-7, the Government will seek views from those who will be most affected by the policy. The Home Office will therefore seek feedback from fee-payers, LAs and other Government departments when considering these measures.

## Annex A

**Table 1**

**Current fees (2011/12)**

	<b>Band A</b>	<b>Band B</b>	<b>Band C</b>	<b>Band D</b>	<b>Band D x</b>	<b>Band E</b>	<b>Band E x</b>
Premises licence applications	£100	£190	£315	£450	£900	£635	£1,905
Premises licence variations	£100	£190	£315	£450	£900	£635	£1,905
Premises licence annual fee	£70	£180	£295	£320	£640	£350	£1,050
Club Premises Certificate applications	£100	£190	£315	£450	£450	£635	£635
Club Premises Certificate variations	£100	£190	£315	£450	£450	£635	£635
Club Premises Certificate annual fee	£70	£180	£295	£320	£320	£350	£350

**Table 2**

**Other fees in the Act (2011/12)**

Application for the grant or renewal of a personal licence	£37
Temporary event notice	£21
Theft, loss, etc. of premises licence or summary	£10.50
Application for a provisional statement where premises being built etc.	£315
Notification of change of name or address	£10.50
Application to vary licence to specify individual as premises supervisor	£23
Application for transfer of premises licence	£23
Interim authority notice following death etc. of licence holder	£23
Theft, loss etc. of certificate or summary	£10.50
Notification of change of name or alteration of rules of club	£10.50
Change of relevant registered address of club	£10.50
Theft, loss etc. of temporary event notice	£10.50
Theft, loss etc. of personal licence	£10.50
Application to vary premises licence to include alternative licence condition	£23
Application for a minor variation to a licence or certificate.	£89
Duty to notify change of name or address	£10.50
Right of freeholder etc. to be notified of licensing matters	£21

**Table 3**

**Estimated future fees (Option 2) (% change)**

	<b>Band A</b>	<b>Band B</b>	<b>Band C</b>	<b>Band D</b>	<b>Band D x</b>	<b>Band E</b>	<b>Band E x</b>
Premises licence applications	£612 512%	£654 244%	£862 174%	£541 20%	£541 -40%	£618 -3%	£618 -68%
Premises licence variations	£612 512%	£654 244%	£862 174%	£541 20%	£638 -29%	£618 -3%	£595 -69%
Premises licence annual fee	£111 58%	£176 -2%	£183 -38%	£128 -60%	£182 -72%	£128 -63%	£164 -84%
Club Premises Certificate applications(i)	£607 507%	£633 233%					
Club Premises Certificate variations(ii)	£607 507%	£633 233%					
Club Premises Certificate annual fee	£98 40%	£134 -26%	£85 -71%	£104 -68%	£104 -68%	£81 -77%	£81 -77%



**Table 4**

**Estimated future fees (Option 2) (% change)**

	<b>Average</b>
Temporary Event Notices	£78 272%
Application for a minor variation to licence or certificate	£179 101.32%
Application to vary DPS	£75 228%
Application for grant or renewal of a personal licence	£97 161%

**Table 5**

**Estimated future fees (Option 3) (% change)**

	<b>Band A</b>	<b>Band B</b>	<b>Band C</b>	<b>Band D</b>	<b>Band D x</b>	<b>Band E</b>	<b>Band E x</b>
Premises licence applications	£624 524%	£667 251%	£879 179%	£551 23%	£551 -39%	£630 -1%	£630 -67%
Premises licence variations	£624 524%	£667 251%	£879 179%	£551 23%	£651 -28%	£630 -1%	£607 -68%
Premises licence annual fee	£113 62%	£180 0%	£187 -37%	£131 -59%	£186 -71%	£131 -63%	£167 -84%
Club Premises Certificate applications(i)	£619 519%	£645 240%					
Club Premises Certificate variations(ii)	£619 519%	£645 240%					
Club Premises Certificate annual fee	£100 43%	£136 -24%	£87 -70%	£106 -67%	£106 -67%	£83 -76%	£83 -76%

(i) Insufficient data on club premises certificate applications/variations from premises in Bands C, D and E to estimate the average fee.

**Table 6****Estimated future fees (Options 4-7) (% change)**

	<b>Average</b>
Premises licence applications	£683 207%
Premises licence variations	£678 168%
Premises licence annual fee	£161 -20%
Club Premises Certificate applications	£582 220%
Club Premises Certificate variations	£583 220%
Club Premises Certificate annual fee	£121 -23%

**Table 7****Estimated future fees (Options 3-7) (% change)**

	<b>Average</b>
Temporary Event Notices	£80 280%
Application for a minor variation to licence or certificate	£183 105%
Application to vary DPS	£77 234%
Application for grant or renewal of a personal licence	£99 167%

**Table 8****Estimated current total fee income (£m) (2011/12)**

	<b>£m</b>	<b>% share</b>
Premises licence applications	2.3	4.3%
Premises licence variations	1.8	3.4%
Premises licence annual fee	40.0	75.2%
Club Premises Certificate applications	0.0	0.1%
Club Premises Certificate variations	0.0	0.1%
Club Premises Certificate annual fee	2.5	4.7%
TENs	2.8	5.3%
Minor Variations to licence/certificate	0.6	1.1%
Application to vary DPS	1.1	2.1%
Application for a personal licence	0.8	1.5%
Other processes	1.2	2.2%
<b>Total</b>	<b>53.2</b>	<b>100%</b>

**Table 9****Estimated future total fee income (Option 2) (£m)  
(2013/14) based on Elton**

	£m	% share	% change
Premises licence applications	7.0	10.5%	201%
Premises licence variations	4.8	7.3%	163%
Premises licence annual fee	31.4	47.3%	-21%
Club Premises Certificate applications	0.1	0.1%	214%
Club Premises Certificate variations	0.1	0.2%	214%
Club Premises Certificate annual fee	1.9	2.9%	-25%
TENs	10.4	15.7%	272%
Minor Variations to licence/certificate	1.2	1.7%	101%
Application to vary DPS	3.6	5.4%	228%
Application for a personal licence	2.2	3.2%	161%
Other processes	3.8	5.7%	224%
<b>Total</b>	<b>66.4</b>	<b>100.0%</b>	<b>25%</b>

**Table 10****Estimated future total fee income (Options 3-7) (£m)  
(2013/14) based on Elton**

	£m	% share	% change
Premises licence applications	7.1	10.5%	207%
Premises licence variations	4.9	7.3%	168%
Premises licence annual fee	32.0	47.3%	-20%
Club Premises Certificate applications	0.1	0.1%	220%
Club Premises Certificate variations	0.1	0.2%	220%
Club Premises Certificate annual fee	1.9	2.9%	-23%
TENs	10.6	15.7%	280%
Minor Variations to licence/certificate	1.2	1.7%	105%
Application to vary DPS	3.6	5.4%	234%
Application for a personal licence	2.2	3.2%	167%
Other processes	3.9	5.7%	231%
<b>Total</b>	<b>67.8</b>	<b>100.0%</b>	<b>27%</b>

**Table 11 Descriptive Statistics of the Average Costs Associated with Different Fees from LA Sample Survey (excl. outlier)\***

	<b>Premises licences applications and variations</b>	<b>Premises licence annual fees</b>	<b>Club premises certificates applications and variations</b>	<b>Club premises certificates annual fees</b>
Mean**	£455	£119	£455	£89
Minimum	£79	£40	£39	£24
Maximum	£897	£431	£1580	£252
Standard Deviation***	£264	£98	£494	£77

\*Based on 19 out of a potential 350 LAs

\*\*This does not reflect estimated average fees as the estimates do not include (for example) the cost of additional licensing functions that will need to be recovered through fees.

\*\*\* Standard deviation shows the average amount that LA's costs differed from the mean

## ANNEX B: Powers in the Act to prescribe fees

Application or notice	Power
Application for the grant of a licence	Section 17*
Application to replace stolen, lost etc. licence	Section 25*
Application for a provisional statement	Section 29
Notification of change of name or address of licence holder	Section 33
Application to vary a licence	Section 34*
Application to vary licence to specify designated premises supervisor	Section 37*
Application for minor variation of a licence	Section 41A*
Application to vary a licence to remove requirement for a designated premises supervisor	Section 41D*
Application for the transfer of a premises licence	Section 42*
Interim authority notice following death etc. of licence holder	Section 47*
Annual fee payable by premises licence holder	Section 55
Application for the grant of a certificate	Section 71**
Application to replace stolen, lost etc. certificate	Section 79**
Notification of change of name or change of rules of club	Section 82**
Notification of change of address of club	Section 83**
Application to vary a certificate	Section 84**
Application for minor variation of a certificate	Section 86A**
Annual fee payable by club premises certificate holder	Section 92
Temporary event notice	Section 100
Application to replace stolen, lost etc. temporary event notice	Section 110
Application for grant or renewal of a personal licence	Section 117***
Application to replace stolen, lost etc. personal licence	Section 126***
Notification of change of name or address of personal licence holder	Section 127***
Notification of interest of freeholder etc. in premises	Section 178

\* denotes power conferred by section 55

\*\* denotes power conferred by section 92

\*\*\* denotes power conferred by section 133

Section 8(5) also confers a power of a licensing authority to charge a reasonable fee for providing a copy of an entry from the authority's register, but the level of such a fee is not prescribed by regulations.

## Annex C

### Cost of assessing appropriate levels for each fee: Options 2-7

- 153) Completion of the “sample survey” was a comprehensive exercise to accord costs to each class of fee-payers across all fee-processes and therefore reflects the work that will be required by LAs to estimate costs. Licensing officers who had completed the survey provided estimates of the resource costs and expenses required. The average figure was around **£860**.
- 154) Most officers considered that this task was made considerably more complicated by the need to calculate costs in respect of each element of the current “fee band” structure based on NNDR. We therefore invited views on what proportion of the work had derived from the need to accord costs for the “main fees” to NNDR fee bands. The average cost of this aspect of the task was around 30% of the total cost. We therefore estimate that the average cost to LAs of according them to fee processes without NNDR bands is approximately **£580**.
- 155) Under Options 5-7, additional work will be required by LAs. It is assumed that this will be a cost equivalent to that caused by the inclusion of one NNDR fee band, or around 20% of the cost of calculating fees for all of the current NNDR bands ( $20\% \times (30\% \times £860)$ ), increasing the estimated average cost to £630. Under Option 6, we estimate an average cost of **£680** (an additional  $2 \times (20\% \times (30\% \times £860))$ ).
- 156) There is a risk that this method may underestimate the cost of considering variable fee amounts in some areas (for example, those that have many premises in the classes to which higher fees may apply) and includes costs that will not arise in some areas (such as those that do not have many premises in those classes). Discussions with licensing officers have indicated considerable variation on these points, and this subject will be considered further in the consultation. Also, LAs who chose to complete the sample survey may have been better prepared to estimate costs and the estimates may therefore be an underestimate of average costs nationally.

### Costs of local transparency, consideration of responses, and democratic processes

- 157) Taxi licensing fees are currently set by local authorities after public consultation. We intend that a similar process will apply to LSLF, with further consideration of the detailed requirements through the consultation process. To estimate the costs of meeting the public transparency and internal consideration processes, views were therefore obtained from a small sample of LAs on the costs of conducting these processes when taxi licensing fees are increased<sup>14</sup>. It should be noted that there is a risk that these estimates may not be nationally representative. Additionally, there is a risk that costs associated with consultation on taxi licensing fees may be higher or lower than the costs of publishing fees under the 2003 Act and inviting comment. However, we consider that the processes will be broadly similar (in terms of, in particular, advertisement, consideration of responses, and final consideration by the council) and that these are therefore reasonable estimates on the best available evidence.

### Advertising proposed fee levels

- 158) On average the cost of the newspaper advert to advertise proposed changes to taxi licensing fees was £690. The purpose of the advertisement is to invite responses from fee-payers on the proposed changes. This generates further administrative work including (potentially) the consideration of responses, discussion with stakeholders, and drafting reports for internal democratic purposes. LAs estimated that on average this part of the process costed £1,450. A final determination will need to be made by the council, at an estimated average cost of £980.

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<sup>14</sup> Costs associated with notifying each taxi driver by post have been excluded, as (subject to consultation) we do not expect postal notification of fee-payers to be a requirement for fees under the 2003 Act. However, we have incorporated costs for other forms of communication with fee-payers, including advertisement of proposed fees in a local newspaper and discussions with representatives of fee-payers.