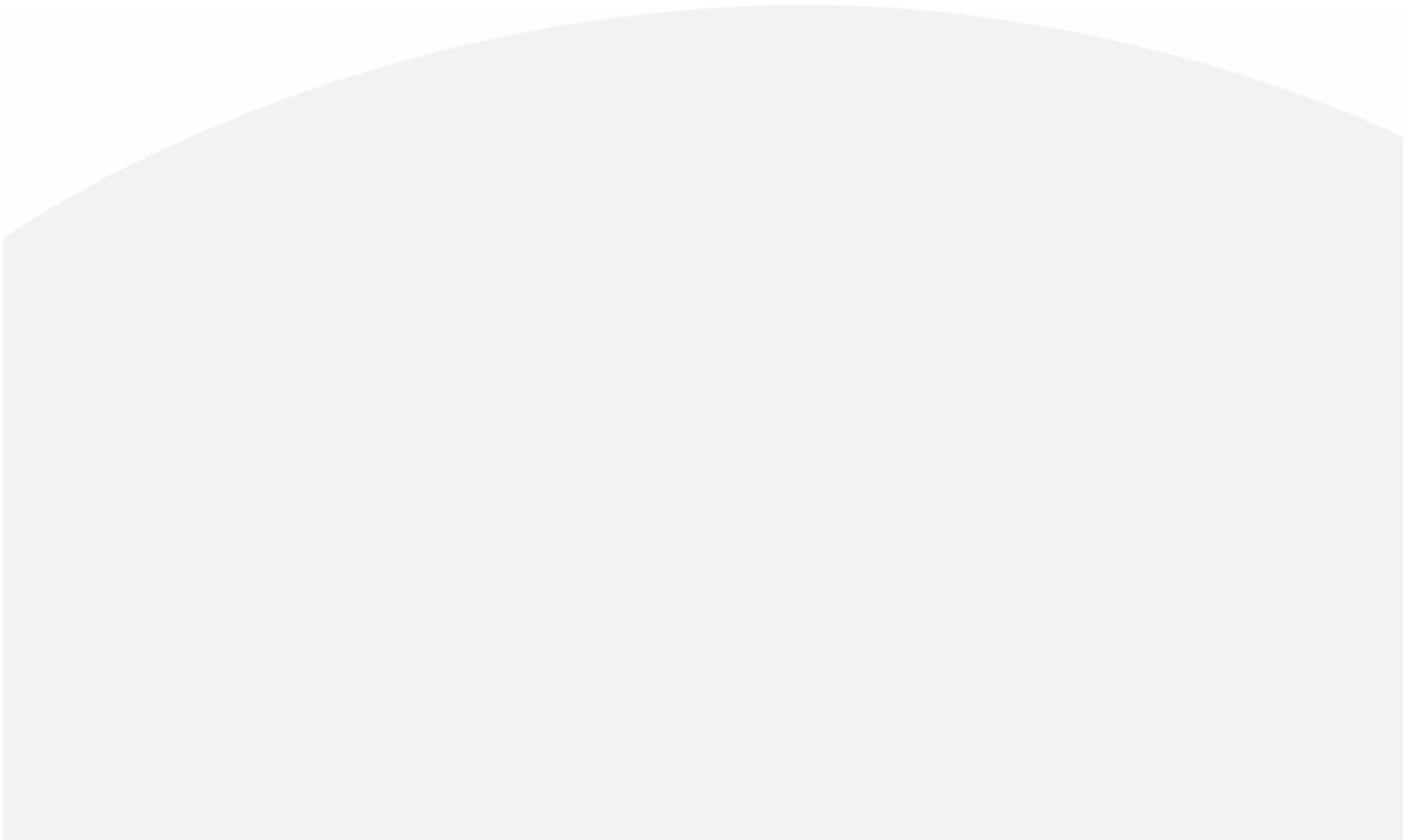


# GLA15/6.1 Risk Profile

07 June 2007



## **BOARD PAPER REFERENCE – GLA15/6.1 – Risk Profile**

### Issue

1. A request by the 13<sup>th</sup> Board for the GLA to recommend whether:
  - A sufficiently reliable Risk Profile exists that should be switched on,
  - There is a reasonable prospect of the GLA developing a reliable Risk Profile with a specified period of additional work.
  - It looks unlikely that a sufficiently reliable Risk Profile can ever be developed. That the idea should be abandoned.

### Recommendations

2. It is recommended that:
  - a. The Board accepts the Detica conclusions.
  - b. The Authority is directed to pursue the Detica recommendations, subject to there being a clear business case for doing so, agreed by the EMB. I.e. provided the EMB is persuaded that the likelihood and magnitude of eventual cost savings would at least cover the costs of further analysis and development of the capability.
  - c. The Authority continues to inspect all businesses that apply for a GLA licence for the time being.
  - d. The Board be updated at the meeting in January 2008, and invited to allow work to continue or stop it.

### Discussion

3. The GLA is committed to becoming 'a model of Hampton thinking' i.e. where possible and appropriate it will take a risk-based approach in the design and implementation of its regulatory processes. The GLA processes have been developed with this in mind, and there are several areas in which a risk-based approach already exists.
4. When the GLA's processes were being developed, the question of a risk-based approach to Application Inspections arose. The GLA executive proposed an approach in which information provided by the business on the application form, could be used to differentiate businesses more likely to be compliant, from those less likely to be compliant. This would be used to decide which business should be inspected as part of the licensing process, and which businesses could be licensed (assuming other checks were not adverse) without an inspection.
5. The Board accepted the approach in principle. However, they felt that there

was insufficient knowledge about the industry to put together a reliable Risk Profile that was sufficiently likely to prevent rogue gangmasters obtaining a license by escaping inspection. The Board directed further development of the GLA's customer base to enhance the data quality of the risk profile used, and directed that "the Authority should not move to a risk-based approach to inspections until agreed by the Board". The Board accepted this was unlikely to happen before 1 Oct 06. They also agreed that the same approach should be extended into the shellfish sector, noting this was unlikely to happen before 1 Oct 07.

6. The GLA carried out tests on the Risk Profile as developed by IBM (Martin Upcraft) using actual inspection data. These tests showed that:
  - 31% of cases that resulted in a licence with ALCs or Refusal would have been selected for inspection. i.e. 69% of cases that warranted an inspection would not have been picked up using the Upcraft risk profile.
  - 30% of cases that ended up being licensed in full (i.e. no ALCs), would have been selected by the Upcraft risk profile inspection. i.e. 70% of cases that were inspected, would not have been if the risk profile was in use)
7. The unequivocal view of the GLA from these tests was that the Upcraft risk profile was not sufficiently reliable to use in deciding which businesses applying for a GLA licence should not be required to undergo an Application Inspection. At that time the GLA had not been able to carry out tests using other risk profiles using different characteristics of the applying businesses, due to higher priority operational requirements. Against this background the Board agreed following recommendations:
  - a. That the Authority should continue to inspect all businesses that apply for GLA licence.
  - b. That the Authority should continue to test and evaluate different criteria with a view to developing a sufficiently reliable Risk Profile.
  - c. That the Authority should report back to the Board having completed these tests, with a clear recommendation on whether to introduce a Risk Profile, carry out specified additional work, or abandon the idea.
8. The Detica study was commissioned to address paragraph 7b. above. It concluded that the risk profiling approach proposed by IBM could not be made to work with acceptable reliability on the basis of information collected on the application form alone. Further, that using additional OGD data as currently collected by the GLA to supplement that on the application for would not affect the reliability of the model sufficiently to make its use viable for the GLA at current application volumes.
9. The study proposed:
  - a. Further analysis using third party data to determine:
    - The extent to which additional third party data could improve

the Risk Profile and reduce the numbers of AIs.

- o Whether additional third party data might help inspectors in the course of inspections.
  - b. An assessment to determine whether the availability of third party data might allow 'light touch' inspections in cases where full inspections would otherwise be undertaken.
10. In discussion within the GLA on the Detica suggestions above, the commitment to taking a risk-based approach where possible and appropriate was reiterated and confirmed. The discussion surfaced a general feeling that additional third party information could be useful to the GLA, if not as a means of reducing the numbers of AIs or of allowing 'light touch' inspections, then perhaps as a powerful contribution to Compliance and Enforcement Risk Ratings (CRR and ERR). Balancing this feeling was unease about the cost of further analysis (the GLA has neither the skills nor the capacity), and uncertainty that the approach will actually work, and will produce concrete benefits worth at least the cost of analysis and development. It was also thought possible that a non-commercial source of the same third party information – the National Audit Commission – might offer at least some of the analysis, and perhaps an ongoing service arrangement, at a much lower cost.
11. Against this background, the GLA recommends that:
- a. The Board accepts the Detica conclusions.
  - b. The Authority is directed to pursue the Detica recommendations, subject to there being a clear business case for doing so, agreed by the EMB. i.e. provided the EMB is persuaded that the likelihood and magnitude of eventual cost savings would at least cover the costs of further analysis and development of the capability.
  - c. The Authority continues to inspect all businesses that apply for a GLA licence for the time being.
  - d. The Board be updated at the meeting in January 2008, and invited to allow work to continue or stop it.