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BUDGET ANALYSIS OF THE PRIVATE SECURITY INDUSTRY REGULATORY AUTHORITY (PSIRA)

2019/20 Financial Year

Mandate of PSIRA

The Private Security Industry Regulatory Authority was established in terms of section 2 of the Private Security Industry Regulation Act (2001), which replaced the Security Officers Act (1987). The Authority is mandated to regulate the private security industry, and exercise control over the practice of the occupation of security service providers in the public and national interest, as well as in the interest of the private security industry itself.

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1. INTRODUCTION

South Africa has a large private security industry, arguably the largest worldwide. In 2017/18, the PSIRA had a total of 516 287 registered security guards working in a variety of sectors, such as access control and armed response. As such, a strong regulatory framework is necessary. To fulfil this regulatory function the Private Security Industry Regulatory Authority (PSIRA) was established as a public entity through the Private Security Industry Regulation Act, 2001 (Act No. 56 of 2001) as part of Schedule 3 (Part A) of the Public Finance Management Act, 1999 (Act No. 01 of 1999) (PFMA).

In 2019/20, the Authority faces two key challenges, both related to legislation. The review of the PSIRA Funding Model is dependent on the proclamation of the Private Security Industry Levies Act, 2002. The lack of proclamation hinders vital changes to the fee structure of the Authority, which in turn negatively effects its financial position.

The second legislative challenge is the current stalemate of the Private Security Industry Regulation Amendment Bill, 2012. The Bill was submitted to the President for assent in 2014. The time-delay of assent is due to a controversial clause regarding the ownership of private security companies (51% local ownership). The Amendment Bill allows for far greater regulation of the private security industry that is in-line with the current South African context. To overcome this challenge, the Authority has published numerous Regulations to effect some of the provisions contained in the Amendment Bill.

The paper provides an analysis of the financial performance and position of the PSIRA in the 2019/20 financial year.

2. LEGISLATIVE MANDATE

The PSIRA, was established in terms of Section 2 of the Private Security Industry Regulation Act, 2001 (Act No. 56 of 2001). The Authority's mandate is to regulate the private security industry and to exercise effective control over the practice of the security service providers in the public and national interest, and in the interest of the private security industry itself.

2.1. PSIRA Amendment Bill, 2012

The Private Security Industry Regulation Amendment Bill [B27D-2012] takes a stronger regulatory position on involvement of private security outside the South African border. The Amendment Bill provides for far greater restrictions and detailed prohibitions/requirements imposed on security services rendered outside the Republic. The Amendment Bill shows the changing attitude of government to private security. The most heavily contested provision of the Bill centred on the issue of foreign ownership of private security companies. The Amendment Bill provided that a company can only be registered as a security provider "if 51 percent of the ownership and control is exercised by South African citizens". The Amendment Bill was introduced in Parliament during September 2012 and only adopted and submitted to the President for assent in March 2014.

Regarding the progress of the PSIRA Amendment Bill, there is still an exchange of information between the Civilian Secretariat for Police Service and other stakeholders. The stakeholders are still deciding whether the Bill should be sent back to Parliament or sent to the President to sign.

3. FINANCIAL PERFORMANCE AND POSITION

The budget analysis of the PSIRA is different to that of government departments. PSIRA, as a public entity does not receive funds from government, but generates revenue through the collection of annual and registration fees from private security businesses and security officers, as mandated in section 3 of the Private Security Industry Regulation Act (2001).

The financial position of PSIRA is measured on potential revenue. National and provincial governments are on a modified cash basis of accounting, while local authorities and public entities use accrual accounting. Accrual accounting is best defined as "when transactions are recorded in the books of accounts as they occur even if the payment for that particular product or service has not been received or made. This method is more appropriate in assessing the health of the organisation in financial terms".[1] Furthermore, accrual accounting records revenues and expenses when they are incurred, regardless of when cash is exchanged. The term "accrual" refers to any individual entry recording revenue or expense in the absence of a cash transaction.[2]

[1] https://economictimes.indiatimes.com/definition/accrual-accounting
[2] https://www.entrepreneur.com/encyclopedia/accrual-accounting

In 2018/19, the Authority lifted a moratorium on the provision of training by private companies that had been in place for several years due to the high costs of obtaining security training accreditation. As a result, the Authority's revenue is expected to increase at an average annual rate of 7.4%, from R267 million in 2018/19 to R331.2 million in 2021/22. The growth is mainly driven by the sale of training material and accreditation rights to private companies. The Authority's expenditure over the period is expected to increase in line with its revenue.

The financial position of the Authority has been in flux during the 5th Parliament. At the end of the 2014/15 financial year, a deficit of R16.7 million was recorded. At the end of the 2015/16 financial year, performance improved and a surplus of R31.1 million was stated. Following this, the financial position deteriorated again to a R12.4 million deficit at the end of the 2017/18 financial year.

The instability of the financial position resulted from the outdated Annual Fee Funding Model of the Authority and needs to be reviewed through the introduction of the Private Security Industry Levies Act, 2002. The Act is not in operation and awaits proclamation by the President. It is believed that the Act will commence during the 2019/20 financial year.

3.1. Expenditure estimates per programme

The Authority is composed of three budget programmes, namely: Administration, Law Enforcement, and Communication, training and registration. The Programmes carry out the objectives and activities or the Authority. The expected revenue increases with R24.4 million in 2019/20 from R267.03 million in 2018/19 to R291.48 million in 2018/19.

The Administration Programme received an allocation of R122.9 million in 2019/20 against an allocation of R112.67 million in 2018/19, which is an increase of 9.09%. The Programme received 42.17% of the total budget for 2019/20. Over the medium-term, the allocation is expected to show an average annual growth rate of 8.1% and will receive an allocation of R142.15 million in 2021/22.

The Law Enforcement Programme received 42.84% of the total budget in 2019/20. The allocation increased from R112.2 million to R124.88 million in 2019/20, which is an increase of 11.25%. Over the medium-term, the average annual growth rate of the Programme is expected to 8.4% and will increase to R142.8 million in 2021/22.

Table 1: PSIRA expenditure by programme 2019/20

Programme	Revised estimate	Allocation	Nominal Increase/ Decrease in 2019/20	Real Increase/ Decrease in 2019/20	Nominal Percent change in 2019/20	Real Percent change in 2019/20
R'000	2018/19	2019/20				
Administration	112 675.0	122 919.0	10 244.0	4 168.2	9.09 per cent	3.70 per cent
Law Enforcement	112 251.0	124 884.0	12 633.0	6 460.0	11.25 per cent	5.75 per cent
Communication, training and registration	42 104.0	43 678.0	1 574.0	- 585.0	3.74 per cent	-1.39 per cent
TOTAL	**267 030.0**	**291 481.0**	**24 451.0**	**10 043.2**	**9.2 per cent**	**3.76 per cent**

Source: ENE 2019

The Authority's geographic footprint will be improved in 2019/20, as new offices were opened in Bloemfontein (Free State) and Empangeni (KwaZulu-Natal) in 2018/19 at a total rental cost of R3.2 million per year. A total of 6 inspectors were deployed to these offices. As a result, the Authority intends to increase the number of inspections conducted on security businesses over the medium term from 6 100 in 2018/19 to 7 398 in 2021/22, and inspections on security officers from 32 600 in 2018/19 to 39 534 in 2021/22.

3.2. Statements of financial performance

The Authority projects a nominal increase of 9.2% in revenue. In 2018/19, the Authority stated a total revenue of R267.03 million, which is expected to increase to R291.48 million in 2019/20. It is further expected that revenue will increase at an average annual rate of 7.4% over the medium-term to R331.2 million in 2021/22. The expected increase is mainly driven by the lifting of the training moratorium, which will result in an increase in the sale of training material and accreditation rights to private companies. It is expected that revenue from the sale of market establishment will increase from R41.95 million in 2018/19 to R68.65 million in 2019/20, which is an increase of 63.6% (R26.7 million) when compared to the previous financial year. Over the medium-term, revenue from sales will continue to increase to R84.19 million in 2021/22, which is an average annual growth rate of 26.1%.

Because the statement of financial performance should read as a balance statement, the total expenses will balance the total revenue of R291.48 million expected in 2019/20 (9.2% increase). Compensation of employees is expected to increase from R158.43 million in 2018/19 to R163.59 million in 2019/20, which is a nominal increase of 3.26%. Expenditure on Goods and services is expected to increase by 14.39% in 2019/20 (from R104.54 million to R119.58 million). Expenses as a result of Depreciation[3] is expected to increase significantly from R4.05 million in 2018/19 to R8.30 million in 2019/20 (104.66% increase). This item is expected to further increase over the medium-term to R12.54 million in 2021/22, which is an average annual growth rate of 45.7%.

3.3. Statements of financial position

The Authority projects a decrease in Total equity and liabilities from R96.9 million to R57.1 million in 2019/20. This represents a decrease of R39.7 million or 40.9% in 2019/20 when compared to the previous financial year. Over the medium-term the amount will increase to R86.3 million, but still represents an average annual growth rate of -3.8% (decrease).

In 2017/18, the AG raise a material uncertainty in regards to the financial position of the Authority. PSIRA incurred a net loss of R12 378 463 at year-end (31 March 2018) and, as of that date the Authority's current liabilities exceeded its current assets by R13 863 393, which indicate that a material uncertainty exists that may cast significant doubt on the Authority's ability to continue as a going concern. This is largely due to debt (annual fees) not collected by PSIRA. This is not due to a lack of trying, but some small businesses are unable to pay the

[3] Property, plant and equipment is carried at cost less accumulated depreciation and any impairment losses except for land and buildings which is carried at revalued amount being the fair value at the date of revaluation less any subsequent accumulated depreciation and subsequent accumulated impairment losses.

fees. As such, it is important for PSIRA to review its Funding Model to enable the Authority to determine annual fees on the size of business. During the 2017/18 budget hearings with the Portfolio Committee, the Authority indicated that a Going Concern Turnaround Strategy was developed to enable it to build reserves. This strategy was implemented and has resulted in building a reserves amounting to R67 million. The Authority has also employed debt collectors to help with collecting money due to it.

4. REFERENCES

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