

# *Arms Regulations*

## *Review of fees 2022 – Consultation (Dealer's Licence)*

February 2023





# ***INTRODUCTIONS BY PARTICIPANTS***



# ***PURPOSE OF PRESENTATION***

- Information sharing on the cost model
- Questions of clarification during the presentation
- Discussion after the presentation
- This is not a substitute for the submission process and additional submissions are invited as a result of this session



# OVERVIEW

## *Context and overview*

- Operating environment and regulatory settings
- Scope of cost recovery
- Overview of costing methodology
- Fees related to dealers

# ***THE OPERATING ENVIRONMENT AND THE IMPACT ON COST TO REGULATE***

- ✦ The global economic environment and future service demand and costs are uncertain. Recent trends indicate the costs to Police are likely to increase.
- ✦ Identifying the cost of delivering the Regulatory system were those available as at March 2022. Expected costs for FY 2023-FY 2032 were used to identify the total cost to deliver the Arms Act requirements through the ten year period and those eligible for offset through recovery of fees.
- ✦ For service that delivers on all regulatory requirements – it is what is required (staffing and other resources) and used in the business case for funding granted by the Government for Budget 2022
- ✦ The firearms regulator is investing in systems to increase efficiency and effectiveness through process optimisation and digitisation of service.
- ✦ More regular fee reviews would allow for fee adjustments both increases and decreases to adjust for inflation and efficiencies.

# WHAT COSTS MAY BE RECOVERED?

*Section 80 of the Arms Act sets out the activities eligible for cost recovery:*

- ✦ Police may impose fees or charges to cover the costs of:
  - ✦ applications for licences, (firearms, dealer's, visitor)
  - ✦ training/ testing
  - ✦ endorsements on licences and permits to possess endorsed items
  - ✦ import permits
  - ✦ certificates and approvals including clubs or ranges
  - ✦ Inspection/ assessment compliance with licence and endorsement conditions
  - ✦ approvals to manufacture
  - ✦ sample testing
- ✦ Costs associated with the transformation have not been included
- ✦ Cost recovery does not extend to:
  - ✦ Calls relating to potential offending
  - ✦ Criminal investigations
  - ✦ Prosecutions

# EXAMPLE: ACTIVITIES CARRIED OUT FOR FIREARMS LICENCES

*Section 80 would include those listed below and other activities not listed below:*

- ▶ Provide Firearms Safety Course and Arms Code
- ▶ Contact Applicant, Referees (including unrelated referee) complete Vetting Interviews
- ▶ Respond to Information Requests from applicants
- ▶ Vetting Checks
- ▶ Prepare Vetting Packages
- ▶ Compliance Activities (site visit/security check)
- ▶ Review and Document Findings
- ▶ Consideration to Refuse Documentation
- ▶ Prepare Notice to Refuse Documentation
- ▶ Card Management (issue, replacement)
- ▶ Compliance activity through licence period (change of address, security check visits/audit after licence issued)
- ▶ Issue Improvement Notices to licence holder where required
- ▶ Seize Firearms/Firearms Licence
- ▶ Serve of Suspension/Revocation Notice
- ▶ On going desk-top vetting checks
- ▶ Update records following victim reports and reports of theft and burglary.

# HOW WE CAN RECOVER COSTS?

## *The Arms Act set out how fees may be set*

✦ Under section 83 of the Arms Act, the fees can be:

- ✦ A fixed fee
- ✦ A fee that allows for variations in the amount of work required
- ✦ To recover payments to third parties
- ✦ Based on an average
- ✦ Set to recover indirect costs

✦ Under section 81 of the Arms Act, fees must:

- ✦ Be no more than actual and reasonable costs
- ✦ Obtain the fee from the users/beneficiaries
- ✦ Not build in inefficiencies
- ✦ Show a clear relationship between the costs and fees

The authority to set fees is not new but the method has not been explicit.

These provisions provide greater assurance to fee payers because a clear relationship between costs and fees is required.

Fees cannot be changed without consultation.



# FEE STRUCTURES

*Following Section 83 the fee structures proposed follow a consistent approach:*

- ▶ **Fixed fees** (average cost) based on time to complete an application by:
  - Arms officers
  - Arms Administrators
  - Veters
  - National service Centre staffSuits a large number of applicants
- ▶ **Fees fixed and variable component** – costs reflect the amount of work. Applies to smaller numbers of applicants and the cost to Police varies significantly
- ▶ **Second and subsequent fees** lower than first time applications to avoid charging for work not required
- ▶ **Compliance activities** are costs are incurred over the duration of licences, permits, consents

# 1. RECOVERABLE COSTS

The core elements of the costs are:

## *Direct Personnel Cost*

- ✦ Each service requires significant input from operational staff and costs are different for each service
- ✦ We have used the midpoint of salary bands plus superannuation and allowances

## *Indirect Costs*

- ✦ Necessary corporate functions (ie. Finance, HR, Strategy, Comms and Engagement) and overheads (ie. property, vehicles, ICT systems and support) provide services
- ✦ ICT is a major component – leases hardware, software, and support
- ✦ The indirect costs have been apportioned to each service ie. If 50% of direct costs are allocated to a particular service then ~50% of indirect cost apply

## 2. RECOVERABLE COSTS (CONTD.)

### *Travel Costs are high*

- ✦ For some services travel is a significant part of costs especially for:
  - ✦ vetting of applicants,
  - ✦ site assessments (reconciliation of items held, audits, determining any conditions required for security, processes, and others
  - ✦ compliance visits (for example, storage and security checks)

### *Anticipated Efficiency Gains and Cost reductions for second and subsequent applications*

- ✦ Efficiency gains have been factored in as a result of the implementation of the Arms Information System and the digitisation of the service offering.
- ✦ In some case second and subsequent fees are reduced because some work does not need to be repeated

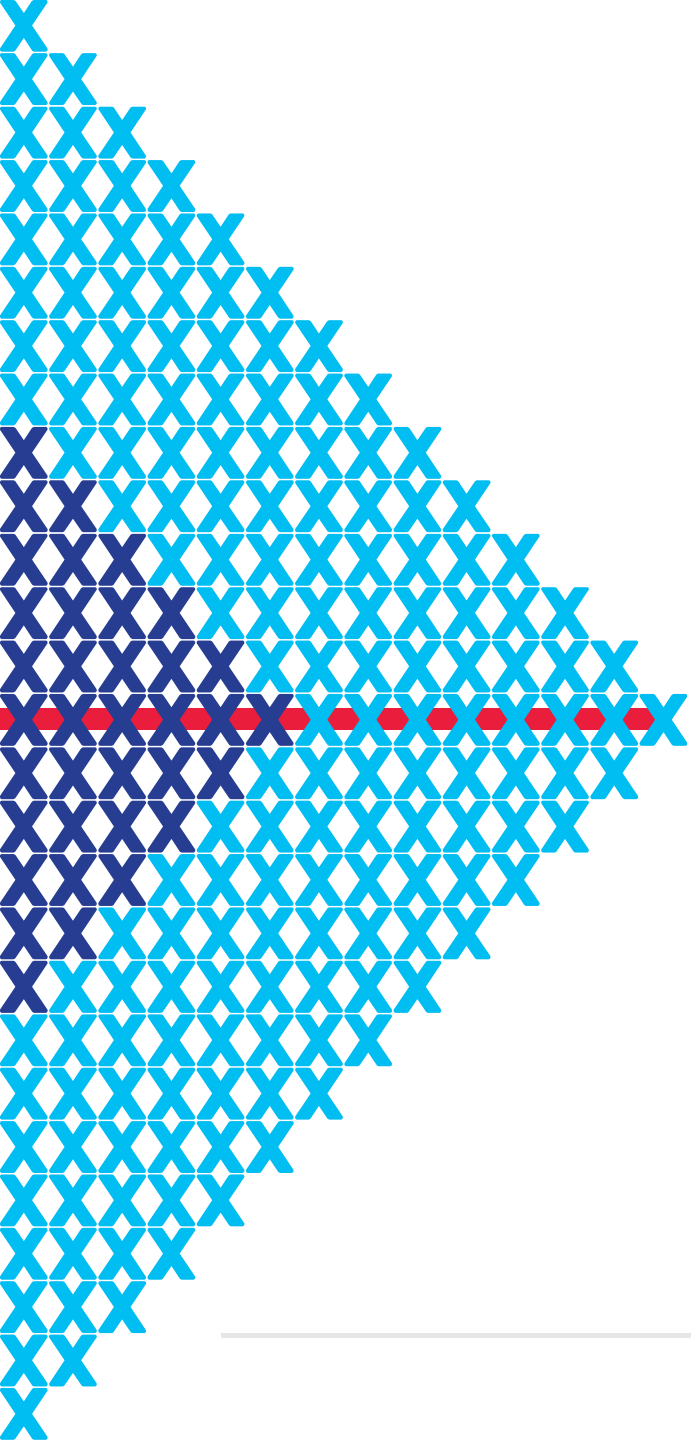
# ***INPUTS INTO THE FEE CALCULATIONS***

- ✦ Developed over several years identifying the individual tasks for each service and their duration
- ✦ Detailed process maps and step-by-step time estimation for each service
- ✦ Validation of overall effort with SMEs
- ✦ Stakeholders in the firearms community have provided considerable input over the process
- ✦ Police databases, statistics, and independent research have been used

# ***INDEPENDENT ASSURANCE ON METHODOLOGY***

We recognise that it is crucial that fee payers have confidence in how Police's costs and proposed fees and charges

- ✦ An independent external audit will be completed to ensure our methods are sound
- ✦ If the audit finds that adjustments are required then these changes will be carried out
- ✦ The audit report will be released to the firearms community



# ***FEES RELATED TO THE DEALER LICENCE***

# Dealer licence: General

Issues	Elaboration	Fees – for the Dealer’s Licence
<b>Recognition of Crown investment</b>	Providing these services is a cost -There is no option to generate a surplus	Fees that are not set at full cost are, in effect, a form of Crown contribution to public safety
<b>Rigour</b>	<p>Dealer licences are not easy to obtain because of the requirements and conditions</p> <p>This imposes significant costs to manage applications and the ongoing work between applications</p>	<p>Even though the number of dealers is relatively small, significant input is required</p> <p>The work required is somewhat less for second and subsequent applications</p>
<b>Averaging</b>	Averaging is an option but smaller dealer businesses will pay a disproportionately high fee	Option for more equitable fee structure
<b>Impact of size of dealership</b>	<p>Larger dealer businesses require more work</p> <p>There are alternatives to estimate size but the number of employees is a feasible approach</p> <p>Only a small number of dealer businesses have more than 8 employees</p>	<p>A large sample of dealer applications was used to establish an average number of employees</p> <p>The total costs have been recovered from a fixed amount per dealer plus an extra fee for each employee up to a maximum of 8</p>
<b>Number of dealerships</b>	Legislative changes cover more activities that fall into the category of dealer	The calculations are based on an estimate but are not sensitive to the number of dealers
<b>Non-compliance</b>	<p>High levels of fees will probably result in avoidance</p> <p>This may apply to those who have only recently been brought into the dealer category and a small business or part of a larger business</p>	Using an average is more likely to result in non-compliance

Dealer (other than Museum Director Curator)		
Options	Notes	Fee inclusive of GST
<b>Option A. Averaged across dealers</b>		
Averaged across dealers (excluding museum curators)	The total cost to Police divided by the number of dealers	\$2,330 – \$2,570
<b>Option B. First application for a dealer's licence</b>		
First application for a dealer's licence	The first application requires all the work included in Option A	\$2,330 – \$2,570
<b>Option B. 1 Lower cost for second and subsequent application*</b>		
Lower fee for second and subsequent application	The dealer's business is a going concern with relationships in place  Reduced work to complete application	\$1,760 – \$1,940
<b>Option B. 2 Fixed plus Variable Fee</b>		
Fixed (per dealer)	This is a full cost recovery fee but the fees recovered are proportioned based on the number of licence employees listed in the applications as a proxy for the work required	\$1,000 – \$1,100
Fee per licenced employee (up to 8)		\$190 – \$210

\* A reduction in work of 3.5 hours by Police staff is estimated for second and subsequent applications



## ***Dealer and Employee Fee Calculations***

- The estimated average cost for a dealer application is \$1,211 ex GST
- The processing costs is \$919 ex GST for the dealer licence holder
- Our sample gave an estimated average dealer and employees is 5.3
- To fully recover all costs based on this average \$175 ex GST would be required
- Fee proposal is \$1,055 plus \$200 per employee per year including GST
- **The maximum fee is \$2,655 including GST for a dealer with 8 employees**

## ***Museum Curators***

- A zero fee is proposed for museums curators although they fall in the dealer category
- Eligibility for this type of licence has very strict conditions
- A collector endorsement in itself does not meet the criteria for a museum curator

# Dealer endorsements

- ❖ Dealer's and their employees require endorsements if they handle items requiring an endorsement
- ❖ This work is additional to the requirements to a dealer licence
- ❖ Second and subsequent applications have a lower cost and the fee proposal is less than the current fee

Dealer and employee endorsements applications Cost Model	Dealer Endorsements	Option B Dealer employee (i) First application for each employee (arms items requiring endorsement)	Option B Dealer employee (ii) Each employee second/subsequent endorsement
<b>Cost per hour including business unit cost (\$hr)</b>			
EMP: Arms Officer	143	143	
EMP: Administration Support			143
Time Taken by Resource Type per Application (Hours)	0.70	1.80	0.70
<b>Fee exclusive of GST</b>	100.00	260.00	100.00
<b>Fee inclusive of GST</b>	120.00	300.00	120.00

Dealer Licence Application Activity Cost Based Model	Jun-23	Jun-24	Jun-25	Jun-26	Jun-27	Jun-28	Jun-29	Jun-30	Jun-31	Jun-32
Number of Applications	449	472	495	495	495	495	495	495	495	495
Time Taken by Resource Type per Application (Hours)										
EMP: Arms Officer	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00
EMP: Arms Administrator	1.60	1.60	1.60	1.60	1.60	1.60	1.60	1.60	1.60	1.60
EMP: Vetter	5.00	5.00	5.00	5.00	5.00	5.00	5.00	5.00	5.00	5.00
EMP: National Service Centre	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50
EMP: Arms Officer	0.40	0.40	0.40	0.40	0.40	0.40	0.40	0.40	0.40	0.40
Total Time Taken by Resource Type per Application (Hours)	8.10	8.10	8.10	8.10	8.10	8.10	8.10	8.10	8.10	8.10
Total Indirect Cost	381,631	400,712	420,748	420,748	420,748	420,748	420,748	420,748	420,748	420,748
Total Cost (Activity Base + Indirect Cost)	540,560	567,588	595,967	595,967	595,967	595,967	595,967	595,967	595,967	595,967
Average direct and indirect cost (fee excl GST)										
EMP: Arms Officer	143	143	143	143	143	143	143	143	143	143
EMP: Arms Administrator	206	206	206	206	206	206	206	206	206	206
EMP: Vetter	725	725	725	725	725	725	725	725	725	725
EMP: National Service Centre	72	72	72	72	72	72	72	72	72	72
EMP: Arms Officer	57	57	57	57	57	57	57	57	57	57
Average direct and indirect cost (fee excl GST)	1,203	1,203	1,203	1,203	1,203	1,203	1,203	1,203	1,203	1,203
Average direct & indirect cost (fee excl GST) over 10 Years	1,203									
Average direct & indirect cost (Incl GST) over 10 Years	1,383									

# Gun Shows and Auctions

- A dealer's licence limits its holder to one place of business which meets specific criteria for safety and security
- An additional site needs to meet adequate safety and security requirements
- This requires an assessment of a document submitted with an application and separate invoicing of each applicant
- Police Attendance on site is required at an event at cost

Consent additional site (gun show or auction)			
Option	Advantages	Disadvantages	Fee inclusive of GST
<b>Two-part fee</b> <b>(i) Application Fee</b> <b>plus if required</b> <b>(ii) Daily fee per Police staff member attendance at show</b>	Aligns with costs	No significant disadvantages	\$1,020 – \$1,120
	Minimum one Police staff required	The number of staff required is not easy to predict with a gun show where multiple dealers attend	\$1,120 – \$1,240 per Police person per day

- There is no double charging for an application the fee is per site
- A group of applicants can share costs
- Hourly rate is ~\$140

# ***Import permits for ammunition and other arms items***

## **Ammunition**

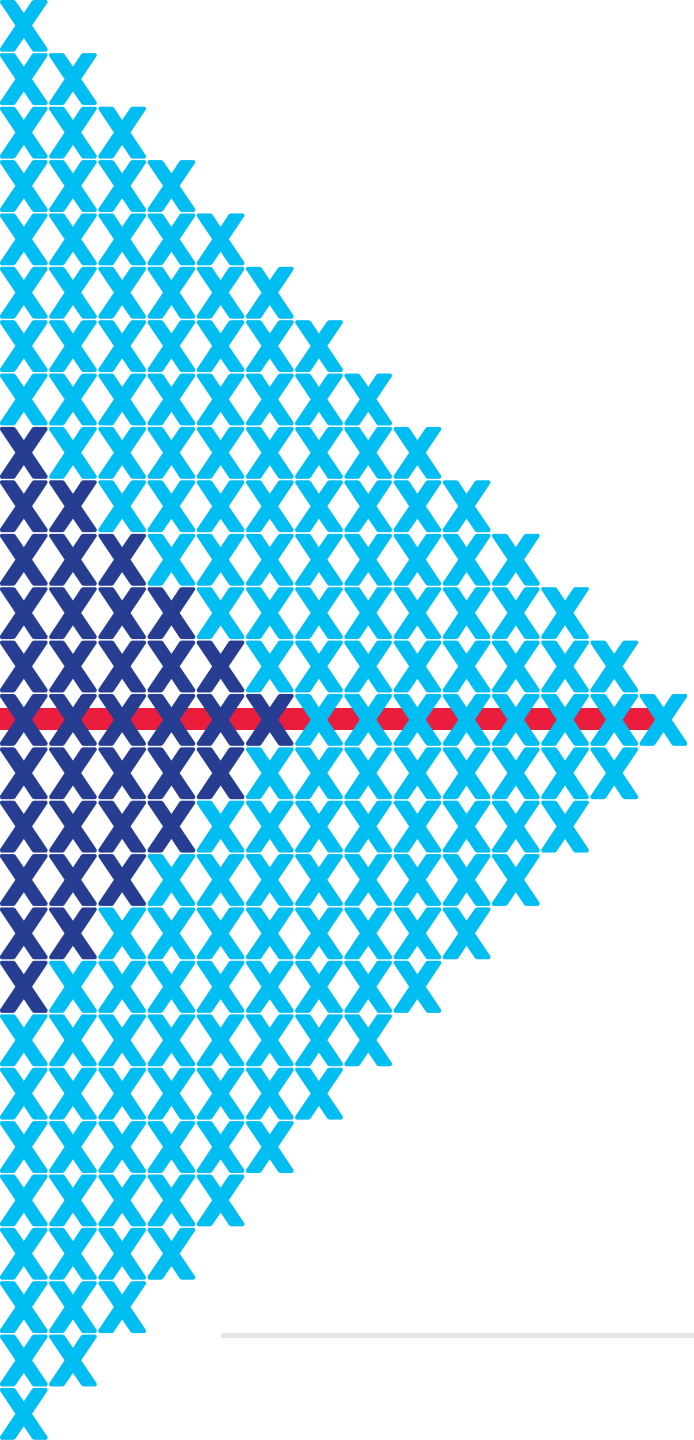
- A fixed fee of \$540-\$590 has been proposed for ammunition imports
- Permits indicate ammunition imports are in bulk quantities – there are a small number of permits and the average cartridges/shells on each permit are in the tens of thousands
- The fee proposed would be approximately 1 cent per round on average
- The costs to Police are the direct handling of the application and the follow up work to ensure that the items entering New Zealand match the description on the permit

## **Arms items**

- A fee of \$44 plus \$5 per item type and major firearms part (see definition in Regulations) is the proposed fee (ten identical items will not attract a fee of \$50)
- This is an equitable solution given that the amount of work required of Police is related to the number of item types
- The costs to Police are the direct handling of the application and the follow up work to ensure that the item types entering New Zealand match the description on the permit

# NEXT STEPS

- ✦ Submissions close on 16 February 2023.
- ✦ An external consultant will read and analyse the submissions before recommendations are made to the Minister of Police.
- ✦ The recommendations will take into consideration the feedback received from consultation.
- ✦ Any new fees need to be approved by Cabinet – for a variety of reasons, at this stage, we do not expect any decisions until mid-2023 at the earliest and fees taking effect during the 2023/24 financial year.
- ✦ We will update the sector on progress once decisions have been made by Cabinet.



# ***Questions and discussion***