

## BRIEFING FOR THE MINISTER OF POLICE

<b>Priority</b>	<input type="checkbox"/> Urgent <input type="checkbox"/> Time-Sensitive <input checked="" type="checkbox"/> Routine		
<b>Title</b>	Options for a new regulatory entity and related funding implications		
<b>Date</b>	26 November 2020	<b>Ref</b>	BR/20/08PW

### Executive summary

#### *Purpose*

1. You will shortly be reporting back to Cabinet on options for a new regulatory entity for administering the Arms Act 1983. That Cabinet paper will also address funding the administration of the Act, including accessing a previously agreed tagged contingency fund. This briefing provides an introduction and overview of these matters

#### *Background*

2. Subsequent to cross-party consultation and negotiation with the New Zealand First party seeking support for passing the Arms Legislation Act 2020, the previous Minister of Police agreed to establish an independent regulatory entity to take over firearms licensing and administrative regulatory functions.
3. In June, Cabinet noted this agreement and invited the Minister of Police to report-back to Cabinet on options for an independent regulatory entity.
4. Given pressure on Cabinet agendas before the end of the year, Police proposes that the November report-back should be moved to February. However, it is possible that the report back of the Royal Commission of Inquiry into the Terrorist Attack on Christchurch Mosques on 15 March 2019 (RCOI) may lead to increased urgency for Cabinet to consider these issues. In that case, Police will provide Cabinet papers.

#### *The Arms regulatory system*

5. At a high level, the Arms regulatory system is made up of the following regulatory functions:
  - **policy advice and system oversight**
  - **administration** (including operational policy and service delivery)
  - **policing services.**

6. Options for moving the 'policy advice and system oversight' and/or 'administration' regulatory functions from Police were developed. The previous Minister of Police agreed that four options (options 1 to 4) should be analysed further, to be compared to option 5 (the enhanced status quo where Police is implementing a new operating model). The options are as follows:

	Option 1 PSD/Police	Option 2 DA/DA	Option 3 Police/CA	Option 4 PSD/CA	Option 5 enhanced status quo (enhanced SQ)
<b>Policy advice and system oversight</b>	Public Service Department (PSD)	Departmental agency (DA) within PSD	Police	PSD	Police
<b>Administration</b> (including operational policy and service delivery)	Police (in a branded Business Unit)	DA within PSD	Crown agent (CA)	Crown agent (CA)	Police
<b>Policing services</b>	Police	Police	Police	Police	Police

#### *Summary of the Indicative Business Case*

7. Police contracted Deloitte to undertake analysis and provide professional, independent advice leading to an Indicative Business Case (IBC). The IBC sought to identify the characteristics of an effective firearms regulator, how this may be delivered in an operating model, and what that new operating model looks like across the five options. The indicative costs for each option from Financial year 2021 to Financial Year 2031 are summarised in the following table.

Total Costs (\$ millions)	Option 1 Policy: PSD / Admin: Police	Option 2 Policy: DA / Admin: DA	Option 3 Policy: Police / Admin: CA	Option 4 Policy: Police / Admin: CA	Option 5 Enhanced SQ
<b>Transition cost</b>	80.0	94.0	94.0	94.0	80.0
<b>Non-core operations</b>	30.3	98.7	125.0	126.6	28.7
<b>Core operations costs</b>	343.0	343.0	343.0	343.0	343.0
<b>Total</b>	<b>453.4</b>	<b>535.7</b>	<b>562.0</b>	<b>563.6</b>	<b>451.7</b>

8. Analysis of the options against the identified critical success factors showed that Option 3 (Police/CA) and Option 5 (enhanced SQ) both provide credible options for delivering effective arms regulation. As shown above, Option 5 costs \$110.3 million less than Option 3 over 11 years.

*Funding sources need to be confirmed*

9. Considerable additional investment is needed to deliver both Option 3 and Option 5. Police and Deloitte agree that funding available to date has been insufficient to meet the operational scale required for fully regulate the firearms environment. The increase from previous years' expenditure reflects the funding required to support the new operating model for both options, including in the first two years implementing the Arms Legislation Act 2020, Police's continued focus on modernising and improving its operational service delivery and the establishment of a Firearms Registry and ICT costs.
10. Police has the following funding sources:
  - current operating expenditure (\$8.1 million)
  - a tagged contingency (\$60 million over 4 years)
  - potential future budget bids
  - costs recovered through fees set by regulations (cost recovery).
11. In preparation for the Cabinet paper, Police will discuss with Treasury the best mix of funding sources on an ongoing basis. The existing expenditure and the tagged contingency would, (if the contingency was rephased and partially capitalised) cover most of cost of Option 5 and most of the costs of Option 3 in the first two years.
12. Our initial estimates, subject to further engagement with Treasury are that a bid in Budget 2021 for a new entity (Option 3) would total around \$154.6 million for the first four years of which \$136.6 million would be operating and \$18.0 million capital. A Budget 2021 bid for Option 5 would total around \$122.7 million for the first four years, of which \$104.7 million would be operating and \$18.0 million capital. These figures take into consideration existing expenditure, the established tagged contingency and existing cost recovery income

*Cost recovery settings should be reviewed whichever option is progressed*

13. Fees for the standard firearms licences, dealer licences, and endorsements on such licences were last set in 1999. Some services of significant private benefit, such as the provision of import permits, are provided free. Over a twenty-year period, this has resulted in significant public funding of the administration of the Act.
14. With the proposed improvements to the Police operating model and the possible establishment of a new regulatory entity, the divergence between the fees and costs will increase. Treasury and the Minister of Finance may be more likely to support increasing the funding for firearms administration if there were an increased revenue stream from third party fees were to be established.

We will provide further advice on cost recovery in due course.

## Recommendations

Police recommends that the Minister of Police:

- a) **note** the work undertaken to consider options for the establishment of an independent firearms regulatory entity
- b) **note** the establishment of an Indicative Business Case for the establishment of a future regulatory model for firearms whether managed by Police or an independent entity
- c) **note** the differential costs associated with the identified options for the delivery of a future firearms regulatory model in future
- d) **agree** to move the report-back to Cabinet on options for an independent regulatory entity to February 2021

Yes/No

## Minister's comments and signature

..... / / 2020

Hon Poto Williams  
Minister of Police

## **Options for a new regulatory entity and related funding implications**

### **Purpose**

1. You will shortly be reporting back to Cabinet on options for a new regulatory entity for administering the Arms Act 1983. That Cabinet paper will also address funding the administration of the Act, including accessing a previously agreed tagged contingency fund. This briefing provides an introduction and overview of these matters, ahead of preparation of the Cabinet paper.

### **Background**

2. The Arms Act 1983 (the Arms Act) establishes a regulatory framework designed to protect the public from the harm that may be caused by the misuse of firearms. It allows fit and proper people to possess firearms for legal purposes (such as for business, recreational or sporting purposes) while mitigating the risk of misuse by placing limitations at critical control points in the system. Police acts as both a regulator and a law enforcement agency within the firearms regulatory system.
3. Following the March 15 terror attack, the Arms (Prohibited Firearms, Magazine, and Parts) Amendment Act 2019 was promptly enacted on 12 April 2019. This Amendment Act prohibited most semi-automatic firearms, their parts and large capacity magazines.
4. Police has, over a number of years, been modernising its firearms regulatory function. In the last two years this work has significantly increased in pace and scale. This provides a strong foundation for a future operating model, whether in the Police or an independent entity.

### **The current proposal for a new regulatory entity derived from Arms Legislation Bill negotiations**

5. A second Amendment Act was passed in June 2020. This was the Arms Legislation Act 2020 (the Arms Legislation Act), which was intended to strengthen the regulatory framework and update the Arms Act in order to better reflect New Zealand's arms environment today.
6. Subsequent to cross-party consultation and negotiation with the New Zealand First party seeking support for a Supplementary Order Paper and the passing of the Arms Legislation Act, the previous Minister of Police agreed to establish an independent regulatory entity to take over firearms licensing and administrative regulatory functions.
7. In June 2020, Cabinet noted that the Minister of Police had agreed to the establishment of an independent regulatory entity, agreed that officials undertake further work on a model for moving accountability for some of the Arms Act regulatory functions from Police. Cabinet invited the Minister of Police to report to in November 2020 on options for an independent regulatory entity [CAB-20-MIN-0263].

## **Having an independent Authority has been raised before**

8. The idea that firearms administration could be moved from Police to an independent Authority has been raised at various times. In 1997, the Thorp Report<sup>1</sup> recommended the establishment of an independent Firearms Authority with the sole objective of advancing firearms control. The Report acknowledged that if an independent Authority were established, some functions would still need to be done by Police.
9. The Report recommended that the independent Authority could either have a five-year sunset clause with administration then reverting to Police or could be on a permanent basis. Presumably the possible short-term nature of the independent Authority anticipated a step change in firearms administration if all the recommendations in the report had been accepted. The independent Authority would presumably be seen as driving the implementation stage with the possibility of a more established regulatory function moving back to Police.
10. In 1998, the Government decided that an independent Authority would not be established and that Police should retain responsibility for firearms control. This followed consideration of the Thorp Report recommendations by an interagency working group.

## **The Royal Commission of Inquiry may impact on the timing for the report back on new entity options**

11. Given the election delay and pressure on Cabinet agendas before the end of the year, Police proposes that the November report-back noted above should be moved to February 2021
12. However, if it becomes relevant as part of an early response to the Royal Commission of Inquiry into the Terrorist Attack on Christchurch Mosques on 15 March 2019 RCOI, Police could prepare a Cabinet paper to be considered in December.

## **A range of regulatory functions are undertaken in the Arms regulatory system**

13. The Arms regulatory system includes several different regulatory functions. A simple categorisation of the functions Police undertakes is as follows:

<b>Policy advice and oversight, including:</b>
<ul style="list-style-type: none"><li>• regulatory stewardship</li><li>• advising the responsible Minister</li><li>• legislative development (including regulations)</li><li>• monitoring and evaluation</li><li>• secretariat to the Minister's Arms Advisory Group (once set up)</li></ul>



<sup>1</sup> "Review of Firearms Control in New Zealand" a Report of an Independent Inquiry Commissioned by the Minister of Police and presented by Justice Thorp in June 1997.



**Administration, including operational policy and service delivery such as:**

**Licensing**

- licensing applications
- arms safety education and training
- endorsements, permits and approvals
- management of licence holdings (e.g. change of address)
- management of cessation of licence (surrender, death, expiry, revocation and suspension)
- compliance (audits, inspections, certifications and improvement notices)
- health practitioner notification management
- regulatory investigations

**Arms management**

- registration and transfers of possession for prohibited arms items, pistols, restricted weapons and arms modifications
- applications to import, export or manufacture arms
- management of arms holdings (lost, reports of stolen, found, surrendered, seized arms)
- storage, transport and destruction of arms
- arms items as evidence in proceedings

**Strategy, operational policy and engagement**

- agency engagement
- community engagement
- media engagement and responding to Official Information Act requests
- engagement with the Firearms Community Advisory Forum (FCAF)
- strategy and operational policy (development of processes, policies and procedures)
- quality assurance and performance reporting
- decision review

**Policing services including:**

- policing our borders
- intelligence and strategy (intelligence collection and response, interagency and international collaboration)
- policing illegally held arms in the community
- criminal/forensic investigations
- arms encountered in routine situations
- arms encountered in unsafe situations.

14. While Police has accountability for the above functions (and the system as a whole) several other actors/stakeholders play a role in the system including: the New Zealand Customs Service (which manages arms item imports), the Ministry of Foreign Affairs and Trade (which manages arms and part exports), the Department of Conservation, the Ministry of Justice, the Ministry of Education, the Ministry for Primary Industries, Crown Law, the courts, Local Authorities, the Independent Police Conduct Authority, the Office of the

Privacy Commissioner, the Ombudsman, the Auditor-General, the Public Service Commission, and contractors to Police such as the Mountain Safety Council and Whakatūpato (who deliver safety training).

15. Other actors and stakeholders include: the Firearms Community Advisory Forum (FCAF), the Council of Licenced Firearms Owners (COLFO), Gun Control NZ, academic Institutions, Pistol NZ (range certifiers), NZ Post, NZ Deerstalkers Association, National Rifle Association, Federated Farmers, Rural Women, Firearms Dealers, Firearms Retailers, the Game Animal Council, and Fish and Game NZ.

### **Options for moving some of the regulatory functions from Police**

16. Following the above breakdown of the regulatory system into the regulatory functions of 'policy advice and oversight', 'administration' and 'policing services', options were identified that moved one or both of the first two regulatory functions away from Police.
17. There is no suggestion to move any policing services. If elements of the regulatory function were moved to another entity, Police will continue to have a strong interest, and in some cases a direct role, in both the policy advice and oversight regulatory function and the administration regulatory function. This is because Police will remain the main source of many different types of relevant information, including the following:
  - information used for determining the fit and proper status of licence holders at time of application and throughout the licence period (including information from incident reports that may identify any licence holder who has come to Police's attention due to family violence, attempted self-harm or attempted suicide, or having charges laid against them)
  - forensic and intelligence information about firearms and ammunition used in incidents – to support resolving crimes and to gain insight into trends in the illegal use of firearms.
18. Appropriate data sharing processes will need to be developed to share this information with a new entity. Police will also require real time access to the firearms Registry (once built) to enable frontline Police to determine the legality of any firearms identified during normal Police business and to reduce exposure to avoidable risk when undertaking duties.
19. The previous Minister of Police agreed that four options (options 1 to 4) should be analysed further, to be compared to option 5 (the enhanced status quo where Police is implementing a new operating model).



	Option 1 PSD/Police	Option 2 DA/DA	Option 3 Police/CA	Option 4 PSD/CA	Option 5 enhanced status quo (Enhanced SQ)
<b>Policy advice and system oversight</b>	Public Service Department (PSD) (such as MOJ)	Departmental agency (DA) within PSD	Police	PSD	Police
<b>Administration</b> (including operational policy and service delivery)	Police (in a branded Business Unit)	DA within PSD	Crown agent (CA)	Crown agent (CA)	Police
<b>Policing services</b>	Police	Police	Police	Police	Police

20. A departmental agency is an operationally autonomous agency within a host department in the Public Service. It is headed by its own chief executive who is directly responsible to the agency's Minister for its clearly identified, ring-fenced activities and performance.
21. Departmental agencies provide an alternative to establishing wholly separate departments or new Crown entities. It can be used to provide greater autonomy and transparency for existing functions that might otherwise lose 'visibility' or focus as part of a large multifunctional departmental agency. As Police is not a public service agency it cannot host the departmental agency.
22. There are currently four departmental agencies: the Cancer Control Agency (host department Ministry of Health), the National Emergency Management Agency (host department DPMC), the Social Wellbeing Agency (host department Public Service Commission), and the Office for Māori Crown Relations —Te Arawhiti (host department Ministry of Justice).
23. A Crown agent is one of the three types of statutory Crown entities under the Crown Entities Act 2004. A Crown agent must give effect to government policy when directed by the responsible Minister.
24. A Crown agent has a more arms-length relationship from the Minister in comparison to a departmental agency. However, Ministers have a key role in overseeing and managing the Crown's interests in Crown entities. The role includes ensuring an effective board is in place, participating in setting the entity's strategic direction and funding, and reviewing the entity's performance and management of risk.
25. Examples of Crown agents are the New Zealand Transport Agency, the Civil Aviation Authority of New Zealand, the Earthquake Commission, Maritime New Zealand, and WorkSafe New Zealand.

### **An indicative Business Case was developed by Deloitte**

26. Police has contracted Deloitte to provide its an Indicative Business Case (IBC) and this work has recently been completed. The IBC sought to identify the characteristics of an effective firearms regulator, how this may be delivered in an operating model, and what that new operating model looks like across the five options.
27. Key challenges, investment objectives, benefits, and critical success factors were identified, as shown in Figure One on page 11.
28. Analysis showed that the preferred organisational emphasis for an operating model should be on risk mitigation, insights and intelligence, with some focus also on automation of key processes and on improving the licence holder experience.

### **Further detail on the five options**

29. Table Two on page 12 summarises the main characteristics of each of the five options, including the key benefits and risks.

Figure 1: Key challenges, investment objectives, benefits, and critical success factors

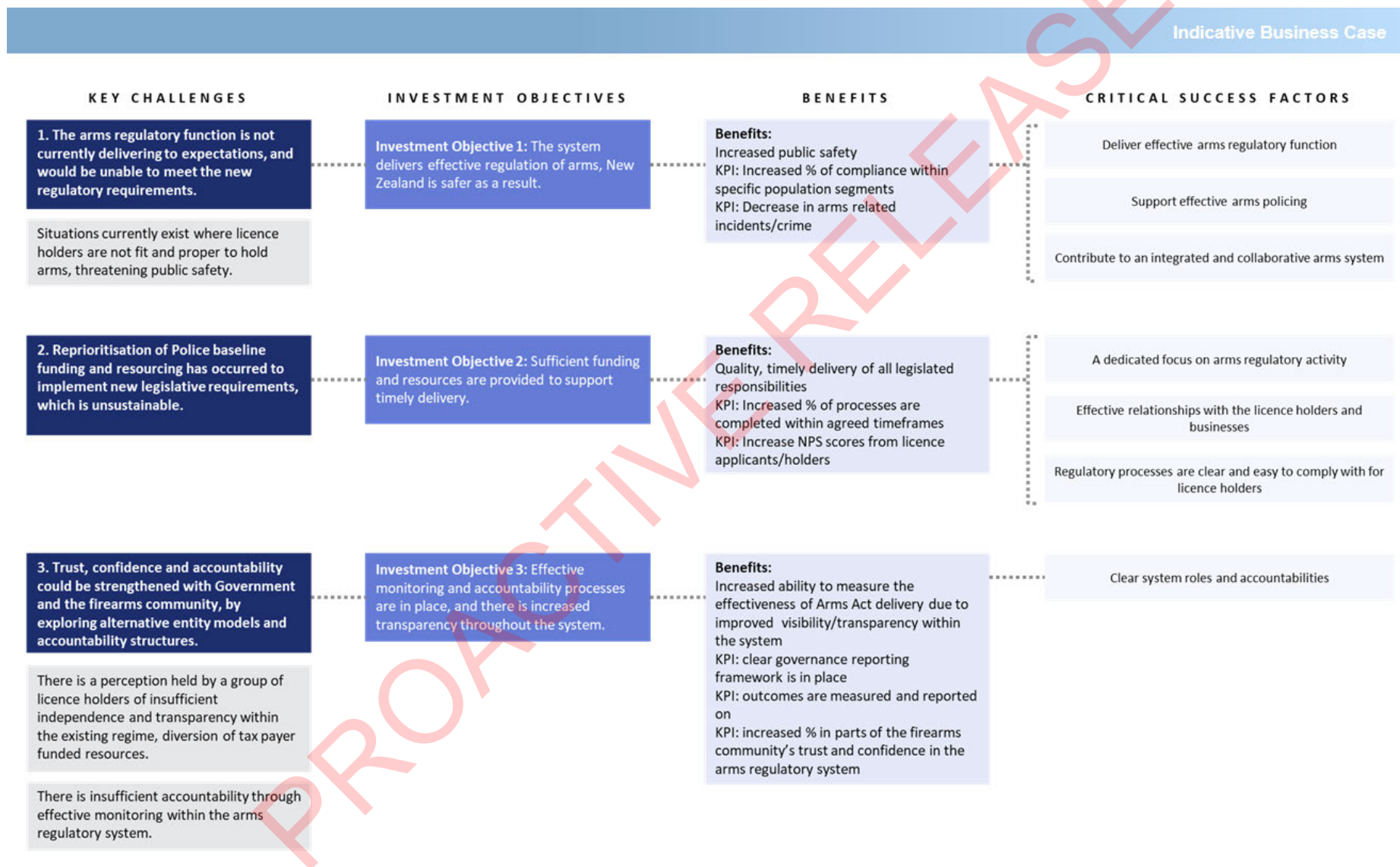


Table 2 : Main characteristics of each of the five options

	Option 1 (Policy PSD / Admin Police)	Option 2 (Policy DA / Admin DA)	Option 3 (Policy Police / Admin CA)	Option 4 (Policy PSD / Admin C)	Option 5 (enhanced SQ)
Description	Regulatory functions (Arms Act administration) are delivered by the Police in a branded business unit.  Policy advice and oversight functions are delivered by a Public Service Department.	Regulatory functions (Arms Act administration) and policy advice and oversight functions are delivered by a Departmental Agency within a Public Service Department.	Regulatory functions (Arms Act administration) are delivered by a new Crown Agent.  Policy and oversight functions remain with the Police.	Regulatory functions (Arms Act administration) are delivered by a new Crown Agent.  Policy advice and oversight functions are delivered by a separate Public Service Department.	Regulatory functions (Arms Act administration) and policy advice and oversight functions are delivered by the Police in a branded business unit.
Accountability	The Police Commissioner is accountable to the Minister for Police's performance.  The Chief Executive of the Public Service Department is accountable to the Minister for the Department's performance.	A Chief Executive is appointed and accountable to the Minister for the Agency's performance. The Minister responsible for the Agency can be different from that of the host Public Service Department.	An independent Board oversees the Agent and is accountable to the Minister. The Board appoints a Chief Executive.  The Police Commissioner is accountable to the Minister for Police's performance.	An independent Board oversees the Agent and is accountable to the Minister. The Board appoints a Chief Executive.  The Chief Executive of the Public Service Department is accountable to the Minister for the Department's performance.	The Police Commissioner is accountable to the Minister for Police's performance.
Independence	Provides for high degree of ministerial oversight, control and accountability. The Minister has a close relationship with the regulator and has power to direct the Police to give effect to government policy.  An independent Public Service Department would provide independent policy advice to the Minister.	Provides for high degree of ministerial oversight, control and accountability. The Minister has a close relationship with the regulator and has power to direct the Agency to give effect to government policy.  Provision of policy advice to the Minister is less independent, as the Agency is also responsible for policy and oversight.	Governance board puts regulator at arms-length from ministers.  The Agent must "give effect to" policy that relates to the entity's functions and objectives if directed by Minister. The Police would provide independent policy advice to the Minister.  Must "give effect to" whole of government approach if directed by Ministers of Finance and State Services.	Governance board puts regulator at arms-length from ministers.  The Agent must "give effect to" policy that relates to the entity's functions and objectives if directed by Minister. A Public Service Department would provide independent policy advice to the Minister.  Must "give effect to" whole of government approach if directed by Ministers of Finance and State Services.	Provides for high degree of ministerial oversight, control and accountability. The Minister has a close relationship with the regulator and has power to direct the Police to give effect to government policy.  Provision of policy advice to the Minister is less independent, as the Police is also responsible for policy and oversight.
Establishment	No legislative changes required. Change programme is established to improve existing services within the Police.  The policy function is transitioned to a Public Service Department.	Cabinet agrees to establish, including the role and principal functions of the departmental agency.  Arms Act amendment required.	The Crown Entities Act 2004 requires separate legislation to establish a new crown agent (can be the same legislation that sets out specific powers).  Arms Act amendment required.	The Crown Entities Act 2004 requires separate legislation to establish a new crown agent (can be the same legislation that sets out specific powers).  Arms Act amendment required.	No legislative changes required. Change programme is established to improve existing services.
Benefits	Leverages existing arrangement  Enhanced independence within the system  Improved public perception	Enhanced independence within the system  Opportunities presented through divestment	Leverages existing arrangements  Enhanced independence within the system  Opportunities presented through divestment  Enhanced governance and accountability	Enhanced independence within the system  Opportunities presented through divestment  Enhanced governance and accountability	Leverages existing arrangements
Risks	Divestment causes complexity/inefficiency  Lack of agency/separation  Lack of responsiveness	Divestment causes complexity/inefficiency  Intelligence failure  Legislative reform  Lack of agency/separation  Lack of responsiveness  Reliance and reduced flexibility	Divestment causes complexity/inefficiency  Intelligence failure  Legislative reform  Lack of agency/separation  Lack of responsiveness	Divestment causes complexity/inefficiency  Intelligence failure  Legislative reform  Lack of responsiveness  Complex arrangement due to three actors within the system	Lack of agency/separation  Lack of responsiveness

## Summary of indicative costs for each of the five options

30. The costs of the options identified in the IBC over the period from FY 21 to FY 31 are summarised in the following table.

Total Costs (\$ millions)	Option 1 Policy: PSD / Admin: Police	Option 2 Policy: DA / Admin: DA	Option 3 Policy: Police / Admin: CA	Option 4 Policy: Police / Admin: CA	Option 5 Enhanced SQ
Transition costs	80.0	94.0	94.0	94.0	80.0
Non-core operations	30.3	98.7	125.0	126.6	28.7
Core operations costs	343.0	343.0	343.0	343.0	343.0
Total	453.4	535.7	562.0	563.6	451.7

## Establishing a new regulatory entity will cost more than Police keeping the functions

31. Over an eleven-year period, Deloitte estimates a new regulatory entity would cost around \$85-110 million over and above Police's delivery of the same quality and nature of regulatory function. This reflects significant additional (and ongoing) investment that would be needed to establish and run a new entity. For example, Options 3 and 4 require investment for a Board, Senior Leadership Team, HR function and other infrastructure for a new Crown Agent. Option 5 on the other hand requires no additional investment for organisational infrastructure.
32. The transition costs relate to the one-off investments needed to implement the new operating model. These are significantly greater for Options 2, 3 and 4. This is because the transition costs include establishment of a new entity. The transition cost estimates include \$22.5 million for development of a new Registry and associated ICT changes in all Options.
33. The above figures are intended to indicate the broad scale of costs - they are drawn from early work and may change when a detailed Business Case is completed.

## Assessment of the five options for moving regulatory functions from Police

34. The following table summarises the Indicative Business Case assessment of each of the five options against the critical success factors that were identified.



Critical Success Factors	Highest ranking option(s):
Deliver effective arms regulatory function	Options receive the same rank.
Support effective arms policing	Option 5 (enhanced status quo) ranks the highest.
Regulatory processes are clear and easy to comply with for licence holders	Option 3 (Police/CA) and Option 4 (PSD/CA) rank the highest.
A dedicated focus on arms regulatory activity	Option 3 (Police/CA) ranks the highest.
Effective relationships with the licence holders and businesses	Options receive the same rank.
Contribute to an integrated and collaborative arms system	Option 1 (PSD/Police) and Option 5 (enhanced status quo) rank the highest.
Clear system roles and accountabilities	Option 3 (Police/CA) and Option 4 (PSD/CA) rank the highest.

### Option 3 (Police/CA) and Option 5 (enhanced SQ) scored highly

35. Assessing the options against the seven critical success factors and giving equal weighting to each of these factors, two options score highly. These are Option 3 (Police/CA) and Option 5 (enhanced status quo (SQ)).
36. Option 3 (Police CA) achieves the highest overall rank, particularly due to its high ranking for the following critical success factors:
  - regulatory processes are clear and easy to comply with for licence holders
  - a dedicated focus on arms regulatory activity
  - clear system roles and responsibilities.
37. However, the establishment of a Crown agent will be costly (discussed below) and has some risks, including complex integration with Police IT systems, needing to manage information flows in a consistent manner with privacy considerations, and risk of intelligence failure.
38. Option 5 (enhanced SQ) ranks highly against the following critical success factors:
  - contribute to an integrated and collaborative arms system
  - support effective arms policing.
39. Option 5 may deliver benefits through a lower risk, lower cost approach. The integration requirements and risks are removed as the Police has access to



all critical data as owner of both the regulatory and constabulary workforce. Although there is less flexibility to change licence holders' experiences, investment would be made to improve customer facing systems and processes.

40. On the basis that Option 3 (Police/CA) and Option 5 (enhanced SQ) both provide credible options for delivering effective arms regulation, Deloitte considered funding and implementation for each of these options in more detail.
41. The cost for Option 5 (enhanced status quo (SQ)) is \$110.3 million less than Option 3 (Police/CA)
42. Police has historic average annual direct operating expenditure of \$8.1 million for firearms administration covering district and national headquarters activity (with an additional overhead component of around \$5m pa). If the current levels of expenditure continued for 11 years, the direct cost would total \$89.1 million.
43. As noted in paragraph 30 above, the cost over 11 years for Option 3 (Police/CA) is \$562 million. This means an additional \$472.9 million will be required over and above existing expenditure for that period. The cost over the same period for Option 5 (enhanced SQ) would be \$451.7 million, therefore an additional \$362.6 million will be needed. In terms of potential budget bids, each figure can be reduced by the \$60 million already set aside in the tagged contingency.
44. Therefore, over 11 years the cost of implementing Option 5 is \$110.3 million less than Option 3.
45. The big step up from previous years' expenditure for both Options 3 and 5 reflects the funding required to support the new operating model, including in the first two years (and on an ongoing basis) implementing new regulatory functions derived from the Arms Legislation Act 2020, Police's continued focus on modernising and improving its operational service delivery, and Registry and CT costs.

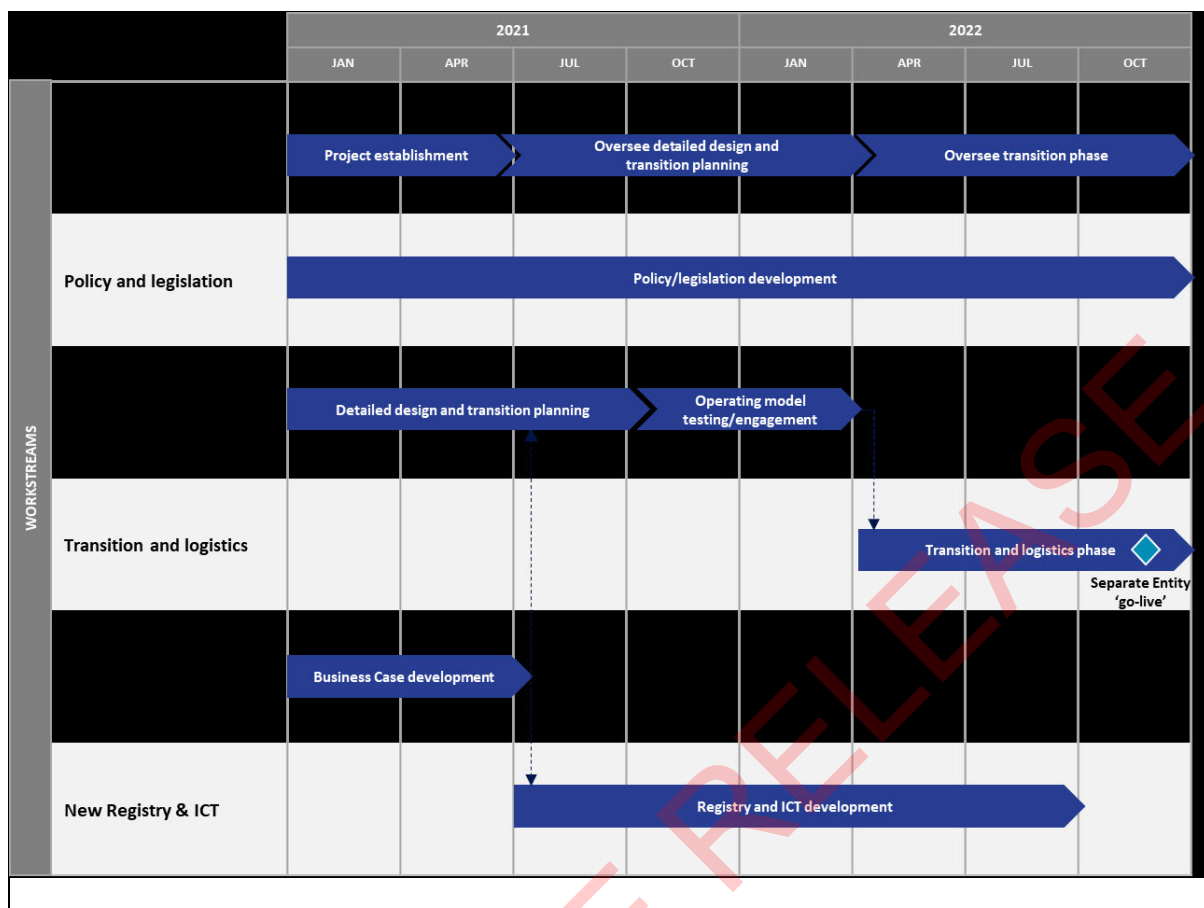
#### **Funding sources need to be confirmed**

46. On 6 April 2020, Cabinet agreed to a \$60 million four-year tagged operating contingency, with draw-down subject to Cabinet approval of a business case providing options for meeting the new legislative requirements [CAB-20-MIN-0155.26 Revised].
47. Police therefore has the following funding sources:
  - fees (cost recovery) set by regulation
  - Crown revenue
  - tagged contingency
  - future budget bids.

48. Now that the IBC has been completed, Police will discuss with Treasury the best mix of funding sources on an ongoing basis. The existing expenditure and the tagged contingency should cover the costs for Option 3 and the majority of costs for Option 5 in the first two years, but a further funding injection may be needed from Budget 22 (if not Budget 21).
49. Once the above is confirmed, proposals will be included in a Cabinet paper that will seek to release the tagged contingency and support any budget bid.
50. Our initial estimates, subject to further engagement with Treasury are that a bid in Budget 2021 for a new entity (Option 3) would total around \$154.6 million for the first four years of which \$136.6 million would be operating and \$18.0 million capital. A Budget 2021 bid for Option 5 would total around \$122.7 million for the first four years, of which \$104.7 million would be operating and \$18.0 million capital. These figures take into consideration existing expenditure, the established tagged contingency and existing cost recovery income.

### **Implementation of Option 3 (Police/CA)**

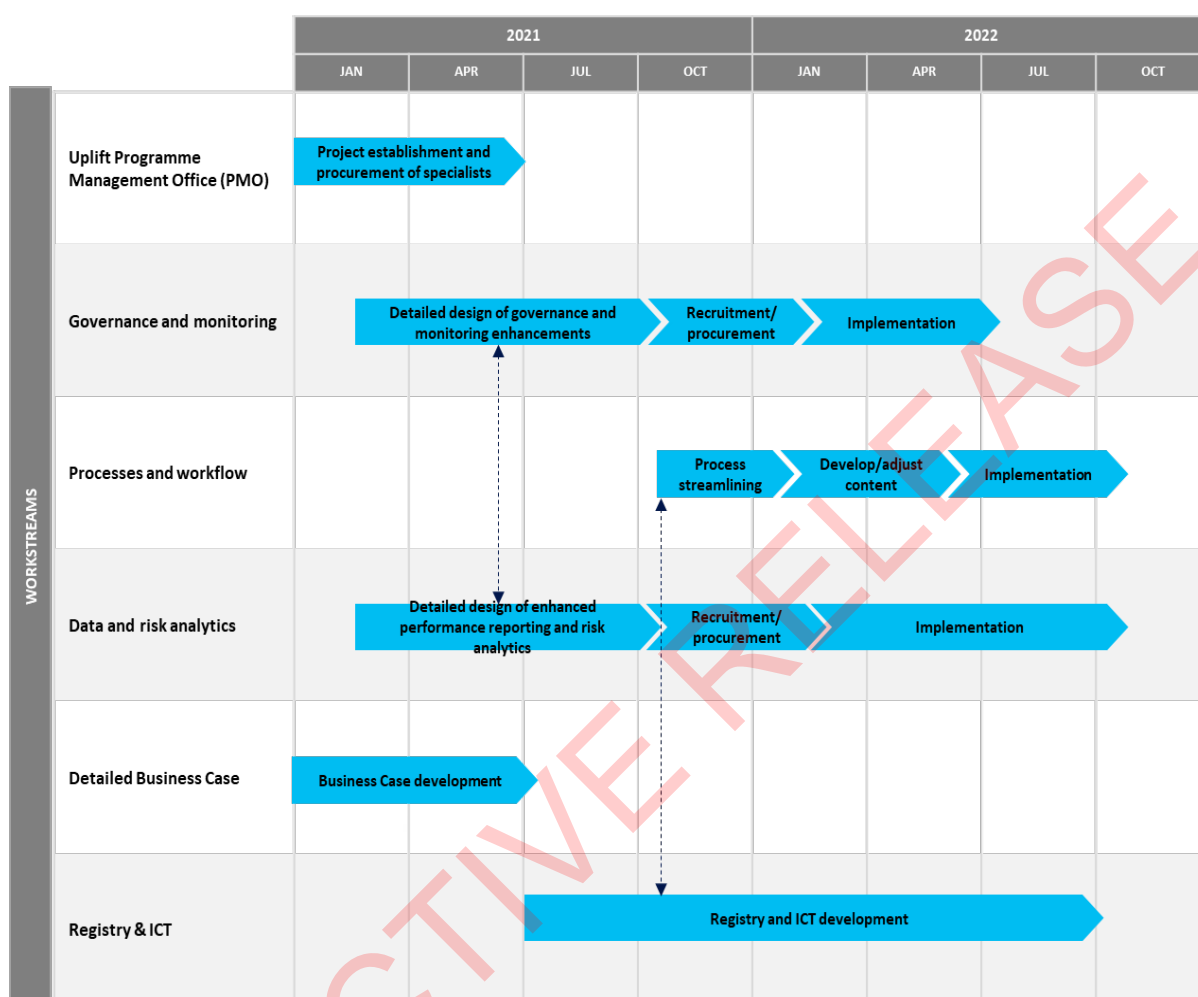
51. If Option 3 is to be progressed, clear governance mechanisms are required to oversee the establishment of the Crown Agent. A Project Management Office (PMO) would be responsible for day-to-day management of the Crown Agent establishment and transition process. A Governance Board would oversee the PMO. It would be appropriate to appoint the Crown Agent's independent board early to undertake the role of the Governance Board and manage the transition from Police.
52. Considerable work will be required to commence establishment and transition to a Crown agent. It is expected a mix of Police staff (constabulary and civilian), contractors and external consultants would be involved in detailed design, transition and establishment. This would ensure the operational impact on the Police and the experience of firearms users are considered in detailed design and transition planning.
53. A Detailed Business Case will be required in 2021 to further develop the content and costings provided within the IBC and present detailed operating model design, including the Registry.
54. An indicative delivery timeline for establishing and transitioning to the new Crown Agent follows.



### Implementation of Option 5 (enhanced SQ)

55. If Option 5 is to be progressed, the firearms improvement programme already underway will need to be strengthened and enhanced (with a scope and resource increase) so that it can deliver the new operating model. Key aspects of the current improvement programme are already well-aligned with the recommended new operating model, such as increasing the capability and scope of central functions.
56. Considerable improvement work has been undertaken. Police has:
  - Reviewed licensing processing
  - Reviewed recent licence holder files and improved quality assurance
  - Established a national support team
  - Employed 66 additional staff to assist Districts firearms activities
  - Improved staff training and updated the Arms Chapters of the Police Manual
  - Provided for online applications and supporting processes
  - Provided for online licence applications and supporting processes including enhancing the application form and oversight of decision-making
  - Provided laptops and cellphones to Police vetters to enable improved online processing and communications.
57. A Detailed Business Case will be required in 2021 to further develop the content and costings provided within the Indicative Business Case and present detailed operating model design, including the Registry.

58. An indicative delivery timeline for the Option 5 improvement programme follows.



### Cost recovery settings should be reviewed whichever option is progressed

59. The Arms Act enables Police to recover its costs for specified activities. Following consultation, the Minister of Police may recommend that the Governor-General make regulations prescribing fees or charges.
60. Fees for the standard firearms licences, dealer licences and endorsements on such licences were last set in 1999. Since then, these fees have been adjusted for the change in GST rate. However, there has been no other adjustment for increased costs or any fees set for other activities required of Police to administer the Act.
61. In 1999 the fee for a ten-year firearms licence was \$123.75 (now \$126.50 due to GST increases). This was approximately 50% of the estimated cost of processing an application for a firearms licence (\$236.25). The remaining

50% was to be met from the Vote Police appropriation. The full fee is charged if an application to renew the licence is not applied for before the previous licence had expired. The fee for a dealer's licence was set at an annual fee of \$200 (now \$204) and the fee for one or more endorsements (which exist for the length of the licence – up to 10 years) was set at \$200 (now \$204).

62. Costs and demand for services have increased since 1999. All the fees and charges collected under the Act are well below cost and some services of significant private benefit, such as the provision of import permits, are provided free. Over a twenty-year period, this has resulted in significant public funding of the administration of the Act.
63. In the future, with either proposed improvements to the Police operating model or the possible establishment of a new regulatory entity, the divergence between the fees and costs will increase. Treasury and the Minister of Finance may be more likely to support increasing the funding for firearms administration if an increased revenue stream from third party fees were to be established
64. We will provide further advice on cost recovery in due course.

#### Next Steps

65. Police will continue working on the Cabinet report-back on options (including consulting with agencies), discussing finance arrangements with Treasury, and preparing advice on costs recovered through fees.

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Jeremy Wood

Executive Director: Policy & Partnerships

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