

BRIEFING FOR THE MINISTER OF POLICE			
<b>Priority</b>	<input type="checkbox"/> Urgent <input checked="" type="checkbox"/> Time-Sensitive <input type="checkbox"/> Routine		
<b>Subject</b>	Buy-back and amnesty implementation update		
<b>Date</b>	9 May 2019	<b>Ref</b>	BR/19/49

### Executive summary

1. This paper seeks your direction on developing a network of dealers to act as collection points during the amnesty and buy-back. We consider this would incentivise people to hand in firearms to a wider variety of collection points, share the administrative burden of such a large programme of work, reduce risk and ease the process for firearms users
2. To incentivise dealers to take on this role, and in recognition of the work undertaken, storage of firearms and potential impact on business (by diverting attention of sales people from sales), we recommend paying dealers a small administrative fee per successful buy back application.
3. This paper also updates you KPMG's work on pricing for the buy-back scheme.

### Recommendations

Police recommends that the Minister of Police:

- a) Agree to using dealers as collection agents for the amnesty and buy-back Yes/No
- b) Agree that dealers, acting as collection agents, receive:
  - i. No administrative or other fee Yes/No
  - ii. A small administrative fee of \$75.00 per successful buy-back application (preferred) Yes/No

### Minister's comments and signature

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Hon Stuart Nash  
Minister of Police

## **BRIEFING FOR THE MINISTER OF POLICE**

### **Buy-back and amnesty implementation update**

#### **Purpose**

4. This paper seeks your direction on developing a network of dealers to act as collection points during the amnesty and buy-back, and to pay dealers a small administrative fee per successful buy-back application. This paper also updates you on the development of price lists for the buy-back scheme by KPMG.

#### **Background**

5. We provided you with advice on implementing the amnesty and buy-back on 26 April (BR/18/44 refers). In that advice, we noted we were looking at four channels for people to surrender firearms (Police stations, community based collection points, bulk pick-ups, and a dealer channel). We also noted that KPMG engaged with experts including dealers in their work developing the pricing schedules.
6. Dealers are an important part of the firearms community. They are in frequent communication with their customers and are in many cases 'trusted' voices of local firearms communities. Their involvement in the buy-back scheme therefore brings a variety of benefits beyond the clear logistical ones. Their positive engagement will help with community engagement and build trust and confidence in the model. Key dealers have expressed a willingness to be involved, but raised concerns over the impact on their businesses, and whether they would receive additional payment in recognition of this.
7. Three elements of financial impact for dealers need to be tackled in this broader programme of work:
  - a) any administration fee for dealers' involvement in the buy-back scheme,
  - b) buy-back of their stock of now prohibited firearms, and
  - c) any recompense for the impact on their broader business of the recent legislation prohibiting certain firearms.
8. We noted we would report back to you with further advice on whether dealers should be reimbursed a small administration fee. This briefing provides this advice, the remaining two elements will be covered in a briefing due to you on 14 May 2019.

#### **We support the use of a dealer channel to improve firearms surrender and collection rates during the buy-back process**

9. Current legislation provides that dealers may be recipients of firearms surrendered in any amnesty. They undertake this work (which is of a low frequency) at no cost to the Crown. During the amnesty, people will be able to surrender their firearms to dealers, but it will be up to the dealer to choose whether to accept the firearm or not.
10. We consider there is value in also having a dealer channel through which people are able to surrender their firearms as part of the buy-back process.

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11. Having a dealer channel could help improve firearms surrender rates, as it would provide a non-police channel. Dealers would also be able to draw on their community connections to encourage the surrender of prohibited firearms. The Australian experience showed that dealers can play a pivotal role in assisting the removal of newly prohibited firearms from the community.
12. In Australia, the dealer network was used specifically because of their geographical locations, opening hours and knowledge of firearms. In New Zealand, a dealer channel would be of benefit to rural and isolated communities where people may not travel frequently into town, and/or where smaller police stations may have limited opening hours. Like in Australia, the dealer channel is also more likely to be available at convenient times, as dealers are open six days per week.
13. In rural areas, should the dealer channel not be available, people would need to wait until the arrival of the Police community collection point. This would operate on a rolling district-by-district basis, covering the country over a four to five month period. Alternatively, firearms owners could organise a specific time to visit a police station.
14. While managing firearms is part of Police's day-to-day operations, there are risks involving receiving higher volumes of firearms. Dealers and their staff are also experienced in handling firearms. Dealers also have the ability to handle and store firearms safely (though the scale of storage capacity varies considerably) until such time as they can be transferred to Police.

### **We recommend reimbursing dealers with a small administrative fee for successful 'buy-back' applications**

15. Based on the experience in Australia, a dealer channel is likely to improve the surrender of firearms during the buy-back process. The key decision is whether to compensate dealers for their services (for instance, by a small administrative fee for each successful 'buy-back' application).
16. Option one – do not pay dealers any administrative fee. Under this option, the dealer would act solely as an intermediary holding point, and would capture only the minimum information required. A dealer could also refuse to accept a firearm, as there would be no obligation on them to receive it.
17. This would have a consequent impact of all of the processing of firearms remaining with Police. This would include contacting the owner to arrange and confirm the handover, recording, tagging and photographing of the firearm and gather any additional information.
18. Police considers this option may reduce safety by limiting the number of willing acceptance points, creating the possibility of non-compliance and of firearms being transported to a dealer, but being refused and having to transport the firearm back to its normal place of security. This option also risks disenfranchising dealers, reducing their willingness to support police in other activity.

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19. Option two (preferred) - pay dealers a small administrative fee for each successful 'buy-back' application. This option would require entering into contractual arrangements with approved dealers to act as collection points, and setting out the minimum requirements for the collection of firearms (including tagging and photographing the firearms). Once the firearms were collected by police, buy-back eligibility would be confirmed for payment without the need for further interaction with the owner.
20. We consider the administrative fee for each buy-back application should be set at \$75 per 'buy-back' application. We consider this level appropriate as it reflects:
  - the estimated costs to the Crown if a person was to bring their firearms to a police station where the same processes would be undertaken (the elements proposed to be undertaken by dealers are estimated to cost Police in the order of \$50 per 'buy-back' application); and
  - a small loading component that recognises the increased costs to Dealers (for instance, increased public liability insurance), the need for them to have quality control to ensure the processes and forms are completed in an approved manner and the recognition that processing buy-backs will remove sales people from their core role.
21. Dealer administration would not remove all elements of the process from Police. Police would continue to manage the transportation of the firearm, storage and destruction.
22. While the proposed administrative fee is more than the cost estimate to the Crown from firearms being surrendered to police stations, that additional cost is outweighed by the benefits of an effective dealers channel, including:
  - access and availability, including being available six days per week, particularly for rural and isolated communities;
  - their ability to encourage networks to surrender newly prohibited firearms – and reach more broadly into the firearms community;
  - their knowledge of and experience in handling firearms;
  - the insights they will be able to provide as to the type of firearms being surrendered. This will also enable Police to organise collection based on actual types and numbers of firearms surrendered;
  - enabling Police to more efficiently use the community collection points (and potentially reduce the number required);
  - creating trust and confidence with dealers, reinforcing our conversations to date with them and that we are undertaking this process with them, not to them.
23. Option two also reflects that we do not propose to promote the police station channel for surrendering firearms, for safety and practical reasons (including drawing existing staff away from operational policing responsibilities).

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24. The relatively low level of payment would help to mitigate concerns that dealers were seen as 'cashing-in' on the buy-back process. Payment would only be made where the firearms surrendered were subject to the buy-back provision, and the dealer completing all forms and processes correctly. Dealers would only be able to receive one administrative fee per licence holder, not per firearm surrendered.

### Financial implications

25. The financial costs to the Crown will depend on the number of licence holders who hold newly prohibited firearms, parts or magazines, and the percentage of people surrendering firearms, who prefer to do so through the dealer channel. Both of these are unknowns.
26. As at 31 March 2019, there were just under 249,000 active firearms licence holders,<sup>1</sup> including 7,566 licences with 'E' endorsements.
27. Appendix 1 sets out the estimated cost of the administration fee for buy-back applications based on the number of licence holders with 'E' endorsements, and the overall number of licence holders, and a range of scenarios regarding the proportion of:
- licence holders with newly prohibited firearms. The low estimate is 7,566 (the number of licences with 'E' endorsement), while the high estimate is all active firearms licence holders (248 776); and
  - licence holders preferring to surrender their firearms through the dealer channel. A low estimate is 25% of licence holders will prefer to go through the dealer channel and 100% at the high end.
28. Assuming that only people holding 'E' endorsements have prohibited firearms, the cost would vary between \$142,000 and \$568,000 depending on the percentage that surrendered their firearms through the dealer channel. This is the absolute minimum cost but it is highly likely that numbers surrendering will be significantly higher than this.
29. At the other end, if we assume that 20% of active firearm licence holders (and all of those with 'E' endorsements) held a newly prohibited firearm, then the cost would vary between \$1.047 million and \$4.187 million. This is a wide range, and the likely volumes will not become clear until the buy-back is underway.
30. Treasury does not support the proposed payment approach largely because of the potential business opportunities available to dealers through their involvement in the buy-back scheme. Treasury has also questioned whether this is affordable within the funding appropriated for the management of the buy-back alongside the other estimated costs and consider that further analysis is required of potential risks of involving dealers.

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<sup>1</sup> There were 244,392 people holding 'A' standard licences, and 4,384 people holding 'V' licences at 31 March 2019, giving a combined total of 248,776 licence holders. The estimates set out in the text and Appendix 1 use these figures even though a very small number of people held multiple licences.



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### KPMG is developing independent advice on the pricing approach for the buy-back scheme

31. In developing its approach to pricing, KPMG has held workshops with industry experts such as dealers, importers, auctioneers and armourers. We have also shared with KPMG data from the private sector relating to private sales, catalogues of types of firearms, internal data covering imports and permits to possess Military Style Semi-Automatics (MSSAs).
32. There have been challenges to putting together the price list, including developing a catalogue which covers the majority of prohibited items in a short timeframe. Development of the pricing also coincided with duck shooting season, which is the busiest time of year for gun experts and retailers.
33. Early feedback from KPMG indicates it is important the price list incentivises the right behaviour from firearms owners to participate in the buy-back.
34. Our previous and early advice on the buy-back indicated that the pricing approach should be flexible enough to take account of age, condition, make and model [see BR/19/34]. This was based on the Australian approach to buy-back pricing which itemise each make and model with price points for new and used firearms.<sup>2</sup> We considered other pricing options including a fixed price per firearm but considered this was not likely to be as fair given it would create significant winners and losers among firearms owners
35. Our initial cost estimates relied on the estimated number of prohibited firearms and average values of second-hand firearms. Values were calculated based on three years of second-hand firearms sales data obtained in confidence from Trademe, and the advice of internal subject matter experts. s 9(2)(b)(ii)

[REDACTED]			
[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]

36. Treasury supported drawing on second-hand prices to inform the total valuation estimate. Treasury commented that a top price based on new retail values was likely to result in the Government overpaying for some firearms and a windfall gain for those individuals.

<sup>2</sup> For example; the 1996 National buy-back used two price categories based on age: new and used, a handgun buy-back in Victoria used three categories based on age and condition: new (unused), very good (used), fair (used).

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37. KPMG has explored using this approach with the group of industry experts, and the feedback it received was that this approach would not work. They advise that firearms do not depreciate in the same way as most other products do once purchased. KPMG's independent advice suggests three pricing tiers along the lines of whether the firearm:
- is still a current model
  - is a model that has been superseded by a new model with improved or enhanced features
  - is a discontinued model.
38. This approach does not take account of age, condition of firearms or any other form of depreciation. KPMG considers that this approach is more objective. It is likely to more accurately reflect the value of firearms over time, and may be easier to administer when entering information at the frontline. KPMG also advised that in some cases, the value of a discontinued firearm would increase, rather than decrease, as it can become a collectible.
39. KPMG advises that in relation to shotguns, there appears to be more disquiet. Some people who have been consulted, suggest that shotguns to some people are 'works of art' and destroying them would be a travesty. KPMG has been told that a small number of people have invested in a shotgun or shotguns as a retirement fund, rather than invest in, for example, KiwiSaver. KPMG sourced a price list from an auctioneer, where it observed some shotguns valued as high as \$100,000, with others on the list ranging from \$20-\$30,000.
40. As a result of this new approach, the independent costing advice is likely to significantly increase the expected total cost of the buy-back scheme over and above any previous costings provided. We will provide you with the final costing advice next week.

### **KPMG is also developing advice on establishing an advisory panel for high value firearms**

41. The pricing schedules will cover the most common types of firearms owned in New Zealand. However, they may not be exhaustive and cover every type of firearm the first time around. The regulations will provide for pricing schedules to be updated to include firearms that may have been left off the initial pricing schedule.
42. However, where a person purports that the value of their firearm exceeds that set out in the pricing schedules, the regulations enable the Commissioner to seek independent advice about the value of the firearm.
43. KPMG is developing advice on how an advisory panel could operate to fulfil this function and possible membership. It has advised that in some cases regional panels may be needed, with industry experts and Police representation. Early KPMG thinking is that referral to the advisory panel could be where a MSSA value exceeds \$10,000, a shotgun value exceeds \$5,000, and a rifle value

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exceeds \$2,000. Owners of unique or high value firearms would be encouraged to obtain an independent valuation.

44. KPMG advises that we should explore the charging of a fee for accessing the advisory panel, to disincentivise vexatious use, similar to the cost of a valuation.

### Next steps

#### *Dealer administration fee*

45. Pending your agreement, we would engage with dealers before undertaking a Registration of Interest process. Our aim would be to get the dealer channel up and running as soon as possible, to support the buy-back process.

#### *Buy-back scheme pricing schedule*

46. We will provide you with draft pricing schedules (along with a draft LEG paper and regulations), on 14 May to discuss with Ministers with Power to Act on buy-back decisions. The paper will also include a communications plan.
47. The paper could then be considered at the 21 May LEG committee meeting. Following Cabinet confirmation on 27 May, we would seek the approval of the Governor General to promulgate the regulations by 30 May. This would allow the regulations, buy-back scheme model and price lists for firearms owners to be announced and published on 31 May.
48. Work on buy-back for dealers' stock is at a different stage as we don't yet have your policy decisions. We will provide policy advice to you on 14 May. PCO will start drafting the regulations only after you have agreed the policy and would not complete this task in time for lodging for 21 May. LEG agreement could then be sought on 28 May with Cabinet confirmation on 10 June. We expect that during this process you could seek agreement from your Cabinet colleagues to make a pre-announcement of this decision on 31 May with regulations being promulgated the following week.

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Mike Clement  
Deputy Commissioner: National Operations

<b>First contact</b>	s 9(2)(a)	
<b>Second contact</b>	Mike Clement, Deputy Commissioner: National Operations	s 9(2)(a)



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### Appendix 1: Estimated cost of administration fee for buy-back applications

#### LICENCES WITH E ENDORSEMENTS ONLY

	Total licence holders	Est % licence holders with banned firearms	Est # licence holders with banned firearms	% presenting to Dealers		
				Low (25%) (m)	Medium (50%) (m)	High (100%) (m)
Number of licences with 'E' endorsements 31 March 2019	7,566					
<b>Proportion banned</b>		<b>100%</b>	<b>7,566</b>	<b>\$0.142</b>	<b>\$0.284</b>	<b>\$0.568</b>

#### ACTIVE FIREARM LICENCE HOLDERS (EXCLUDING E ENDORSEMENTS)

	Total licence holders	Est % licence holders with banned firearms	Est # licence holders with banned firearms	% presenting to Dealers		
				Low (25%) (m)	Medium (50%) (m)	High (100%) (m)
Number of A and V licences excluding 'E' endorsements	241,210					
If proportion of licence holders with banned firearms is		10%	24,121	\$0.453	\$0.905	\$1.810
If proportion of licence holders with banned firearms is		20%	48,242	\$0.905	\$1.810	\$3.619
If proportion of licence holders with banned firearms is		50%	120,605	\$2.262	\$4.523	\$9.046
If proportion of licence holders with banned firearms is		100%	241,210	\$4.523	\$9.046	\$18.091

#### COMBINED TOTALS (ALL ACTIVE LICENCE HOLDERS)

	Total licence holders	Est % licence holders (as per text)	Est # licence holders with banned firearms	% presenting to Dealers		
				Low (25%) (m)	Medium (50%) (m)	High (100%) (m)
Number of A and V licences as at 31 March 2019	248,776					
If proportion of licence holders without E endorsement is 10% plus 100% of holders with E endorsement		10% / 100%	31,687	\$0.595	\$1.189	\$2.378
If proportion of licence holders without E endorsement is 20% plus 100% of holders with E endorsement		20% / 100%	55,808	\$1.047	\$2.094	\$4.187
If proportion of licence holders without E endorsement is 50% plus 100% of holders with E endorsement		50% / 100%	128,171	\$2.404	\$4.807	\$9.614
<b>If proportion of licence holders without E endorsement is 100% plus 100% of holders with E endorsement</b>		<b>100% / 100%</b>	<b>248,776</b>	<b>\$4.665</b>	<b>\$9.330</b>	<b>\$18.659</b>