

In Confidence

Office of the Minister of Police

Chair Cabinet Social Wellbeing Committee

## **Arms Safety and Control: Endorsement of the Detailed Business Case**

### **Proposal**

- 1 This paper:
  - 1.1 seeks Cabinet endorsement of the attached Arms Safety and Control Detailed Business Case which confirms the preferred option (Option 5: proactively intervene to reduce risk) and updated costings for the new operating model (\$711.452 million over 11 years);
  - 1.2 advises that the final Justice Cluster Budget 2022 package submitted on 4 February 2022 included a bid for Arms Safety and Control seeking investment of \$222.433 million operating and \$15.522 million capital funding for FY22/23 to FY25/26 to deliver the new operating model to:
    - 1.2.1 deliver on recommendations from the Royal Commission of Inquiry into the terrorist attack on Christchurch masjidain on 15 March 2019; and
    - 1.2.2 enable achievement of the public safety objectives of the Arms Regulatory system; and
  - 1.3 seeks Cabinet agreement to bring forward and draw down \$7.624 million of tagged capital contingency to assist with delivering the Arms Registry by 2023.

### **Relation to government priorities**

- 2 The proposals in this paper contribute to the Government priority of supporting healthier, safer and more connected communities. The proposed investment ensures that the Arms Branded Business Unit in Police has the capability to deliver on the public safety objectives of the Arms Regulatory system.

### **Executive Summary**

- 3 Following the November 2021 Cabinet agreement to support the establishment of an Arms Regulator delivered via a dedicated Branded Business Unit hosted by Police [SWC-21-MIN-0166, CAB-21-MIN-0447], Cabinet endorsement of the Arms Safety and Control Detailed Business Case (the Detailed Business Case) is now sought.

- 4 The Detailed Business Case confirms a preferred option for future investment to meet government expectations of a modern effective Regulator able to accommodate current and future requirements and meet public safety objectives. This is Option 5 in the Detailed Business Case, which includes proactively intervening to reduce risk. The Whole of Life Cost for this option over 11 years is \$711.452 million. The nett additional new funding required for the preferred Option is \$502.400 million after accounting for current annual direct expenditure, third party revenue and tagged contingencies.
- 5 The investment in the Detailed Business Case is \$259.700 million greater than that identified in the Indicative Business Case (IBC) which was considered by Cabinet in April 2021 [CAB-21-MIN-0115]. The IBC noted that the figures considered at that time were estimates to be confirmed by the Detailed Business Case. The increase is due to a greater understanding of the scope and complexity of the operational and transition requirements to improve the administration of the Arms Regulatory system.
- 6 The overall investment will deliver on recommendations from the Royal Commission of Inquiry into the terrorist attack on Christchurch masjidain on 15 March 2019 and enable achievement of the public safety objectives of the Arms Regulatory system.
- 7 To assist with delivering the Arms Registry by 2023, Cabinet agreement is also sought to bring forward and draw down \$7.624 million from the tagged capital contingency established on 6 April 2020 [CAB-20-MIN-0155.26 Revised] and amended on 12 April 2021 [CAB-21-MIN-0115].
- 8 The final Justice Cluster Budget 2022 package submitted on 4 February 2022 included a bid for Arms Safety and Control seeking investment of \$222.433 million operating and \$15.522 million capital funding for FY22/23 to FY25/26 to deliver the new operating model.

## Background

*The Arms Regulatory system is primarily concerned with public safety*

- 9 The Arms Act 1983 (the Arms Act) provides a regulatory framework which seeks to protect the public from the harm that may be caused by the misuse of firearms. It confirms that owning a firearm is a privilege, not a right, and allows fit and proper people to possess firearms for legal purposes (such as for business, food gathering, and recreational or sporting purposes). The Arms Act also mitigates the risk of misuse by placing limitations at critical control points in the system: licensing, import, sale, transfer and storage.

*Weaknesses in the Arms Regulatory system have been identified*

- 10 The events of 15 March 2019 brought into stark relief weaknesses in both the administration of the Arms Regulatory system and the relevant legislation. The Royal Commission of Inquiry into the terrorist attack on Christchurch masjidain on 15 March 2019 was highly critical of Police's administration of

the Arms Act, particularly its assessment of the terrorist as fit and proper to possess firearms.

- 11 Prior to the terrorist attack, Police had already recognised that it needed to significantly improve its administration of the Arms Act and an improvement programme was already underway.

*Increased investment is required to meet public safety objectives*

- 12 A new operating model is required to achieve the public safety objectives of the Arms Regulatory system. Significant increased investment is also needed to fully and effectively administer the risk management system provided for in the Arms Act. This investment will need to maintain the balance of keeping communities safe while enabling the safe use of firearms in communities for legitimate purposes.
- 13 On 6 April 2020, Cabinet approved an operating tagged contingency of \$60 million over a four-year period, with \$5 million ongoing into the outyears. This recognised the increased regulatory requirements arising from the recent legislative changes, including investment in the new Arms Registry. It did not seek to fund the new operating model. The drawdown of this tagged contingency was subject to Cabinet approval of a business case providing options for meeting the new legislative requirements [CAB-20-MIN-0155.26 Revised].
- 14 On 12 April 2021, Cabinet endorsed an IBC which indicated that a step-change in Arms Regulatory system funding is needed. The IBC estimated the level of investment needed to improve the administration of the Arms Regulatory system to deliver on the public safety objectives [CAB-21-MIN-0115].
- 15 The IBC assessed five different structural options against a proposed operating model and estimated the required funding to effectively deliver it over 11 financial years from FY 2020/21 to FY 2030/31. This ranged from \$451.800 million (for the Branded Business Unit within Police option) to \$563.600 million (for the new Crown Agent option). This compared to \$89.100 million if the current average annual direct operating expenditure of \$8.100 million were to continue for 11 years.
- 16 On 12 April 2021, Cabinet also agreed to the re-phasing, re-categorisation, and expanded purpose for the tagged contingency. An included partial drawdown was intended to recover the costs for implementing recent legislative changes, and further steps in the ongoing improvement programme designed to meet public safety objectives and be a more effective regulator.

*A Branded Business Unit, hosted by Police, is being established to undertake the regulatory functions*

- 17 On 1 November 2021, Cabinet agreed to support the establishment of an Arms Regulator, delivered via a dedicated Branded Business Unit, hosted by Police [SWC-21-MIN-0166, CAB-21-MIN-0447].



- 18 Cabinet noted that I would report back once a Detailed Business Case had been completed to:
- 18.1 further develop the implementation requirements and present a more detailed operating model design, including the establishment of an operating model for the new Arms Registry;
  - 18.2 confirm and inform the future budget bids from Budget 2022/23 onwards related to the Arms Regulatory system; and
  - 18.3 inform cost recovery options based on identified costs for specific activities.

*Cost recovery settings are being reviewed*

- 19 A separate paper about the cost recovery approach was considered by Cabinet at the same time. Cabinet noted my intention to release a public consultation document on the level of fees to be set for certain activities undertaken by Police under the Arms Act [CAB-21 MIN-0447].
- 20 The fees for firearms licensing and permitting have remained unchanged for many years. Fees for the standard firearms licences, dealer licences and endorsements on such licences were last set in 1999. Since then, some (but not all) fees have been adjusted for the increase in GST but there has been no other adjustment for increased costs. In addition, some services of significant private and commercial benefit, such as the provision of import permits, are provided free.
- 21 Cabinet also directed officials to report back to by December 2021 on options for recovering costs, and to provide a draft public consultation document which proposes a review of the current fee schedule. I now intend to report back by April 2022. Any change to the fees regime, which could include an increased total of third party revenue collected, would reduce the Police appropriation for firearms.

**The case for change**

- 22 The Detailed Business Case confirms a preferred option for future investment to meet government expectations of a modern effective regulator able to accommodate current and future requirements.
- 23 It sets out an updated case for change by refining the estimated costs set out in the IBC and the level of investment necessary for delivering the public safety objectives outlined in the Arms Act. The estimated costs have also been refined following Cabinet confirmation of the Branded Business Unit as the Arms Regulator. The Detailed Business Case outlines the approach and overall plan to deliver this investment in the Arms Regulatory system and provide confidence in the robustness of the approach.
- 24 The Detailed Business Case has benefited from substantial deepening of understanding of the Arms Regulatory system developed through the current modernisation programme and response to the events of 15 March 2019. It

incorporates insights from stakeholders and other parties, as well as other independent reviews (including the Office of the Auditor-General, the Royal Commission of Inquiry, and the Thorp Report).

*The need for increased investment*

- 25 The following key challenges within the current system underpin the need for increased investment in the Arms Regulatory system.
- 25.1 **Insufficient delivery capability and capacity to sustainably meet demand.** Long running underinvestment and static fees for more than 20 years now mean the capabilities and capacity of the current delivery arrangements do not meet expectations and are not capable of sustainably managing the demand for services.
- 25.2 **An organisational delivery structure and funding model that does not enable a single focus.** The funding of, and the organisational delivery structure for, arms regulation do not facilitate a singular focus on the design, operation, evaluation and evolution of an effective regulatory regime.
- 25.3 **Limited public understanding that creates an unstable environment.** Limited public education on and exposure to the Arms Regulatory system has contributed to the difficulties in justifying improvements or investments in the arms regime.
- 25.4 **An ever-changing environment.** Trends in technology, manufacturing and marketing will continue to drive new demands and expectations from firearms users and the broader community. This requires ongoing assessments of risk and a responsive evolution of the regulatory system.
- 26 The increased investment will improve safety outcomes for Aotearoa New Zealand and supports the core purpose of the Arms Act:
- 26.1 to promote the safe possession and use of firearms and other weapons; and
- 26.2 to control the possession and use of firearms and other weapons.
- 27 The following figure summarises the proposed investment objectives, scope and outcomes. The Investment Scope (described in the middle panel) sets out the key deliverables of the funding sought through the Detailed Business Case. The Investment Objectives respond to the key challenges and align with the primary objectives of the Arms Act. The Investment Outcomes show the results that the investment will ultimately deliver.

Figure A: Summary of investment objectives, scope and outcomes



### Five options were evaluated in the Detailed Business Case

- 28 Five options were evaluated against the Investment Objectives and eight critical success factors (these critical success factors had been reviewed and broadened from the IBC).
- 29 The critical success factors are that the option will:
- 29.1 meet legislative requirements;
  - 29.2 enable agreed control strategies;
  - 29.3 fulfil responsibilities to Te Tiriti o Waitangi;
  - 29.4 improve the public's perception of safety;
  - 29.5 deliver services effectively and efficiently;
  - 29.6 ensure operations are sustainable;
  - 29.7 be achievable; and
  - 29.8 provide value for money.
- 30 The evaluation discounted three of the five options<sup>1</sup>, leaving Options 4 and 5 for further consideration.

<sup>1</sup> Option 1 (counterfactual/status quo), Option 2 (address peak demand for licence renewals), and Option 3 (increase people capacity and use existing Police systems) - as set out in the Detailed Business Case.

*Option 4 – Increase people capacity and procure a new registry solution*

- 31 Option 4 focuses on developing an efficient administrative function and seeks to achieve the investment outcomes through:
- 31.1 addressing the cyclical demand curve following the 2026 licensing peak;
  - 31.2 procuring a new Registry system to be established for June 2023 (and fully in effect by 2028);
  - 31.3 an uplift in people capability that largely follows the licensing demand curve; and
  - 31.4 continuing the 'historical files' (backlog processing) initiative as part of the transition programme.

*Option 5 – Proactively intervene to reduce risk*

- 32 Option 5 (to proactively intervene to reduce risk) includes all aspects of Option 4 (to increase people capacity and procure new registry solution). It also assumes a higher level of resourcing up front to undertake proactive risk-mitigation activities such as retrospective reconciliations of registered firearms, and education and awareness programmes. Such initiatives are expected to reduce the longer-term, ongoing operational costs. After the cyclical licence renewal demand peak in 2026, a lower full-time-equivalent staffing requirement is expected (in comparison to Option 4) due to efficiency gains.
- 33 Option 5 provides for:
- 33.1 procuring a new Registry solution, including associated data migration and integration costs;
  - 33.2 increasing resource capacity to meet the increase in operational demands of the new legislation (this includes the implementation of a fit for purpose operating model that makes the best use of this capacity and capability);
  - 33.3 building resource capability ahead of increased demand for compliance (surplus capacity can therefore be used to eliminate existing backlog of licence renewals and proactively mitigate risk, and to establish a more stable and data-led operating environment);
  - 33.4 introducing strategic capability spanning the insights, design and delivery of proactive interventions, and additional targeted education and awareness programmes and strategic partnerships; and
  - 33.5 establishing a Branded Business Unit within Police to deliver the regulatory capabilities with a unique brand and ring-fenced operational structure.



**Option 5 will best achieve the public safety objectives of the Arms Regulatory system**

- 34 Option 5 is preferred because it:
- 34.1 satisfies all four investment objectives (listed in Figure A above) and provides the most effective means of delivering the intent of the Arms Act;
  - 34.2 offers the best way to meet demand for services, manages the risks of firearms misuse, and delivers benefits to the public (managing and mitigating risk), licence holders (meets demand), and the Government (an effective and accountable regime);
  - 34.3 best aligns with the critical success factors;
  - 34.4 aligns with and is the most likely to deliver all the desired benefits in the Living Standards Framework;
  - 34.5 represents the best value for money through delivering a lower sustained operational cost;
  - 34.6 has manageable potential disbenefits;
  - 34.7 delivers the capabilities necessary for making the shift to a modern regulator and enables the regulator to undertake a range of activities to identify and mitigate the risks of firearms misuse (this includes using a range of data sources to identify system-level risks and using insights developed through that data to make continual system improvements; it also allows for education and awareness through partnerships with regulated parties to promote compliance and the acceptance of responsibility).

**Te Tiriti o Waitangi Analysis – implementation of the new operating model**

- 35 There is a requirement for the arms regulatory capability to fulfil the responsibilities of an effective Treaty partner. This includes:
- 35.1 improving the capability to address Māori issues as a requirement of being an active and engaged Treaty partner; and
  - 35.2 creating strong relationships with tangata whenua in order for the Regulator and Māori to jointly reduce offending and victimisation within Māori communities.
- 36 Option 5 assumes uplifts in capabilities to meet Te Tiriti requirements and operate in partnership with mana whenua. The appointment of a Police Maori Responsiveness Manager (MRM) as a key advisor to the Arms Leadership Team will assist the Arms Branded Business Unit to develop as an effective Treaty partner. A key piece of work for the MRM will be to assist with the development of the Arms Branded Business Unit strategy. Other work will include:



- 36.1 delivering Treaty training to leadership and field and office staff;
- 36.2 leading existing, and developing new, community relationships to help ensure Māori are acting within the firearms licensing system; and
- 36.3 supporting the existing Whakatūpato firearms safety course that Police run for rural and isolated (almost exclusively Māori) communities.

## Implementation

- 37 In 2020, the Arms Transformation Programme was established within Police, with a scope based on:
  - 37.1 making changes across the Arms regulation operating model to set quality standards and improve consistency of decision making in line with the legislation;
  - 37.2 uplifting all current processes and procedures to comply with the legislation; and
  - 37.3 delivering a new technology platform to manage the administration of the Arms Regulatory system (the Arms Registry).
- 38 The implementation of Option 5 will strengthen and enhance the Arms Transformation Programme (with a scope and resource increase) so that it can deliver the new Branded Business Unit entity operating model. Key aspects of the current improvement programme will be well-aligned with the recommended new operating model.
- 39 Programme delivery will include increasing the capability and capacity of the existing BAU service delivery.
- 40 The Detailed Business Case identifies a number of key risks, constraints and dependencies as well as mitigation actions. These will be actively managed through implementation.

## Financial Implications

### *A step-change in funding is required*

- 41 To deliver on Option 5, a step-change in Arms Regulatory system funding is required. The Detailed Business Case outlines the Whole of Life cost of \$711.452 million over 11 years. However, taking into account current annual direct expenditure, third party revenue and tagged contingencies, this means an additional funding of \$502.400 million over 11 years is required. This amount is based on current cost recovery settings. If the cost recovery review results in higher third-party revenue, future required investment would be reduced. Appendix One provides a detailed breakdown of the cashflow over the 11 years.
- 42 Over the next four-year budget cycle this equates to \$237.955 million. This is made up of \$222.433 million operating and \$15.522 million capital funding but

excludes already approved contingencies of \$20.100 million operating and \$11.000 million capital funding. This amount is also based on the existing cost recovery settings and could decrease if more is recovered through third party revenue.

- 43 A budget bid for Arms Safety and Control was included in the final package submitted by the Justice Cluster on 4 February 2022 seeking this \$237.955 million investment to deliver the new operating model and to deliver on public safety objectives.
- 44 This funding will likely put pressure on the Justice Sector Cluster funding envelope. Police is working with Justice Sector agencies as part of the Budget 2022 process to consider the impacts.

*This is an increase in the estimated costs from those presented in the IBC*

- 45 A greater understanding of the scope and complexity of the operational and transition requirements to improve the administration of the Arms Regulatory system as well as wider regulatory functions has informed the Detailed Business Case. The wider regulatory functions are required to ensure:
  - 45.1 a singular focus on establishing and maintaining an effective compliance service delivery;
  - 45.2 the compliance and regulatory regime can evolve to address emerging risks;
  - 45.3 effective engagement with communities and other key stakeholders; and
  - 45.4 public awareness of risk is raised.
- 46 This has resulted in an increase of \$259.700 million in the estimated costs from those presented in the IBC (which was a total cost over 11 years of \$451.800 million). The costings in the IBC was primarily used as an indication that a step-change in Arms Regulatory system funding is required, irrespective of where the functions sit. Appendix Two summarises the key variations between the costs in the IBC and the Detailed Business Case.
- 47 The Detailed Business Case has been subject to external assurance activity. In November 2021, KPMG completed a Foundational Independent Quality Assurance review on key aspects of the transformation programme. A Treasury Gateway Review of the programme was completed in December 2021. A Quantitative Risk Assessment has also informed the financial model and contingencies in the Detailed Business Case.

*What the new investment will deliver*

- 48 The total cost of \$711.452 million for Option 5 over the 11 years is split between two main types of activity related to setting up and operating the Arms Regulator:

## B U D G E T   S E N S I T I V E

48.1 transition costs – these include all the costs of establishing the full scope of the regulator functions, spanning a timeframe of 36 months; and

48.2 BAU costs – these cover the ongoing annual operating costs of the Regulator over an 11-year period.

49 Table One outlines the total cost of both activities and the contingency required. The peak in 2026 is due to the cyclical licence renewal demand.

*Table One: Costs of Option 5 over 11 years*

COSTS (\$m)	FY22	FY23	FY24	FY25	s. 9(2)(f)(iv) OIA				
Operational costs (OPEX)	24.2	36.6	43.9	47.6					
Transition costs (OPEX)	7.2	17.0	4.6	0.2					
Other costs	2.6	6.2	11.7	11.5					
Agency contingency (Opex)	2.8	3.7	6.4	4.5					
Tagged contingency (Opex)	4.5	6.1	7.1	7.8					
<b>Total operating</b>	<b>41.2</b>	<b>69.6</b>	<b>73.7</b>	<b>71.6</b>					
Operational costs (CAPEX)	0.8	0.8	-	-	-	-	-	1.5	1.5
Transition costs (CAPEX)	5.5	13	1.3	-	-	-	-	20.1	20.1
Agency contingency (Capex)	1.0	2.4	1.5	-	-	-	-	4.9	4.9
Tagged contingency (Capex)	-	-	-	-	-	-	-	-	-
<b>Total capital</b>	<b>.3</b>	<b>16.5</b>	<b>2.8</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>26.5</b>	<b>19.3</b>
<b>Total cost</b>	<b>48.5</b>	<b>86.0</b>	<b>76.5</b>	<b>71.6</b>				<b>711.5</b>	

*Notes: Other costs include General Wage Increase (GWI), Competency Service Increment (CSI), overheads, salary loading (annual leave), contingency, and capital charge and depreciation.*

50 The full-time-equivalent implications are included in the following table, split between operational and transition roles. This highlights the optimal capability to reduce existing system risks, build compliance knowledge, and increase public safety. As above, the peak in 2026 is due to the cyclical licence renewal demand. From 2028 the number of staff stabilises for 5 years until the next demand cycle commences.

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*Table Two: Option 5 full-time-equivalent (FTE) implications*

FTE	2022	2023	2024	2025	2026	2027	2028	2029	2030	2031	2032
Operational FTE	248	344	422	470	501	461	397	396	394	396	394
Transition FTE	57	134	29	-	-	-	-	-	-	-	-
Total	305	478	451	470	501	461	397	396	394	396	394

*CAPEX funding of \$7.264 million from the \$11.000 million tagged contingency is required for FY21/22*

- 51 The time required to procure, design and deliver an IT Project of the scale of the Registry is significant and preparation time has been affected by the uncertainty of the form of the entity to manage the Registry. To deliver the Registry by June 2023, the selection of a Vendor to develop the Registry has needed to proceed in parallel with the approval of the Detailed Business Case. As a consequence, CAPEX funding relating to expenditure with the Supplier, ICT, property, and related programme delivery resourcing is required. This requires a CAPEX investment for FY21/22 of \$7.264 million, for which there is currently no provision within the Police investment plan.
- 52 Subject to the endorsement of the Detailed Business Case, I am seeking Cabinet agreement to bring forward \$7.264 million of the \$11.000 million tagged contingency into FY21/22.

### Legislative Implications

- 53 Legislation is not needed to implement the proposals in this paper.

### Impact Analysis

- 54 Impact analysis requirements do not apply.

### Population Implications

- 55 There are around 240,000<sup>2</sup> licence holders and 428 dealers in New Zealand.
- 56 Approximately 91% of firearms licence holders are men. Of the 59% of firearms licence holders that have their ethnicity recorded in police data, 90% are New Zealand European and 7% are Māori.
- 57 I expect improvements to the administration of the Arms Regulatory system will improve public safety by preventing criminal misuse of firearms, consequently reducing the opportunities for people to become victims of firearms crime.

<sup>2</sup> The number of licence holders changes daily. This data listed here reflects the number of licence holders as at 5 July 2021.



## Human Rights

- 58 The proposals in this paper are consistent with the New Zealand Bill of Rights Act 1990 or the Human Rights Act 1993.

## Consultation

- 59 This paper has been consulted with the Treasury, the Department of the Prime Minister and Cabinet, Te Kawa Mataaho Public Service Commission, Ara Poutama Aotearoa - Department of Corrections, the Ministry of Justice, New Zealand Customs Service, Te Puni Kokiri, the Ministry of Foreign Affairs and Trade, the Department of Conservation, the Ministry of Primary Industries, the New Zealand Defence Force, Ministry of Culture and Heritage, and Te Arawhiti.
- 60 The draft Detailed Business Case has also been provided to my Arms Advisory Group. They were supportive of the preferred option and believe it is vital the required level of investment outlined in the Detailed Business Case is provided if the desired outcomes are to be achieved

## Communications

- 61 Any announcements will be made as part of Budget 2022.

## Proactive Release

- 62 This paper will be released in accordance with Budget 2022 requirements.

## Recommendations

- 63 The Minister of Police recommends that the Committee:

### *Background*

- 1 **note** that increased investment in the Arms Regulatory system is required to deliver on recommendations from the Royal Commission of Inquiry into the terrorist attack on Christchurch masjidain on 15 March 2019 and to enable achievement of the public safety objectives of the Arms Regulatory system;
- 2 **note** that on 12 April 2021, Cabinet endorsed an Indicative Business Case (IBC) which indicated that a step-change in Arms Regulatory system funding is needed for effective delivery [CAB-21-MIN-0115];
- 3 **note** that on 1 November 2021, Cabinet agreed to support the establishment of an Arms Regulator, delivered via a dedicated Branded Business Unit hosted by Police [CAB-21-MIN-0447];
- 4 **note** that at that same time Cabinet noted my intention to release a public consultation document on the level of fees to be set for certain activities undertaken by Police under the Arms Act [CAB-21-MIN-0447];

*Endorsement of the Detailed Business Case*

- 5 **note** the Arms Safety and Control Detailed Business Case (DBC) sets out an updated case for change from the IBC and confirms a preferred option for future investment to meet government expectations of a modern effective regulator able to deliver the public safety objectives of the Arms Regulatory system;
- 6 **note** the preferred option in the DBC is Option 5 (to proactively intervene to reduce risk) which provides for:
  - 6.1 procuring a new Registry solution;
  - 6.2 increasing resource capacity to meet the increase in operational demands of the new legislation, including implementing the fit for purpose operating model;
  - 6.3 building resource capability ahead of increased demand for compliance;
  - 6.4 introducing strategic capability spanning the insights, design and delivery of proactive interventions and additional targeted education and awareness programmes and strategic partnerships; and
  - 6.5 establishing a Branded Business Unit within Police to deliver the regulatory capabilities with a unique brand and ring-fenced operational structure;
- 7 **note** that the total cost of the preferred option over 11 years is \$711.452 million, being \$684.930 million operating and \$26.522 million capital;
- 8 **note** this is an increase of \$259.700 million on the costs provided to Cabinet in the IBC due to a greater understanding of the scope and complexity of the operational and transition requirements to improve the administration of the Arms Regulatory system;
- 9 **note** that taking into account current annual direct expenditure, third party revenue and tagged contingencies, an extra \$502.400 million will be required over the 11 years;
- 10 **note** that as this amount is based on the existing cost recovery settings, it could decrease if more is recovered through third-party revenue following the upcoming cost recovery review;
- 11 **endorse** the DBC which confirms the preferred option (Option 5: proactively intervene to reduce risk) and updated costings for the new operating model;

# BUDGET SENSITIVE

## Establishment of new appropriation and future funding

12 **agree** to establish the following new appropriation(s):

Vote	Appropriation Minister	Appropriation Administrator	Title	Type	Scope
Police	Minister for Police	NZ Police	Arms Safety and Control	Departmental Output Expense	This appropriation is limited to the delivery of Arms Regulatory services as set out in the Arms Act 1983 to ensure that the public can be safe and feel safe in the legitimate use of firearms in our communities

13 **note** that a bid has been submitted as part of the Justice Cluster for Budget 2022 to seek funding for financial years 2022/23 and outyears with the indicative financial implications as shown in the table below, which includes a proposed uplift to Tagged Contingency:

Vote Police Minister of Police	\$m - increase/(decrease)				s. 9(2)(f)(iv) OIA
	2022/23	2023/24	2024/25	2025/26	
Departmental Output Expense: Arms Safety and Control; (funded by revenue Crown)	53.345	55.468	51.659	52.769	
Tagged Contingency (Operating); New Zealand Police	(0.9 7)	4.142	2.777	3.250	
Capital Injection	12.736	2.786	-	-	
<b>Total Operating</b>	<b>52.368</b>	<b>59.610</b>	<b>54.436</b>	<b>56.019</b>	
<b>Total Capital</b>	<b>12.736</b>	<b>2.786</b>	<b>-</b>	<b>-</b>	

14 **note** that the increase in spending to provide for costs associated with recommendation [13] above, will have the corresponding increase on both the operating balance and net core Crown debt;

15 **approve** the following fiscally neutral adjustment(s), with no impact on the operating balance and/or net core Crown debt, to transfer existing revenue budget to the new appropriation:

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Vote Police Minister of Police	\$m - increase/(decrease)				2025/26 & Outyears
	2021/22	2022/23	2023/24	2024/25	
Departmental Output Expense:					
Arms Safety and Control; (funded by revenue Crown)	-	8.100	8.100	8.100	8.100
Arms Safety and Control; (funded by revenue other)	-	2.000	3.016	4.106	5.416
Multi-Category Expenses and Capital Expenditure:	-	(10.100)	(11.116)	(12.206)	(13.516)
Policing Services MCA:					
- Crime Prevention					
- Policy Advice and Ministerial Services					
- Primary Response Management					
- Investigations and Case Resolution					
- Road Policing					
<b>Total Operating</b>	-	-	-	-	-
<b>Total Capital</b>		-	-	-	

## Drawdown from tagged contingency

- 16 **note** that on 6 April 2020, Cabinet agreed to a \$60.000 million four-year tagged operating contingency and \$5.000 million ongoing into the outyears, 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]:

	\$m – increase/(decrease)				
	2020/21	2021/22	2022/23	2023/24	2024/25 & Outyears
Implementation of the Arms Legislation Act – Tagged Operating Contingency	28.000	22.000	5.000	5.000	5.000

- 17 **note** that in June 2020 Cabinet agreed to rephrasing and categorisation of the tagged contingency as follows [CAB-21-MIN-115]:

	\$m – increase/(decrease)				
	2020/21	2021/22	2022/23	2023/24	2024/25 & Outyears
Implementation of the Arms Legislation Act – Tagged Operating Contingency	15.400	23.500	7.100	3.000	5.000
Implementation of the Arms Legislation Act – Tagged Capital Contingency	-	-	11.000	-	-



# BUDGET SENSITIVE

- 18 **note** that in June 2020 Cabinet agreed to the following drawdown of tagged contingency as follows [CAB-21-MIN-115]:

	\$m – increase/(decrease)				
	2020/21	2021/22	2022/23	2023/24	2024/25 & Outyears
<b>Multi-Category Expenses and Capital Expenditure:</b>					
Policing Services (MCA) Departmental Output Expense: Crime Prevention (funded by revenue Crown)	15.400	23.500			
<b>Total Operating</b>	15.400	23.500	-		-
<b>Total Capital</b>	-	-	-	-	-

- 19 **note** that the existing tagged contingency balance is as follows:

	\$m - increase/(decrease)				2025/26 & Outyears
	2021/22	2022/23	2023/24	2024/25	
Tagged Operating Contingency	-	7.100	3.000	5.000	5.000
Tagged Capital Contingency	-	11.000	-	-	-

- 20 **note** that \$7.264 million of tagged capital contingency is required to be brought forward from 2022/23 to 2021/22 and drawn down, with the remaining balance required to be drawn down in 2022/23;

- 21 **approve** the drawdown of capital tagged contingency and the following changes to appropriations to provide for the funding requirement in recommendation [20], with a corresponding impact on the operating balance and net core Crown debt:

	\$m - increase/(decrease)				2025/26 & Outyears
	2021/22	2022/23	2023/24	2024/25	
<b>Vote Police Minister of Police</b>					
Departmental Output Expense: Arms Safety and Control; (funded by revenue Crown)	-	-	-	-	-
New Zealand Police Capital Expenditure	7.264	3.736	-	-	-
<b>Total Operating</b>	-	-	-	-	-
<b>Total Capital</b>	7.264	3.736	-	-	-

# BUDGET SENSITIVE

- 22 **agree** that the proposed changes to appropriations for 2021/22 in recommendation [21] be included in the 2021/22 Supplementary Estimates and that, in the interim, the increases be met from Imprest Supply;
- 23 **note** that, following the adjustment(s) detailed in recommendation [13] and [21] above, the remaining balances and indicative phasing of the operating and capital contingencies above will be:

	\$m - increase/(decrease)				2025/26 & Outyears
	2021/22	2022/23	2023/24	2024/25	
Tagged Operating Contingency	-	6.123	7.142	7.777	8.250
Tagged Capital Contingency	-	-	-	-	-

Authorised for lodgement

Hon Poto Williams  
Minister of Police

## Appendix One: Costing and funding requirements

The table below shows the anticipated cashflows for the investment proposal for its intended lifespan, based on the current estimates for the preferred option. The funding will be consumed across 11 financial years.

\$ millions	Total	FY22	FY23	FY24	FY25
<b>Cost of preferred option (Option5):</b>					
BAU (OPEX)	463.3	24.2	36.6	43.9	47.6
Transition (OPEX)	29.2	7.2	17.0	4.6	0.2
BAU (CAPEX)	1.5	0.8	0.8	-	-
Transition (CAPEX)	20.1	5.5	13.3	1.3	-
GW, CSI, overheads and annual leave	50.3	2.3	5.0	6.3	6.2
Capital charge and depreciation	48.9	0.3	1.2	5.4	5.2
Agency contingency (OPEX)	35.4	2.8	3.7	6.4	4.5
Agency contingency (CAPEX)	4.9	1.0	2.4	1.5	-
Tagged contingency (OPEX)	58.0	4.5	6.1	7.1	7.8
<b>Total cost</b>	<b>711.5</b>	<b>48.5</b>	<b>86.0</b>	<b>76.5</b>	<b>71.6</b>
<b>Funded by:</b>					
Tagged contingency – operating	73.6	23.5	7.1	3.0	5.0
Existing operating (Crown revenue)	89.1	8.1	8.1	8.1	8.1
Third-party revenue	35.5	2.0	2.0	3.0	4.2
Tagged contingency – capital	11.0	-	11.0	-	-
<b>Funding needs:</b>					
Additional operating required (incl. Agency Conting.)	428.9	3.2	46.3	52.4	46.4
Additional capital required (incl. Agency Conting.)	15.5	7.3	5.5	2.8	-
Tagged Contingency	58.0	4.5	6.1	7.1	7.8
<b>Total funding required</b>	<b>502.4</b>	<b>15</b>	<b>57.9</b>	<b>62.3</b>	<b>54.2</b>

s. 9(2)(f)(iv) OIA

## Appendix Two: Key variations between the Detailed Business Case and the Indicative Business Case

Functional group	IBC (\$m)	DBC (\$m)	Variation (\$m)	Explanation
Operational functions <i>(includes service delivery)</i>	269.5	324.5	55.0	<p>The DBC resource estimates are based on a fully scoped Target Operating Model design and a detailed activity-based costing model.</p> <p>The costs allow for upfront capacity for proactive risk mitigation and addressing the increasing existing application backlog.</p>
Strategic functions <i>(including Executive and Partnerships Directorates)</i>	10.6	68.8	58.2	<p>The IBC focused on the increase in capacity and capability required to improve the administrative services – and largely ignored the wider regulatory functions.</p> <p>The DBC allows for the wider functions required of an effective, sustainable regulator – in particular partnerships and strategic functions.</p>
Support functions	56.3	70.1	13.8	<p>The IBC assumed that the majority of the corporate services would be absorbed within existing Police capability and did not allow for any increase in capacity.</p> <p>The DBC acknowledges and allows for the uplift in support services required to support the wider Regulator entity effectively.</p>
Transition	29.3	50.8	21.5	<p>The IBC focused on the cost associated with the establishment of the firearms registry solution only and did not consider the establishment of the wider functions required of the regulator.</p> <p>The DBC includes the updated costings from the registry solution RFP evaluation. It also includes resources to resolve existing performance issues and undertake proactive risk-mitigation activities.</p>
Overheads, GWI, CSI and annual leave	45.6	50.3	4.7	<p>Overheads – the DBC takes a detailed approach to calculating overheads relating to the constabulary and employee workforce. Separate costs are applied to all FTEs and uplifted FTEs.</p> <p>Annual leave – Whereas in the IBC annual leave was set at a constant level (8%) for all Police staff for the duration of the initiative, and was included in the loaded salaries, the DBC calculates annual leave only for the first year of the uplifted FTEs.</p> <p>GWI and CSI – The IBC did not take into account GWI and CSI, but they are included in the DBC calculations.</p>
Capital charge and depreciation	40.5	48.9	8.2	This increase is due to capital charge and depreciation arising from increased capital investment.
Agency contingency	-	40.3	40.3	Quantitative Risk assessment undertaken to inform contingency requirements held by Commissioner of Police.
Tagged contingency	-	58.0	58.0	
<b>Total</b>	<b>451.8</b>	<b>711.5</b>	<b>259.7</b>	



**Appendix Three: Arms Safety & Control - Detailed Business Case**

PROACTIVE RELEASE