

PROACTIVE INFORMATION	
Draft Detailed Business Case for Arms Safety and Control	
Deadline: N/A	Date of Response: 9 December 2021

Purpose

1. This paper provides you with an overview of the draft Detailed Business Case (DBC) for Arms Safety and Control (Appendix One), discusses the preferred approach in the DBC and associated FY21/22 funding considerations, and outlines the timeline for Cabinet consideration of the DBC in early 2022.

Significant additional investment is required to ensure public safety objectives are being met through the effective administration of the Arms Regulatory system.

The preferred approach in the DBC (Option Five) seeks a total investment of \$629.9m which delivers the transformation, technology and a quality service. This is the optimal investment option to enable investment to be made over and above efficient and effective administration to proactively reduce existing system risks and build compliance knowledge. This investment is a \$178m increase on the Indicative Business Case (IBC) made to Cabinet in April 2021 (\$451.8m) to support the transition programme of work. A significant refresh was required of the DBC given the extent to which our understanding has evolved since the IBC.

The OPEX funding level for FY21/22 for the transformation programme is sufficient however a CAPEX funding level for FY21/22 of \$4.928m is required and not accounted for in Police's investment plan. To deliver the Register by 2023, its development needs to proceed in parallel with the approval of the DBC. Police has agreed to fund the capital required for FY21/22, with the funding incorporated in the DBC. This will result in Police under-writing the funding until such time as the DBC is approved and creates some level of funding risk for Police in the case that the DBC is not approved.

To mitigate this risk, although considered low risk as Police are mandated to have a registry in place by June 2023, Police will request to bring forward \$4.928m of the \$11.000m tagged contingency into FY21/22, subject to the approval of the DBC by Cabinet in March 2022.

Background and timing

2. In April 2020, Cabinet agreed to a \$60m four-year tagged operating contingency and \$5m in outyears, with drawdown subject to Cabinet approval of a business case providing options for meeting the new legislative requirement [CAB-20-MIN-0155.26 revised].
3. This initial investment was intended to enable rapid improvement in the administration of the Arms Act 1983. Based on an Indicative Business Case (IBC) the funding also was to enable the development of a Detailed Business Case (DBC) to confirm the level of investment required and inform future investment and budget bids, which will ensure the delivery of an improved firearms regulatory capability (including the Arms Registry) by June 2023.
4. Post Cabinet agreement for the contingency and Cabinet decisions (November 2021) on the preferred approach to the regulator, a branded business unit within Police, Police has undertaken a programme of work to develop a DBC for Cabinet approval in March 2022 (Appendix One).
5. Following external agency consultation early in the new year, we will provide you with a final version of the Detailed Business Case and a draft Cabinet paper for Ministerial consultation in January 2022.
6. Cabinet approval for the DBC will be sought in March 2022 and a request made for a drawdown of \$4.928m of the \$11.000m tagged contingency into FY21/22, subject to the approval of the DBC by Cabinet at that meeting.

Overview of the development of the DBC

7. In July 2021, Tenzing Consulting were commissioned to facilitate the development of the DBC. The DBC has been developed within the framework of the Treasury approved Better Business Case format, covering the five cases of investment - Strategic Case, Economic Case, Commercial Case, Financial Case and Management Case.
8. The DBC has been developed through an extensive series of workshops with key stakeholders within Police; involving participants from Firearms, Finance, Policy, ICT and other representative groups as required.
9. In parallel, other significant work has progressed to inform the scope and financial costings in the DBC most notably:
 - Further development of the detailed operating model for the regulatory entity covering the capability requirements to deliver core operational, strategic and enabling functions.
 - Completion of the procurement process through a Request for Proposal process, which has identified a preferred supplier (Supplier) for the Registry and associated technology enabled capability and the financial costings for this element of the transformation.

- Completion of detailed estimates from ICT for all technology related effort to enable integration of the Supplier's technology solution.
- Significant analysis of the capability requirements, assumptions and risks to underpin the financial model that provides the view of the totality of the investment required to (a) deliver the transformation over the next three years and (b) deliver an effective regulatory service over the next 10 years.

An overview of the approach taken in the DBC

10. The DBC details an approach that focuses on enabling Police to transition from being an administrator to being a regulator that fulfils government expectations for good regulatory practice¹.
11. The approach addresses the key challenges experienced in delivering the current arms administrative services and developing an efficient administrative function and seeks to achieve the investment outcomes.

Investment options explored in the DBC

12. The shortlisted options explored in the DBC represent the major investment strategies available to the Government to build the required regulator capability and capacity. Evaluations of these options answer the key investment question - "What is the most effective level, mix, and timing of funding in arms regulatory capability?". There are two dimensions to this investment question that need to be understood:
 - a) **Effective and efficient administration** – The optimal level of capacity and capability required to effectively execute the responsibilities of the Arms Regulator as legislated.
 - a) **Proactive and early investment to mitigate system risks** – The optimal investment made over and above efficient and effective administration to reduce existing system risks and build compliance knowledge.

Five options were evaluated and the preferred approach is Option Five

13. Five options were evaluated against the Investment Objectives and Critical Success Factors. This evaluation discounted three of the five options and two were progressed for further analysis - Options 4 and 5 as described below. These two options represent the available investment outcomes for the government.
14. **Option 4 – Increase people capacity and procure a new registry solution.** This option focuses on developing an efficient administrative function and seeks to achieve the investment outcomes through:
 1. Addressing the cyclical demand curve post the 2026 peak through legislative change

¹ <https://www.treasury.govt.nz/sites/default/files/2015-09/good-reg-practice.pdf>

2. Procuring a new registry system that comes into effect for June 2023
 3. An uplift in people capability that largely follows the licensing demand curve
 4. A continuation of the 'historical files' (backlog processing) initiative as part of the transition programme.
15. **Option 5 – Proactively intervene to reduce risk.** This option includes all aspects of Option 4 but includes an additional staff uplift as part of the transition programme, to undertake proactive risk-mitigation activities such as reconciliations and education and awareness programmes.

The preferred Option Five allows for the optimal investment to be made over and above efficient and effective administration

16. Option Five allows the regulator to proactively reduce existing system risks and build compliance knowledge. The option includes an additional uplift in staff to deal with existing backlogs and, as the full extent of firearms holdings is currently unknown, rather than obtaining this information reactively through licence renewals up to 2028, there is a significant opportunity to reduce the associated risks by proactively engaging with licence holders to reconcile and improve current information and address the existing backlogs across services.
17. This will strengthen the regime and provide insights which enable more effective and efficient compliance regimes and service delivery in later years. It also enables an increased ability to achieve legislative intent within investment timeframes, and enables the Arms Regulator to be in the best position at the time of the Arms Act review commencing in 2026.
18. In addition to Option Five delivering a number of benefits over Option Four, the difference in total investment required between the two options was minimal (Option Four \$626.7m – Option Five \$629.9m) with Option Five being assessed as creating a more stable operational capability that delivers a lower ongoing cost to operate, resulting in the comparable cost profiles.

Investment difference between the IBC and the DBC

19. The DBC provides a funding view for FY21/22 and for the following 10 years. This provides a total investment for the 11-year time horizon of \$629.9m as compared to the Indicative Business Case (IBC) of \$451.8m (both investments are gross investment levels not reflecting current funding provisions or third-party revenue).
20. The funding identified in the IBC was indicative only and was mainly included in the IBC to signal that an increase in funding would be required regardless of the chosen operating model and regulatory entity structure.
21. A greater understanding of the scope and complexity of the operational and transition requirements of the Regulator entity has informed the DBC resulting in an increase in the estimated transition and BAU costs from those presented in the IBC.

CAPEX funding of \$4.928m of the \$11m tagged contingency is required for the FY21/22

22. The DBC provides a view of the OPEX and CAPEX requirements to deliver the transformation programme work required this financial year. Police has transformation programme funding for FY21/22 of \$9.785m OPEX.
23. To deliver the Registry by June 2023, the development of the Register needs to proceed in parallel with the approval of the DBC and 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 \$4.928m, for which there is currently no provision within the Police investment plan.
24. As a result, Police will be required to under-write the funding until such time as the DBC is approved. To mitigate any risk, Police will request to bring forward \$4.928m of the \$11.000m tagged contingency into FY21/22, subject to approval of the DBC in March.
25. While this does create some level of funding risk for Police in the case that the DBC is not approved, the risk is considered low as it is legislatively mandated for Police to have a Register in place by June 2023.

The DBC has undergone robust assurance and quality reviews

26. The development of a DBC would normally occur sequentially following development of the detailed Operating Model and the procurement process for an externally commissioned delivery support (in this case the Supplier for the Registry). However, given the investment decision is required in early 2022 to ensure the Registry is in place by June 2023, much of this activity has occurred in parallel.
27. This approach accentuates the need for assurance on the integrity of the Detailed Business Case and the underlying assumptions and risks. In addition to first and second level assurance taking place about review of the DBC by key stakeholders across NZP, third level (external) assurance has also been undertaken:
 - KPMG were commissioned in September 2021 to complete a Foundational Independent Quality Assurance review (IQA) on key aspects of the transformation programme, focused more specifically on the work associated with delivery of the Registry and related technology, people and process change delivery.
 - This review was completed in November 2021. Elements that have a direct bearing on the DBC itself (versus those recommendations related to governance, management, or delivery controls) have been addressed. No significant risks were identified through this IQA.
 - The Firearms Safety and Control and the associated transformation programme has been classified as a HIGH-RISK programme and is therefore monitored by Central Agencies and is required to participate in the Treasury Gateway review process.

The Gateway review process commenced late November, with a Gateway Review Report issued on 3 December 2021. The programme was deemed to be “Green-Amber” with no significant risks or issues identified relevant to the DBC itself, with recommendations identified relating to the go-forward work to continue to assure successful delivery of the programme.

- A Quantitative risk analysis (QRA) was commissioned on the DBC. Broadleaf Consulting, a leading provider in QRA analysis, undertook the analysis and the results of the QRA are due mid-December.

This analysis may require updating of the financial model and the associated contingency levels in the DBC.

Next Steps

28. Police is currently drafting a Cabinet paper seeking Cabinet approval in March 2022 to the DBC. The Cabinet paper will include a request to bring forward \$4.928m of the \$11.000m tagged contingency into FY21/22, subject to approval of the DBC at the same meeting.
29. Police will provide an early review of the draft DBC and draft Cabinet paper to external agencies on 15 December as a ‘heads up’ ahead of formal external agency consultation and Ministerial consultation in January - February 2022.
30. Police will also provide you with further information early in the new year on progress on the establishment of the branded business unit within Police for the administration of the Arms Act and an update on the final buyback numbers.
31. The following table sets out the milestones through to March 2022.

Date	Milestone
15 December 2021	Draft Cabinet paper and draft DBC sent to agencies for early engagement
January 2022	Draft Cabinet paper and final DBC sent to Minister of Police for feedback
January 2022	Agency consultation – 2 weeks
February 2022	Ministerial consultation – 2 weeks
24 February 2022	Lodge Cabinet paper
2 March 2022	SWC consideration
7 March 2022	Cabinet confirmation

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