

<b>Title:</b> Impact of new fees for firearms licences issued by the Home Office and Scottish Government  <b>IA No:</b>  <b>Lead department or agency:</b> Home Office <b>Other departments or agencies:</b> None	<b>Impact Assessment (IA)</b>				
	<b>Date: September 2016</b>				
	<b>Stage: Consultation</b>				
	<b>Source of intervention: Domestic</b>				
	<b>Type of measure: Primary legislation</b>				
<b>Contact for enquiries:</b> Drugs & Firearms Licensing Unit, Home Office.					
<b>Summary: Intervention and Options</b>					<b>RPC Opinion: N/A</b>

Cost of Preferred (or more likely) Option				
Total Net Present Value	Business Net Present Value	Net cost to business per year (EANCB on 2014 prices)	In scope of Business Impact Target?	Measure qualifies as
£0.00m	-£6.1m	£0.7m	No	N/A

**What is the problem under consideration? Why is government intervention necessary?**  
 Currently the Home Office and the Scottish Government issue licences for prohibited firearms (under s5 of the Firearms Act 1968) to relevant businesses, such as arms manufacturers, free of charge. Providing this licensing service imposes a cost on the Home Office, the Scottish government and the police. This cost is currently fully subsidised by the taxpayer. Government intervention is needed to introduce fees to recover licensing costs.  
 At the same time, the Government wants to increase existing fees for museum and shooting club firearms licences to full cost recovery level.  
 The level of the fees for each licensee group will be set in secondary legislation at a later date.

**What are the policy objectives and the intended effects?**  
 The policy objective is to introduce a new fee structure in order to recover the costs associated with issuing prohibited firearm, museum firearm and shooting club licences. The intended effect is to eliminate the existing taxpayer subsidy of the service.

**What policy options have been considered, including any alternatives to regulation? Please justify preferred option (further details in Evidence Base)**  
 Option 1. Do nothing.  
 Option 2. Introduce fees for the issuance of prohibited firearms licences, and increase existing fees for museum and shooting clubs licences, so that the licence holder pays the full cost of the service.  
 Option 2 is the Government's preferred option, because it will allow costs associated with issuing firearms licences to be recovered. Under option 1, the taxpayer will continue to subsidise the service.

<b>Will the policy be reviewed? It will be reviewed. If applicable, set review date:</b>						
Does implementation go beyond minimum EU requirements?			N/A			
Are any of these organisations in scope? If Micros not exempted set out reason in Evidence Base.		<b>Micros</b> Yes	<b>&lt; 20</b> Yes	<b>Small</b> Yes	<b>Medium</b> Yes	<b>Large</b> Yes
What is the CO <sub>2</sub> equivalent change in greenhouse gas emissions? (Million tonnes CO <sub>2</sub> equivalent)			<b>Traded:</b> N/A		<b>Non-traded:</b> N/A	

***I have read the Impact Assessment and I am satisfied that, given the available evidence, it represents a reasonable view of the likely costs, benefits and impact of the leading options.***

Signed by the responsible Minister: \_\_\_\_\_ Date: \_\_\_\_\_

# Summary: Analysis & Evidence

# Policy Option 2

**Description:** Consult on new fees for Home Office and Scottish Government firearms licences with a view to recovering costs currently falling to the taxpayer. Set fees for each licensee group through secondary legislation at a later date.

## FULL ECONOMIC ASSESSMENT

Price Base Year 2015	PV Base Year 2015	Time Period Years 10	Net Benefit (Present Value (PV)) (£m)		
			Low: 0.00	High: 0.00	Best Estimate: 0.00

COSTS (£m)	Total Transition (Constant Price) Years	Average Annual (excl. Transition) (Constant Price)	Total Cost (Present Value)
Low	None		
High	None	0.8	0.8
Best Estimate	None	0.7	0.7

### Description and scale of key monetised costs by 'main affected groups'

Assuming fees are set at full cost recovery level as set out in the public consultation document, we estimate a cost to section 5 firearms dealers of £377,000 per year; a cost to DSEI exhibiting firearms dealers of £21,000 per year, a cost to section 5 firearms carriers of £136,000 per year; a cost to Private Maritime Security Companies of £63,000 per year; a cost to Olympic shooters of £2,200 per year; a cost to 'trophy of war' finders of £900 per year; a cost to museums of £32,000 per year; and a cost to shooting clubs of £81,000 per year.

### Other key non-monetised costs by 'main affected groups'

There are no non-monetised costs associated with this policy.

BENEFITS (£m)	Total Transition (Constant Price) Years	Average Annual (excl. Transition) (Constant Price)	Total Benefit (Present Value)
Low	None		
High	None	0.8	0.8
Best Estimate	None	0.7	0.7

### Description and scale of key monetised benefits by 'main affected groups'

Assuming fees are set at full cost recovery level as set out in the public consultation document, we estimate a benefit to the Home Office of £596,000 per year; a benefit to the police of £69,000 per year; a benefit to the Scottish government of £42,000 per year; and a benefit to Police Scotland of £5,000 per year.

### Other key non-monetised benefits by 'main affected groups'

Licence holders will benefit from a new online application system, due to be introduced in 2016, which will make it quicker and easier to apply and improve turn-around times. A fuller assessment of this benefit will be made once the system has been implemented.

### Key assumptions/sensitivities/risks

Discount Rate: 3.5

The number of firearms licence applications remains the same across the intervention period as the annual average of the previous three years.

The proportion of time spent on firearms licensing by the Drugs and Firearms Licensing Unit, both in total and on each component licensee groups, remains constant. This assumption will be reviewed at the secondary legislation stage, before fees are set, to ensure any time savings achieved in the interim period are passed on to licence holders.

The ratio of cost to number of applications in Scotland is the same as that identified for England & Wales.

There is some uncertainty regarding application volumes. As a result these assumptions are tested in the sensitivity analysis in Section H to demonstrate the potential impacts on costs.

## BUSINESS ASSESSMENT (Option 1)

Direct impact on business (Equivalent Annual) £m:			In scope of BIT?	Measure qualifies as
Costs: 0.7	Benefits: 0.0	Net:- 0.7	No	N/A

# Evidence Base (for summary sheets)

## A. Strategic Overview

### A.1 Background:

Police forces issue licences for non-prohibited firearms such as shotguns used by farmers or for recreational shooting. Fees for the service provided by the police were increased in April 2015 following a public consultation<sup>1</sup>. **The proposals in this impact assessment will not affect fees for shotguns and other non-prohibited (section 1 and 2) firearms**, but instead seek to make parallel changes to introduce charging powers for prohibited firearms licences, and update existing charging powers for museum firearms licences and shooting club licences.

The Home Office and Scottish Government issue licences for higher risk activities, including activities involving prohibited firearms such as handguns, automatic weapons and missiles. Prohibited firearms are known as 'section 5' weapons because they are defined under section 5 of the Firearms Act 1968. Companies that may require a prohibited firearms licence include firearms dealers and transport companies ('carriers') supplying the police or military with weapons, components and other equipment and services, and maritime security companies that protect UK ships from piracy. The Home Office and Scottish Government also issue licences to museums with collections of firearms, which may include section 5 weapons, and to shooting clubs to allow members without their own firearms or certificate to shoot with club weapons.

The Scottish Government issues licences to those organisations based in Scotland, although it does so under the same legislation as England and Wales as this aspect of firearms is reserved.

The Home Office and Scottish Government have responsibility for these aspects of firearms licensing in order to provide an extra level of assurance, national consistency in decision making and national oversight of the licensing regime, to reflect the increased risk to public safety associated with prohibited weapons and with groups of unlicensed shooters. It is a statutory requirement that these licences are granted by the Government, as opposed to the police.

The law as it stands provides no power to charge for prohibited firearms licences and as a result the cost of those licences is entirely subsidised by the public. Other Government licences are subject to fees, but these were last reviewed in 1995 and no longer cover the cost of the service.

**Figure 1**

Firearms licences*	Applications per year (average) <sup>2</sup> - grants and renewals	Applications per year (average) - variations	Applications (total)	Current fee	Period of licence
S5 firearms dealer	196	114	310	No charge	3 years
S5 firearms carrier	107	42	149	No charge	3 years
Private Maritime Security Company	7	20	27	No charge	3 years
Museum	27	5	32	£200	5 years
Shooting club	61	117	178	£84	6 years
<b>TOTAL</b>	<b>409</b>	<b>297</b>	<b>707</b>		

\* More information on licence categories is in Part A.2 (groups affected).

<sup>1</sup> <https://www.gov.uk/government/consultations/a-proposal-to-increase-firearms-licensing-fees-administered-by-the-police>

<sup>2</sup> From Home Office Firearms Licensing Database. Average based on figures for years 2013 – 2015, except PMSC which is based on 2015 data only due to a change in the renewal cycle.

The Policing and Crime Bill<sup>3</sup> introduces a new enabling power allowing fees to be charged for s5 prohibited firearms licences. This will bring arrangements in line with other licences which are already charged for. The Bill also amends existing charging powers for museum and shooting club licences under the Firearms (Amendment) Act 1988, ensuring consistency with the new s5 power so that all enabling powers provide flexibility to set fees at different rates for different services.

The public consultation sets out the Government's proposed fee levels for all Home Office and Scottish Government licence types.

Once responses to the consultation have been considered, and enabling powers passed by Parliament, fees will be set in secondary legislation, with the intention that new fees come into effect in 2017.

The new and amended enabling powers, the proposed fees in the public consultation and any fees set subsequently through secondary legislation, will apply equally to Scotland.

For the purposes of this impact assessment the terms 'firearms' and 'weapons' are used interchangeably.

## **A.2 Groups affected**

### **Police forces in England, Wales and Scotland**

The police undertake significant work to assess applicants for Home Office firearms licences. The Home Office commissions police checks which may include background checks on named individuals, interviews, site visits and stock checks. The police therefore incur a cost for the work undertaken on the Home Office's behalf and currently meet this cost from their own budget. Police Scotland carry out the same work on behalf of the Scottish Government for licences issued there, again meeting the cost from their own budget.

### **Section 5 firearms dealers**

The largest user of the prohibited firearms licensing service is section 5 firearms dealers. This covers any person who is registered in Great Britain under the 1968 Firearms Act who, by way of trade or business, manufactures, sells, transfers, repairs, tests or proves prohibited (s5) firearms or ammunition. For example dealers may manufacture or supply arms, components or services to the police or Ministry of Defence, or to military and police forces abroad. S5 firearms includes missiles, rockets and other projectiles, noxious gases, and vehicles and aircraft incorporating a 'firearm'. Some firearms dealers will deactivate and trade in collector's items or act as forensic experts. Foreign defence companies exhibiting at the London Defence and Security Equipment International exhibition (DSEI) may also require a Home Office licence and have been included under this category. These examples are not exhaustive.

Dealers in non-prohibited firearms such as shotguns only require a Registered Firearms Dealer certificate from the police and do not need a Home Office or Scottish Government licence.

As at 31 March 2015 there were 3,422<sup>4</sup> police-registered firearms dealers in England, Wales and Scotland. As at 31 December 2015 there were an estimated 587<sup>5</sup> section 5 authorised dealers in prohibited firearms.

### **DSEI firearms dealers**

Foreign defence and security companies exhibiting at the biannual Defence and Security Equipment International exhibition (DSEI) in London may also require a Home Office licence if they need to possess prohibited weapons in the UK as part of the exhibition. In 2015 temporary prohibited weapons licences were granted to 36 companies for the purpose of exhibiting at the DSEI.

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<sup>3</sup> <http://services.parliament.uk/bills/2015-16/policingandcrime.html>

<sup>4</sup> Data extracted from NFLMS (National Firearms Licensing Management System), the police firearms database.

<sup>5</sup> Sum of the number of applications granted or renewed in the 3 years Jan 2013 to Dec 2015. The vast majority of licences run for 3 years so all of the applicants during this period are assumed to still be authorised. Data on number of applications is from the Home Office firearms licensing database.

## Section 5 firearms carriers

Some companies are authorised only for the transport of s5 firearms. These include airlines, shipping companies and freight / logistics companies. Because they do not store or trade in weapons the licensing process is less onerous. As at 31 December 2015 there were an estimated 321<sup>6</sup> s5 authorised carriers.

## Private Maritime Security Companies

Private Maritime Security Companies (PMSCs) are authorised by the Home Office to enable their guards to be armed with prohibited firearms to protect UK ships from piracy in the designated 'high risk' areas. Guards are authorised under the company's licence and not as individuals. All applications, including those by Scottish companies, are managed by the Home Office. As at 31 December 2015 there were 12 authorised PMSCs<sup>7</sup>.

## Employees of dealers, carriers and PMSCs

Employees of s5 authorised companies will need to be vetted if they have access to firearms. Armed guards working for PMSCs are vetted. However, because vetting of employees is only undertaken as part of an organisation's application, the individual is not (in most circumstances) required to apply for a licence and will not be charged any fee. Employees are therefore unlikely to be affected directly by the introduction of fees. As at 31 December 2015, there were 322<sup>8</sup> authorised maritime armed guards. The Government does not cap the number of employees working for other licence holders and therefore the number is not recorded centrally.

## Museums

Museums may have collections of non-prohibited or prohibited firearms, either on display or in storage. The museums licence covers all firearm types. As at 31 December 2015 there were 164<sup>9</sup> authorised museums. Five of the museums currently licensed are national museums. National museums are part funded by a direct grant from the Government.

## Shooting clubs

Shooting clubs may make non-prohibited firearms available to their members, or provide facilities for members to use their own weapons. Members must acquire an individual firearms certificate from the police for any weapons they own, but do not need a certificate to shoot using firearms provided by a approved club. Schools with shooting clubs or military cadet schemes also come under this category and operate in the same way. As at 31 December 2015, there were 434 approved shooting clubs<sup>10</sup>.

## Other

There is nothing in law defining who can acquire a prohibited (s5) firearms licence – it is a matter of Government policy. The categories listed at figure 1 are the most common. 'Other' comprises the GB Olympic and Commonwealth shooting teams and historical weapons found and kept as trophies of war. It is possible further groups could emerge in the future, for example granting of licences to maritime security companies was only introduced following a decision by the Prime Minister in 2011.

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<sup>6</sup> As per footnote 5 (dealers).

<sup>7</sup> Taken from Home Office central record of PMSCs.

<sup>8</sup> Taken from Home Office central record of authorised armed guards.

<sup>9</sup> Sum of the number of applications granted or renewed in the 4 years Jan 2012 to Dec 2015, scaled up by 1.25 to estimate the number of applications in the last 5 years. Museum licences run for 5 years so applicants during this period are assumed to still be authorised.

<sup>10</sup> Sum of the number of applications granted or renewed in the 4 years Jan 2012 to Dec 2015, multiplied by 1.5 to estimate the number of applications in the last 6 years. Club licences run for 6 years so applicants during this period are assumed to still be authorised.

## B. Rationale for intervention

The Government proposes using the enabling powers under the Policing and Crime bill (once enacted) to introduce fees for prohibited firearms licences issued by the Home Office and the Scottish Government. The public consultation sets out proposed fees with a view to licence holders paying the full cost of the service. This is in line with the position set out in HM Treasury's 'Managing Public Money' guidance<sup>11</sup>. Prohibited firearms licences are currently free of charge, and therefore fully subsidised by the taxpayer, because there was previously no power in primary legislation to charge a fee.

Introducing fees for prohibited firearms licences will also eliminate inconsistency and cross-subsidies across the licensing regime. Following a 2010 recommendation by the Home Affairs Select Committee and a public consultation in 2014, fees for non-prohibited firearms licences (administered by the police) were increased in April 2015. Museums and shooting clubs (administered by the Home Office and Scottish Government) also already pay a fee for their licences. Meanwhile the prohibited firearms licensing service is fully subsidised by the public.

There are already powers under the Firearms (Amendment) Act 1988 to charge for museum and shooting club licences. Fees are charged as set out in Figure 1 although these were last reviewed in 1995 and do not cover the full cost of the service. The Policing and Crime Bill amends existing enabling powers so that they provide enough flexibility to set fees at different rates for different services. These amendments bring existing powers in line with the new s5 power to give a consistent set of charging powers. The consultation document, based on the new unified charging powers, sets out a detailed proposed fee regime which ensures applicants only pay the cost of what they use. Fees will be implemented at a later date through secondary legislation.

The Home Office firearms licensing service, including prohibited firearms, museums and shooting clubs, will cost an estimated £596,000<sup>12</sup> in 2016-17, plus an estimated £69,000<sup>13</sup> in cost to the police (for their role in carrying out checks on applicants). We estimate the respective costs to the Scottish Government and Police Scotland to be an additional 8% each<sup>14</sup>. This creates an overall cost of £712,000.

Government intervention is needed to allow some or all of this cost to the taxpayer to be recovered once fees are implemented through secondary legislation, expected to be in 2017.

A more detailed breakdown of cost estimates can be found in Section E.

## C. Policy objective

The policy objective is to eliminate public subsidy of the licensing service. In common with many other licensing regimes, the Government considers that the costs of the firearms licensing regime should properly be attributed to the organisations benefiting from the licence, and not the taxpayer. Charging will ensure the real economic cost of safeguarding high risk activities is considered by licence holders. Fees will enable us to fund the cost of providing an improved service once the proposed online application system is introduced. The lack of the necessary enabling powers has previously prevented this change being made.

The Policing and Crime Bill introduces a set of flexible enabling powers, applicable to all firearms licences issued by the Home Office and Scottish Government (prohibited firearms licences, museum firearms licences and shooting club licences).

The public consultation sets out proposed fee levels. Once responses have been considered, and the enabling powers in the Policing and Crime Bill have received Royal Assent, fees will be implemented through secondary legislation.

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<sup>11</sup> HM Treasury *Managing Public Money*, 6.2 – 6.3.

<sup>12</sup> Forecasted 2016-17 budget for Home Office firearms licensing unit, minus cost of activities out of scope (wider policy/diplomatic licences).

<sup>13</sup> Estimated police costs for each type of licence, multiplied by average number of applications (totalled for all application types). Police costs methodology is explained further down in IA.

<sup>14</sup> To the nearest percent. 7.91% to 2 decimal places. The additional 8% has not been added for applications types which are issued exclusively in E&W; as a result the cost to Scotland totals slightly less than 8% of the parallel cost for police in England & Wales.

## D. Options

### Option 1: Do nothing

Prohibited firearms licences remain free of charge because there is no legal power to charge. The taxpayer continues to subsidise the full cost of the Home Office and Scottish prohibited firearms licensing services. Museum and shooting club fee levels remain at current levels with the vast majority of the cost subsidised by the taxpayer.

### Option 2: Introduce new fees across all licence types

Introduce a new fee structure so that licence holders pay the full cost of the service, rather than the taxpayer. The proposed fee structure is set out in this public consultation and the costs and benefits estimated in this impact assessment. A final fee structure and associated costs and benefits will be provided as part of the implementing secondary legislation in 2017.

## E. Appraisal – (Costs and Benefits)

### General assumptions and data

The public consultation sets out proposed fees that would recover in full the cost of issuing each type of licence. This impact assessment estimates the cost and benefit to each affected group of the proposed fees. A final assessment of the costs and benefits will be provided at secondary legislation stage in 2017.

The Home Office and police costs set out below have been estimated in line with HM Treasury's Managing Public Money guidance on measuring the annual cost of a service<sup>15</sup>. The fee structure aims to ensure the fee for each type of licence is equal to the cost of providing the service.

The public consultation asks whether there are groups of licence holders where a continuing taxpayer subsidy should apply. It is not our present intention to charge any reduced rates, however, if evidence in the consultation supports this option, any percentage reduction would simply result in a corresponding percentage decrease in the costs and benefits shown. In the interests of proportionality we have not set out all the possible permutations and effects on costs and benefits here.

Regardless of any possible reductions, the final fees will not include any cross subsidisation (whereby one group of licence holders subsidises the cost of the service for another group).

Indirect costs and benefits, for example if licence holders reduce their own cost by passing it on through a supply chain or to the end consumer, have not been considered in this impact assessment. We assume all costs are borne by the licence holder.

It is assumed that numbers of applicants for new licences, and renewals of and variations to existing licences, will be equal to the average annual number of applications in the previous three years and not significantly influenced by the proposed fee changes. These figures are set out in Figure 1 of Section A.1. Further information on expected year-by-year application volumes is in the sensitivity analysis on page 17-18.

It is assumed that the 8% estimate for withdrawn or refused applications applies equally across all application types. In reality attrition rates may vary by application type but this data is not available.

Similarly, it is assumed that the amount of time spent by the Home Office on relevant applications remains constant. (In reality fee levels will be reviewed again before implementation in 2017, and regularly thereafter, to ensure any efficiency savings arising from future policy or system changes are accounted for and passed on to business.)

It is also assumed that the cost to application volume ratio for England & Wales holds for Scottish applications.

The majority of costs have been estimated using 2016-17 data. Where data from other years has been used this is indicated, with the figures uplifted to 2016-17 prices.

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<sup>15</sup> HM Treasury *Managing Public Money*, Box A6.1A.

Where presented, ten year net present values have been rounded to the nearest £10,000. Annual costs to public sector bodies, to businesses and civil society organisations are rounded to the nearest £1,000 in final calculations.

### **Total cost of Section 5 prohibited firearm, museum and shooting club licensing**

The total cost to England & Wales is made up of £596,000 in costs to the Home Office, and £69,000 in costs to the police, equalling an estimated **£665,000** per annum.

The total cost to Scotland is made up of £42,000 in costs to the Scottish Government, and £5,000 in costs to Police Scotland, equalling an estimated **£47,000** per annum.

The total cost to both England & Wales and Scotland is therefore estimated to be **£712,000**.

#### Cost breakdown

##### Home Office costs

The estimated expenditure by the Home Office in providing the entire firearms licensing service in 2016-17 is £691,400. The licensing regime is administered by the Drugs and Firearms Licensing Unit in the Crime Policing and Fire Group of the Home Office.

This figure is for all activities associated with the administration, decision-making and oversight of approving licence applications, as well as providing advice and correspondence with licence holders, and policy work directly relating to the application process for example designing new forms or reviewing the licensing process. Staff working on wider policy development and enforcement activities have been excluded.

The £691,400 comprises staff salaries (including employer pension and national insurance contributions), staff training costs, overheads such as accommodation, IT and HR services, and development costs and annual running costs for a new online application system expected to be introduced before fees are implemented. The new online system will improve the service by making applying quicker and easier and improving turn around times for applicants.

The total cost to the Home Office of processing each licence type is set out in Figure 2. The fees amounts set out in the consultation document comprise these costs, plus police costs, and would recover those costs in full.

**Figure 2**

<b>Licence type</b>	<b>Number of applications (3 year average)</b>	<b>Cost to Home Office per licence</b>	<b>Total cost to Home Office</b>
Museum first time	1.4	1,129	1,524
Museum renewal	25.7	931	23,888
Museum variation A	3.8	659	2,472
Museum variation B	0.8	381	286
Museum variation C	1.0	113	113
<b>MUSEUMS</b>	<b>32.5</b>		<b>28,282</b>
Club first time	42.9	887	38,100
Club renewal	18.4	770	14,174
Club variation A	11.7	569	6,676
Club variation B	11.7	381	4,471
Club variation C	93.9	113	10,576
<b>CLUBS</b>	<b>178.7</b>		<b>73,997</b>
Dealer first time	57.3	1,552	88,968
Dealer renewal	138.3	1,397	193,203

Dealer variation A	34.3	969	33,248
Dealer variation B	68.6	381	26,140
Dealer variation C	11.4	113	1,288
<b>DEALERS</b>	<b>310.0</b>		<b>342,846</b>
Carrier first time	24.7	1,097	27,051
Carrier renewal	82.3	992	81,702
Carrier variation A	14.7	752	11,059
Carrier variation B	14.7	381	5,601
Carrier variation C	12.6	113	1,420
<b>CARRIERS</b>	<b>149.0</b>		<b>126,834</b>
PMSC first time	2.0	2,193	4,385
PMSC renewal	5.0	1,905	9,523
PMSC variation A	18.0	1,083	19,495
PMSC variation B	1.0	752	752
PMSC variation C	1.0	381	381
PMSC variation D	0.0	111	0
Additional Guard	296.0	87	25,727
<b>PMSCs</b>	<b>323.0</b>		<b>60,264</b>
<b>DSEI</b>	<b>21.3</b>	969	<b>20,679</b>
<b>Olympic shooter</b>	<b>5.0</b>	381	<b>1,905</b>
<b>Trophy of War</b>	<b>2.0</b>	381	<b>762</b>
Protection officers	61.3	250	15,320
Police training	18.0	250	4,496
French police	64.0	250	15,986
<b>DIPLOMATIC</b>	<b>143.3</b>		<b>35,803</b>
<b>TOTAL</b>			<b>£691,400</b>

To calculate the cost to the Home Office per licence, licence applications were split into the types set out in Figure 2, based on anticipated differences in the time taken to process. The different categories of variation (A to C) are based on the degree of significance of the change. Typically variation A is a significant change requiring Home Office scrutiny and further police visits, variation B is a moderate change requiring some scrutiny and police checks, and variation C is an administrative change.

A time driven activity-based costing exercise<sup>16</sup> was then carried out to provide an estimate of the Home Office resource used to process each application type. The budget expenditure (£691,400), divided by the total units of resource used across all applications, gives a cost per unit of resource. This was used to calculate the cost to the Home Office of processing a licence for each application type.

A proportion of expenditure (£35,800) is assigned to processing diplomatic licences, based on the units of resource used (identified in the activity based costing exercise). These include French police working across the channel tunnel, and protection officers accompanying foreign dignitaries. These are not charged for, as they are typically part of a reciprocal arrangement, so the Home Office is likely to continue to pay this cost.

The presented cost to each affected group consists of the cost to the Home Office in Figure 2 above. The cost to museums and shooting clubs has been calculated in the same way, minus income from existing fees. Existing fees are £200 per museum licence, of which the Home Office receives £75 and

<sup>16</sup> Minutes taken for each step of the process were estimated using workshops involving 4 caseworkers and 2 supervisors. A chart showing time taken per licence type was used to provide a further check that the times, relative to one another, were correct.

the police £125, and £84 per shooting club licence, of which the Home Office receives the whole amount. Detailed calculations by affected group are at figures E3 to E8.

The total cost to the Home Office for activities in scope (excluding diplomatic licences) is therefore £656,000, of which £7,500 is covered by existing fees, giving a total cost for the preferred option of £648,000 per annum in cost to the Home Office.

The calculations at Annex E also deduct 8% to account for rejected or withdrawn applications which are unlikely to be charged for, giving a final figure of £596,000.

### Scottish Government costs

The estimated expenditure by the Scottish Government in providing the relevant firearms licensing services in 2015-16 was £42,000<sup>17</sup>. Because firearms legislation is reserved, Scotland will be subject to the same fee levels as those introduced in England & Wales. Therefore the cost to affected groups will be the same as in England & Wales, and is only adjusted to account for the reduced number of applications received in Scotland as opposed to England & Wales. Scotland receives on average 40 applications a year for prohibited firearms licences, in addition to the 516 applications in England & Wales. This represents an additional 8%<sup>18</sup> on top of application volumes for England & Wales. We assume this ratio applies across all application types. Therefore the cost to Scotland is 8% of the Home Office costs for each affected group. The £42,000 total was reached by adding the amounts by affected group, set out at figures E3 to E8.

### Police E&W costs

In order to assess each licence application, the Home Office commissions police checks which may include background checks on named individuals, interviews, site visits and stock checks. The police therefore incur a cost for the work undertaken on the Home Office's behalf. The police budget expenditure on Home Office firearms licensing is not known so, as an appropriate alternative, costs have been estimated based on unit costs used to set new fees for police administered firearms licences in April 2015<sup>19</sup>. Work with a small sample of forces was then undertaken to produce estimates of how these unit costs apply to the work undertaken by forces on each of the Home Office licence types. Estimates are set out in Figure 3.

We estimate that 80%<sup>20</sup> of firearms dealers and carriers applying for a Home Office licence apply for a Registered Firearms Dealer certificate (RFD) from the police at the same time. The cost to the police for these applicants is therefore only for additional work over and above the RFD process. The RFD is subject to an existing fee of £200. Therefore the cost to the police for 80% of dealer applications is £310 - £200 = £110. The cost for 80% of carrier applications is £230 - £200 = £30. For the other 20%, and for all PMSCs and museums, the cost to the police is for the full amount.

**Figure 3**

Home Office firearms licence	Estimated police costs per application (renewal and grant)	Estimated police costs over and above work already completed for RFD	Estimated police costs per application (variation type A)	Estimated police costs per application (variation type B)	Estimated police costs per application (variation type C)
S5 firearms dealer	£310	£110	£120	£90	£0
S5 firearms carrier	£230	£30	£120	£90	£0
DSEI dealer	£90		N/A	N/A	N/A
Private Maritime Security Company	£230	N/A	£120	£90	£0

<sup>17</sup> The additional 8% has not been added for applications types which are issued exclusively in E&W; as a result the cost to Scotland totals slightly less than 8% of the parallel cost for England & Wales.

<sup>18</sup> To the nearest percent.

<sup>19</sup> April 2015 police firearms fees consultation: <https://www.gov.uk/government/consultations/a-proposal-to-increase-firearms-licensing-fees-administered-by-the-police>

<sup>20</sup> Estimate based on discussions with SE region police forces.

Museum	£310	N/A	£120	£90	£0
Shooting club	£170 (£130 renewal)	N/A	£120	£90	£0
Olympic Shooter	£90	N/A	N/A	N/A	N/A
Trophy of war finder	£90	N/A	N/A	N/A	N/A

Based on our estimate of the police cost per licence type as outlined above, multiplied by the average number of licence applications in figure 2, the cost per affected group has been calculated and is set out at figures E1 to E8. This gives a total cost to the police of £69,000, which is reached by adding the amounts per affected group.

### Police Scotland

On the same basis as for the Scottish Government, we assume an additional 8% of the costs to police in England & Wales per affected group are borne by Police Scotland<sup>21</sup>. This gives a total cost to Police Scotland of £5,000 which can be reached by adding the cost per affected group set out at figures E1 to E8.

### Option 1: Do nothing

#### COSTS

There are no additional costs under this option.

The Home Office, Scottish Government and police forces will continue to subsidise the full cost of the prohibited firearms licensing process, at an average estimated cost of £665,000 (England & Wales) and £47,000 (Scotland). These figures exclude the cost of diplomatic licences and withdrawn applications which we do not intend to charge for. This represents a total subsidy of £712,000 annually.

#### BENEFITS

There are no additional benefits under option 1.

### Option 2: Introduce new fees across all licence types

#### COSTS

The public consultation sets out proposed fees that would recover in full the cost of issuing each type of licence. These estimates assume fees are introduced at the levels set out in the consultation. Actual fee levels will be set in secondary legislation once responses to the consultation have been considered, and enabling powers passed by Parliament.

Costs have been assessed annually, based on expected applications each year. However licences typically last for 3, 5 or 6 years, so from the perspective of an applicant, costs arise every 3, 5 or 6 years.

The costs identified for each affected group are based on initial estimates of the cost to the Home Office and England & Wales police forces of carrying out licensing activities. Because gun control is a reserved matter, any fees will be set at the same level for Scotland. We have estimated the cost to each affected group in Scotland to be 8% of that identified for England & Wales, because Scotland receives approximately 8% of the number of applications that England & Wales does each year.

The costs to each group have been reduced by 8% to account for the estimated 8%<sup>22</sup> of applications which are refused or discontinued, for which we do not currently expect to charge. Costs for refused and discontinued applications will continue to be borne by the Home Office, Scottish Government and the police.

<sup>21</sup> The additional 8% has not been added for applications types which are issued exclusively in E&W; as a result the cost to Police Scotland totals slightly less than 8% of the parallel cost for police in England & Wales.

<sup>22</sup> 445 prohibited firearms licence applications received between 1 Sep 2014 and 7 Aug 2015, of which 341 had been completed. Of the 341 completed, 6 were refused and 20 withdrawn. 26 out of 341 = 8%.

The following sections, with their respective Figures (E1 – E8), provide a breakdown of the proportion of costs that would representatively be born by each licensee group. The figures give our estimates of the cost to business groups in England, Wales and Scotland.

#### Section 5 firearms dealers

If fees were introduced at full cost recovery level as proposed in the consultation document, then based on the costs in Figures 2 and 3 multiplied by the assumed number of applications in Figure 2 there would be an annual cost to Section 5 firearms dealers, as outlined in Figure E1.

Figure E1.

<i>Cost element</i>	<i>Value</i>
Home Office licence service costs (as set out on pages 8-9)	£343,000
Police costs (as set out on page 10)	£37,000 <sup>23</sup>
Scottish government costs (additional 8% of E&W)	£27,000
Police Scotland costs (additional 8% of E&W)	£3,000
<b>Total<sup>24</sup></b>	<b>£410,000</b>
<b>Total (minus 8% for refused/withdrawn applications not charged for)</b>	<b>£377,000</b>

This is an estimated cost of **£3.25m** over 10 years in present values.

#### DSEI firearms dealers

If fees were introduced at full cost recovery level as proposed in the consultation document, then based on the costs in Figures 2 and 3 multiplied by the assumed number of applications in Figure 2 there would be an annual cost to DSEI firearms dealers, as outlined in Figure E2.

Figure E2.

<i>Cost element</i>	<i>Value</i>
Home Office licence service costs (as set out on pages 8-9)	£21,000
Police costs (as set out on page 10)	£2,000
Scottish government costs (additional 8% of E&W)	-
Police Scotland costs (additional 8% of E&W)	-
<b>Total</b>	<b>£23,000</b>
<b>Total (minus 8% for refused/withdrawn applications not charged for)</b>	<b>£21,000</b>

This is an estimated cost of **£0.18m** over 10 years in present values.

<sup>23</sup> We estimate that 80% of s5 dealers will apply for an RFD certificate from the police at the same time as their s5 application. Therefore for 80% of the 196 renewals/grants (157 applications), the additional police costs are estimated at £110 (as set out on page 8). For the other 20% (39 applications), the cost is £310. (196 grants/renewals \* 80% \* £110) + (196 grants renewals \* 20% \* £310) + (34 type A variations \* £120) + (69 type B variations \* £90) = £37,000 (to the nearest £1000).

<sup>24</sup> To the nearest £1,000.

### Section 5 firearms carriers

If fees were introduced at full cost recovery level as proposed in the consultation document, then based on the costs in Figures 2 and 3 multiplied by the assumed number of applications in Figure 2 there would be an annual cost to Section 5 firearms carriers, as outlined in Figure E3.

Figure E3.

<i>Cost element</i>	<i>Value</i>
Home Office licence service costs (as set out on pages 8-9)	£127,000
Police costs (as set out on page 10)	£10,000 <sup>25</sup>
Scottish government costs (additional 8% of E&W)	£10,000
Police Scotland costs (additional 8% of E&W)	£800
<b>Total</b>	<b>£148,000<sup>26</sup></b>
<b>Total (minus 8% for refused/withdrawn applications not charged for)</b>	<b>£136,000</b>

This is an estimated cost of **£1.17m** over 10 years in present values.

### Private Maritime Security Companies (PMSCs)

If fees were introduced at full cost recovery level as proposed in the consultation document, then based on the costs in Figures 2 and 3 multiplied by the assumed number of applications in Figure 2 there would be an annual cost to Private Maritime Security Companies, as outlined in Figure E4.

Figure E4.

<i>Cost element</i>	<i>Value</i>
Home Office licence service costs (as set out on pages 8-9)	£60,000
Police costs (as set out on page 10)	£8,000
Scottish government costs* (additional 8% of E&W)	-
Police Scotland costs* (additional 8% of E&W)	-
Subtotal	£68,000
<b>Total (minus 8% for refused/withdrawn applications not charged for)</b>	<b>£63,000</b>

This is an estimated cost of **£0.54m** over 10 years in present values.

\*As all PMSC applications are processed by the Home Office, these figures are not required to account for costs to businesses in Scotland.

\*\*A recent policy change means that PMSC company licences now only have to be renewed every 3 years. Therefore assumed application numbers are based on 2015 data only, and not an average of the last three years.

### Employees of dealers, carriers and PMSCs

It is not anticipated that organisations would pass on the costs of vetting staff to those staff as individuals. Therefore there will be no cost to employees.

<sup>25</sup> We estimate that 80% of s5 carriers will apply for an RFD certificate from the police at the same time as their s5 application. Therefore for 80% of the 107 renewals/grants (86 applications), the additional police costs are estimated at £30 (as set out on page 8). For the other 20% (21 applications), the cost is £230. (107 grants/renewals \* 80% \* £30) + (107 grants renewals \* 20% \* £230) + (15 type A variations \* £120) + (15 type B variations \* £90) = £10,000 (to the nearest £1000).

<sup>26</sup> To the nearest £1,000.

### Olympic shooters

If fees were introduced at full cost recovery level as proposed in the consultation document, then based on the costs in Figures 2 and 3 multiplied by the assumed number of applications in Figure 2 there would be an annual cost to British Shooting, the organisation representing the GB Olympic and Commonwealth shooting teams, as outlined in figure E5.

Figure E5.

<i>Cost element</i>	<i>Value</i>
Home Office licence service costs (as set out on pages 8-9)	£1,900
Police costs (as set out on page 10)	£400
Scottish government costs* (additional 8% of E&W)	-
Police Scotland costs* (additional 8% of E&W)	-
<b>Total</b>	<b>£2,300</b>
<b>Total (minus 8% for refused/withdrawn applications not charged for)</b>	<b>£2,200</b>

This is an estimated cost of **£0.02m** over 10 years in present values.

\*There are no additional costs for Scotland as they come under the GB team.

### Trophy of War

If fees were introduced at full cost recovery level as proposed in the consultation document, then based on the costs in Figures 2 and 3 multiplied by the assumed number of applications in Figure 2 there would be an annual cost to individuals who find 'trophy of war' firearms, as outlined in figure E6.

Figure E6.

<i>Cost element</i>	<i>Value</i>
Home Office licence service costs (as set out pages 8-9)	£760
Police costs (as set out on page 10)	£170
Scottish government costs* (additional 8% of E&W)	£60
Police Scotland costs* (additional 8% of E&W)	£10
<b>Total</b>	<b>£1,000</b>
<b>Total (minus 8% for refused/withdrawn applications not charged for)</b>	<b>£900</b>

This is an estimated cost of **£0.01m** over 10 years in present values.

### Museums

If fees were introduced at full cost recovery level as proposed in the consultation document, then based on the costs in Figures 2 and 3 multiplied by the assumed number of applications in Figure 2 there would be an annual cost to museums with firearms collections, as outlined in Figure E7.

Figure E7.

<i>Cost element</i>	<i>Value</i>
Home Office licence service costs (as set out pages 8-9)	£26,000 <sup>27</sup>
Police costs (as set out on page 10)	£6,000 <sup>28</sup>
Scottish government costs (additional 8% of E&W)	£2,300
Police Scotland costs (additional 8% of E&W)	£400
<b>Total</b>	<b>£34,000<sup>29</sup></b>
<b>Total (minus 8% for refused/withdrawn applications not charged for)</b>	<b>£32,000</b>

This is an estimated cost of **£0.27m** over 10 years in present values.

Five of the museums currently licensed are national museums that are part funded by a direct grant from the Government.

### Shooting clubs

If fees were introduced at full cost recovery level as proposed in the consultation document, then based on the costs in Figures 2 and 3 multiplied by the assumed number of applications in Figure 2 there would be an annual cost to approved shooting clubs, as outlined in Figure E8.

Figure E8.

<i>Cost element</i>	<i>Value</i>
Home Office licence service costs (as set out pages 8-9)	£69,000 <sup>30</sup>
Police costs (as set out on page 10)	£12,000
Scottish government costs (additional 8% of E&W)	£6,000
Police Scotland costs (additional 8% of E&W)	£1,000
<b>Total</b>	<b>£88,000<sup>31</sup></b>
<b>Total (minus 8% for refused/withdrawn applications not charged for)</b>	<b>£81,000</b>

This is an estimated cost of **£0.70m** over 10 years in present values.

### Costs to business

As demonstrated, the impact on business is expected be small, because firearms licences for higher risk activities are a specialist area of interest. The total cost to business including civil society organisations is estimated to be equal to the cost of providing the firearms licensing service for these organisations. This approach is in line with HM Treasury's *Managing Public Money* guidance<sup>32</sup>.

<sup>27</sup> Net of Home Office portion of existing fee = £75 per application (including variations). £75 x 31 applications = £2,325.

<sup>28</sup> Net of police portion of existing fee = £125 per grant/renewal application (nothing for variations). £125 x 27 grants/renewals = £3375.

<sup>29</sup> To the nearest £1,000.

<sup>30</sup> Net of existing fee of £84 per application (nothing for variations). £84 x 61 applications = £5124.

<sup>31</sup> To the nearest £1,000.

<sup>32</sup> HM Treasury *Managing Public Money*, 6.2 - 6.3.

The total cost to business (dealers including DSEI, carriers and PMSCs) and civil society organisations (museums and shooting clubs) is estimated to be £709,000<sup>33</sup> annually. This is an estimated cost of **£6.10m** over 10 years in present values.

### **Total cost**

All groups newly making payment for licences under these proposals will face a small additional cost in terms of the time taken to make payment via entry of payment information. However, this is expected to be negligible given that businesses are already required to enter information which typically accompanies payment; only relevant financial account details are needed in addition.

**The total cost to all licence holders (including businesses, civil society organisations and others) from option 2 is £712,000<sup>29</sup> annually. This is an estimated cost of £6.13m over 10 years in present values.**

### **BENEFITS**

#### **Home Office, Scottish Government and police**

There will be an annual saving to the tax payer of up to £712,000. The income, previously spent on subsidising the licensing process, would be split between the Home Office, Scottish Government and police forces.

As set out earlier in Section E, under 'Total cost of Section 5 prohibited firearm, museum and shooting club licensing' this saving will come from four sources. Firstly the total benefit to the England & Wales police is estimated at £69,000 annually and secondly the total benefit to Police Scotland is estimated at £5,000 annually. Thirdly the total benefit to the Home Office is estimated at £596,000 annually and fourthly the total benefit to the Scottish Government at £42,000 annually.

**The total benefit to the police from option 2 is £0.64m in present values over 10 years. The total benefit to the Home Office and Scottish Government from option 2 is £5.50m in present values over 10 years. The total benefit from option 2 is £6.13m<sup>34</sup> in present values over 10 years.**

#### **Licence holders**

The Home Office plans to introduce a new online application system before fees are implemented. The new system is intended to provide benefits to licence holders by making applying quicker and easier and improving turn around times for applicants. The online system may also produce efficiency savings for the Home Office. These savings would be passed on to applicants through reduced fees. Because the online system is yet to be procured, we have not attempted to quantify its benefits here. An assessment will be provided at secondary legislation stage. Fee levels will be reviewed before implementation, and regularly thereafter, to ensure any efficiency savings arising from the new system are passed on to licence holders. It is expected that time efficiencies through ease of application under the new system will more than outweigh the minimal additional cost to licence holders of time taken in making payment for licenses from these proposals.

### **NET PRESENT VALUE**

Figure E9 presents the net present value over ten years of option 2, based on best estimates. The net present value is zero as the policy is designed to enable full cost recovery; as expected, the estimated costs and benefits are equal.

Figure E9.

	<b>Best Estimate</b>
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<sup>33</sup> Subtotal costs to respective businesses and civil society organisations may not total this figure due to rounding, however the component costs for each will.

<sup>34</sup> Subtotal benefits do not sum to the figure for total benefits due to rounding.

<b>Net Present Cost (Over 10 Years)</b>	<b>£6.13m</b>
<b>Net Present Benefit (Over 10 Years)</b>	<b>£6.13m</b>
<b>Net Present Value (Over 10 Years)</b>	<b>£0.00m</b>

## G. Risks

### **Option 1: Do nothing**

There has been media and Parliamentary criticism of the public subsidising firearms licences administered by the police, at a time when public spending needs to be reduced. These fees were increased to full cost recovery in April 2015. Without a power to charge for prohibited firearms licences, the taxpayer and existing fee payers will subsidise this aspect of licensing to an increasing degree as costs increase over time.

### **Option 2: Introduce a new set of enabling powers to allow fees to be charged**

There is a risk that small companies whose trade involving prohibited weapons is low value could stop this aspect of business activity if profit is not high enough to justify the cost of the licence. Equally, museums and shooting clubs whose activities requiring a firearms licence are of low value to the public or club members may stop those activities because the cost of the licence is not justified.

## H. Sensitivity analysis

To demonstrate the effect of possible uncertainty in some of the assumptions used in the analysis for option 2 we have conducted a sensitivity analysis. This shows the effect of variation in our estimate of the number of applications made by each affected group. There is some variation in the number of applications each year, due to a peak every three years caused by the renewal cycle. The last time this peak occurred, in 2013, 844 applications were received, which exceeds the 3 year average (734) by 15%. An upper bound of +15% has been set out below to account for this peak.

There were 692 applications in 2012, 654 in 2014 and 674 in 2015, showing a decrease of 3% between 2012 and 2015. Data does not go back further than 2012, although anecdotally, the Home Office casework team report application numbers have been steady for several years. Our best estimate of year-on-year increase is therefore 0%.

This uncertainty has been assumed to apply equally to Scotland, as fees will be set at the same level in Scotland. Figure H1 outlines these uncertainties.

**Figure H1.**

Uncertainty	Best	Low	High
Application numbers (+15%)	0%	0%	+15%

Figure H2 shows the impact on annual costs to each affected group at the upper and lower bound.

**Figure H2.**

Effect of variation in application numbers on affected groups	Best	Low	High
Section 5 firearms dealers	£377,000	£377,000	£433,000
DSEI dealers	£21,000	£21,000	£24,000
Section 5 firearms carriers	£136,000	£136,000	£157,000

Private Maritime Security Companies	£63,000	£63,000	£72,000
Museums	£32,000	£32,000	£36,000
Shooting clubs	£81,000	£81,000	£93,000
<b>TOTAL COST TO BUSINESS / CIVIL SOC. GROUPS</b>	<b>£709,000</b>	<b>£709,000</b>	<b>£815,000</b>
Olympic shooters	£2,100	£2,100	£2,500
Trophy of war	£900	£900	£1,100
<b>TOTAL COST TO ALL AFFECTED GROUPS<sup>35</sup></b>	<b>£712,000</b>	<b>£712,000</b>	<b>£819,000</b>

The results from the sensitivity analysis show overall costs (and benefits) could vary between £712,000 and £819,000 dependent on changes to underlying assumptions.

Figure H3 presents the range of total annual cost estimates in net present values 10 years.

**Figure H3.**

	<b>Best</b>	<b>Low</b>	<b>High</b>
<b>Net Present Cost (Over 10 Years)</b>	<b>£6.13m</b>	<b>£6.13m</b>	<b>£7.05m</b>
<b>Net Present Benefit (Over 10 Years)</b>	<b>£6.13m</b>	<b>£6.13m</b>	<b>£7.05m</b>
<b>Net Present Value (Over 10 Years)</b>	<b>£0.00m</b>	<b>£0.00m</b>	<b>£0.00m</b>

A sustained reduction in application numbers over time might result in an equivalent reduction in staff numbers. However, this would not effect fee levels because the cost per application remains unchanged. Revisions to our estimates of the proportion of time spent on each application type are also possible. We have not included this aspect in our sensitivity analysis because of the interdependence between application types - an increase in the estimated proportion of time spent on one application type means a corresponding decrease in all the others. Therefore there is no overall effect on the magnitude of costs.

## **I. Direct costs and benefits to business calculations**

### **BUSINESS IMPACT TARGET**

The proposal to increase fees for firearms licensing in order to attain cost recovery, in line with HMT's guidance, would not be considered a regulatory provision under the s.22 Small Business, Enterprise and Employment Act 2015.

Therefore, the measure is considered to be not in scope for the Business Impact Target.

## **J. Summary and preferred option.**

Figure J1 outlines the costs and benefits of the proposed changes.

**Figure J1**

<sup>35</sup> Figures may not be exact sum of components as subtotals are rounded.

Table J1 Costs and Benefits		
Option	Costs	Benefits
2	<p>Costs to business from increased fees of <b>£6.10m</b> (PV over 10 years)</p> <p>Costs to non-business from increased fees of <b>£0.03m</b> (PV over 10 years)</p>	<p>Savings to Home Office and police (and by extension the taxpayer) who previously subsidised the licensing process:</p> <ul style="list-style-type: none"> <li>• Home Office and Scottish Government: <b>£5.50m</b> (PV over 10 years)</li> <li>• Police (England, Wales and Scotland): <b>£0.64m</b> (PV over 10 years)</li> </ul>

## K. Implementation plan

Once responses to this consultation have been considered and the charging powers in the Policing and Crime Bill have received Royal Assent, the level of fees will be set in secondary legislation. We anticipate the new fees commencing in 2017.

Fee levels will be reviewed regularly.