

Summary: Intervention & Options

Department /Agency: Home Office	Title: Impact Assessment of re-introduction of charges for drugs licences	
Stage: Consultation	Version: 1.0	Date: 16 March 2010
Related Publications:		

Available to view or download at:

<http://www.>

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What is the problem under consideration? Why is government intervention necessary?

The Home Office regulates controlled drugs under the Misuse of Drugs Act 1971, and precursor chemicals under EU Regulations. The Home Office operates a licensing system to prevent the misuse of controlled substances, and/ or their diversion into the illicit trade. At present, licences are issued without a charge. The Home Office wishes to introduce charges for licences (including precursor registrations and authorisations), and limit the validity of domestic licences to one year, in order to fund improved services for licensees, and to strengthen the control system to protect the public from the harms of drug misuse.

Government intervention is necessary because the market alone does not prevent the misuse and/or diversion of controlled substances.

What are the policy objectives and the intended effects?

The policy objective is to improve services for licensees, to strengthen the regulatory system to protect the public, and to properly apportion licensing costs to those benefiting from licenses rather than the taxpayer.

The introduction of charges will allow the Home Office to fund a series of improvements to the regulatory regime. Alongside the introduction of fees, domestic licences will be given a time-limited validity.

What policy options have been considered? Please justify any preferred option.

- (1) No change. Continue to issue licences for free; do not introduce changes to the licensing regime.
- (2) Introduce charges for all controlled drug and precursor chemical licences,
 - (a) with validity of **one** year for domestic licences.
 - (b) with validity of **two** years for domestic licences.
- (3) Introduce charges for licences that have been charged for in the past only, i.e. controlled drug domestic licences only.

Option 2a is the Home Office's preferred option as it funds improvements to the regulatory regime, introduces a proportionate compliance check, and is the fairest approach to charging for licences.

When will the policy be reviewed to establish the actual costs and benefits and the achievement of the desired effects? The policy will be reviewed one year into operation.

Ministerial Sign-off For consultation stage Impact Assessments:

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: 29 March 2010

Summary: Analysis & Evidence

Policy Option: 1

Description: No change. Continue to issue all licences for free

COSTS	ANNUAL COSTS		Description and scale of key monetised costs by 'main affected groups'
	One-off (Transition)	Yrs	
	£ 0		
	Average Annual Cost (excluding one-off)		
	£ 0		Total Cost (PV) £ 0
Other key non-monetised costs by 'main affected groups'			

BENEFITS	ANNUAL BENEFITS		Description and scale of key monetised benefits by 'main affected groups'
	One-off	Yrs	
	£ 0		
	Average Annual Benefit (excluding one-off)		
	£ 0		Total Benefit (PV) £ 0
Other key non-monetised benefits by 'main affected groups'			

Key Assumptions/Sensitivities/Risks The key risk of 'do nothing' is that the current risk of diversion and consequent drug misuse will continue.

Price Base Year 2010	Time Period Years 10	Net Benefit Range (NPV) £ 0	NET BENEFIT (NPV Best estimate) £ 0
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What is the geographic coverage of the policy/option?			UK	
On what date will the policy be implemented?			already in place	
Which organisation(s) will enforce the policy?			DLCU	
What is the total annual cost of enforcement for these organisations?			£ unknown	
Does enforcement comply with Hampton principles?			Yes	
Will implementation go beyond minimum EU requirements?			No	
What is the value of the proposed offsetting measure per year?			£ unknown	
What is the value of changes in greenhouse gas emissions?			£ unknown	
Will the proposal have a significant impact on competition?			No	
Annual cost (£-£) per organisation (excluding one-off)	Micro	Small	Medium	Large
Are any of these organisations exempt?	No	No	N/A	N/A

Impact on Admin Burdens Baseline (2005 Prices)				(Increase - Decrease)
Increase of	£ 0	Decrease of	£ 0	Net Impact £ 0

Key: Annual costs and benefits: Constant Prices (Net) Present Value

Summary: Analysis & Evidence

Policy Option: 2a	Description: Introduce charges for all controlled drug and precursor chemical licences, with domestic licences limited to <u>one</u> year's validity
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COSTS	ANNUAL COSTS	Description and scale of key monetised costs by 'main affected groups' Licence fees are expected to cost licensees approximately £3m per annum. Additional DCLU costs and new IT costs come to £1.6m per annum. The re-introduction of an annual licence renewal process will result in an admin burden estimated at £140,000.
	One-off (Transition) Yrs	
	£ 0	
	Average Annual Cost (excluding one-off)	
	£ 4.8m	Total Cost (PV) £ 41m
Other key non-monetised costs by 'main affected groups' This option sees the imposition of a 'charge' on companies which will result in an unquantifiable volume of 'deadweight loss'.		

BENEFITS	ANNUAL BENEFITS	Description and scale of key monetised benefits by 'main affected groups' DLCU gains £3m per annum in revenue. Online applications give an annual admin saving for licensees of £3,000 and for DLCU of £35,000 from having to deal with fewer speculative applications.
	One-off Yrs	
	£ 0	
	Average Annual Benefit (excluding one-off)	
	£ 3m	Total Benefit (PV) £ 26m
Other key non-monetised benefits by 'main affected groups'. Licensees will see an improved service, and the public will be better protected from the risk of the diversion and consequent misuse of controlled substances.		

Key Assumptions/Sensitivities/Risks It is assumed that a fee will reduce the number of speculative applications. It is assumed that the costs of drug misuse will be reduced but the scale of this benefit is unclear. In estimating admin burden impacts, various standard assumptions relating to average wage and time required to complete tasks have been used.

Price Base Year 2010	Time Period Years 10	Net Benefit Range (NPV) £ -14m to -16m	NET BENEFIT (NPV Best estimate) £ -15.0m
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What is the geographic coverage of the policy/option?		UK	
On what date will the policy be implemented?		1 October 2010	
Which organisation(s) will enforce the policy?		DLCU	
What is the total annual cost of enforcement for these organisations?		£ unknown	
Does enforcement comply with Hampton principles?		Yes	
Will implementation go beyond minimum EU requirements?		No	
What is the value of the proposed offsetting measure per year?		£ unknown	
What is the value of changes in greenhouse gas emissions?		£ unknown	
Will the proposal have a significant impact on competition?		No	
Annual cost (£-£) per organisation (excluding one-off)	Micro	Small	Medium Large
Are any of these organisations exempt?	No	No	N/A N/A

Impact on Admin Burdens Baseline (2005 Prices)		(Increase - Decrease)
Increase of £	Decrease of £	Net Impact £

Key:	Annual costs and benefits: Constant Prices	(Net) Present Value
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Summary: Analysis & Evidence

Policy Option: 2b

Description: Introduce charges for all controlled drug and precursor chemical licences, with domestic licences limited to two years' validity

COSTS	ANNUAL COSTS		Description and scale of key monetised costs by 'main affected groups' Licence fees are expected to cost licensees approximately £3m per annum. Additional DCLU costs and new IT costs come to £1.6m per annum. The re-introduction of a biennial licence renewal process will result in an admin burden estimated at £210,000.	
	One-off (Transition)	Yrs		
	£			
	Average Annual Cost (excluding one-off)			
	£	4.8m	Total Cost (PV)	£ 41m
Other key non-monetised costs by 'main affected groups' This option sees the imposition of a 'charge' on companies which will result in an unquantifiable volume of 'deadweight loss'.				

BENEFITS	ANNUAL BENEFITS		Description and scale of key monetised benefits by 'main affected groups' DLCU gains £3m per annum in revenue. Online applications give an annual admin saving for licensees of £3,000 and for DLCU of £35,000 from having to deal with fewer speculative applications	
	One-off	Yrs		
	£			
	Average Annual Benefit (excluding one-off)			
	£	3.0m	Total Benefit (PV)	£ 26m
Other key non-monetised benefits by 'main affected groups' Licensees will see an improved service, and the public will be better protected from the risk of the diversion and consequent misuse of controlled substances.				

Key Assumptions/Sensitivities/Risks It is assumed that a fee will reduce the number of speculative applications. It is assumed that the costs of drug misuse will be reduced but the scale of this benefit is unclear. In estimating admin burden impacts, various standard assumptions relating to average wage and time required to complete tasks have been used.

Price Base Year	Time Period Years	Net Benefit Range (NPV) £ -15m to -16m	NET BENEFIT (NPV Best estimate) £ -15.5m
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What is the geographic coverage of the policy/option?				UK	
On what date will the policy be implemented?				1 October 2010	
Which organisation(s) will enforce the policy?				DLCU	
What is the total annual cost of enforcement for these organisations?				£ unknown	
Does enforcement comply with Hampton principles?				Yes	
Will implementation go beyond minimum EU requirements?				No	
What is the value of the proposed offsetting measure per year?				£ unknown	
What is the value of changes in greenhouse gas emissions?				£ unknown	
Will the proposal have a significant impact on competition?				No	
Annual cost (£-£) per organisation (excluding one-off)		Micro	Small	Medium	Large
Are any of these organisations exempt?		No	No	N/A	N/A

Impact on Admin Burdens Baseline (2005 Prices)				(Increase - Decrease)	
Increase of	£	Decrease of	£	Net Impact	£

Key:	Annual costs and benefits: Constant Prices	(Net) Present Value
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Summary: Analysis & Evidence

Policy Option: 3

Description: Introduce charges only for licences that were charged for in the past, i.e. controlled drug domestic licences only

COSTS	ANNUAL COSTS		Description and scale of key monetised costs by 'main affected groups' Cost to controlled drug domestic licensees estimated to be in the region of £3m per annum. Additional DCLU costs and new IT costs come to £1.6m per annum. The re-introduction of an annual licence renewal process will result in an admin burden estimated at £140,000 per annum.	
	One-off (Transition)	Yrs		
	£			
	Average Annual Cost (excluding one-off)			
	£	4.8m	Total Cost (PV)	£ 41m
Other key non-monetised costs by 'main affected groups' This option sees the imposition of a 'charge' on companies which will result in an unquantifiable volume of 'deadweight loss'.				

BENEFITS	ANNUAL BENEFITS		Description and scale of key monetised benefits by 'main affected groups' DLCU gains £3m per annum in revenue.	
	One-off	Yrs		
	£	0		
	Average Annual Benefit (excluding one-off)			
	£	3.0m	Total Benefit (PV)	£ 26m
Other key non-monetised benefits by 'main affected groups' Licensees will see an improved service, and the public will be better protected from the risk of the diversion and consequent misuse of controlled substances.				

Key Assumptions/Sensitivities/Risks Risk that failure to introduce charges for precursor chemical licences and import and export licences will lead to lower levels of compliance in these areas, so more risk of drug misuse than Option 2. It is assumed that a fee will discourage speculative applications for controlled drug domestic licences. Admin burden assumptions as with Option 2.

Price Base Year 2010	Time Period Years 10	Net Benefit Range (NPV) £ -15m to -16m	NET BENEFIT (NPV Best estimate) £ -15.3m
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What is the geographic coverage of the policy/option?	UK			
On what date will the policy be implemented?	1 October 2010			
Which organisation(s) will enforce the policy?	DLCU			
What is the total annual cost of enforcement for these organisations?	£ unknown			
Does enforcement comply with Hampton principles?	Yes			
Will implementation go beyond minimum EU requirements?	No			
What is the value of the proposed offsetting measure per year?	£ unknown			
What is the value of changes in greenhouse gas emissions?	£ unknown			
Will the proposal have a significant impact on competition?	Yes			
Annual cost (£-£) per organisation (excluding one-off)	Micro	Small	Medium	Large
Are any of these organisations exempt?	No	No	N/A	N/A

Impact on Admin Burdens Baseline (2005 Prices)			(Increase - Decrease)		
Increase of	£	Decrease of	£	Net Impact	£

Key: Annual costs and benefits: Constant Prices (Net) Present Value

Evidence Base (for summary sheets)

A. Strategic overview

The Home Office has responsibility for regulating controlled drugs and precursor chemicals (from hereon in controlled drugs and precursor chemicals together will be referred to as 'controlled substances'). Controlled substances are regulated because of the serious harm they can cause to both individuals and society as a whole if misused.

One of the central aspects of the regulatory system is the licensing regime. Those who wish to possess, supply, produce, manufacture, import or export controlled drugs must be licensed by the Home Office to do so. Broadly, those who wish to place precursor chemicals on the market or engage in importing and exporting beyond the EU, must also be licensed by the Home Office.

The Government wishes to introduce charges for controlled drug and precursor chemical licences (including registrations and authorisations). Charges for licences will fund changes to the regulatory regime that will improve services for licences and protect the public. They will also ensure that the cost of risk assessing and authorising licences is born by those who benefit from them, not the taxpayer. Charges will be fixed on a sliding scale, based on the work entailed to process the licence application.

Alongside the re-introduction of charges DLCU will also re-introduce time limits on the validity of licences.

Administrative burdens

The introduction of charges for licences would constitute an administrative burden for licensees, as would the re-introduction of annual licences. The money raised through charging will fund a new IT system that will allow online applications for licenses. It will also fund an increased number of Compliance Officers to provide advice and guidance to licensees, saving them the time and effort of searching for such information from other, less authoritative sources.

(a) Admin burden baseline

The current licensing system (which option 1 will perpetuate) results in an admin burden estimated at **£1.9m** per annum. This admin burden is made up of three main areas of activity:

- 1) Applying for a domestic licence (£0.8m)
- 2) Complying with licence obligations during the lifetime of the licence (£1.0m)
- 3) Applying for import and export licences (£0.1m)

(b) Net admin burden from proposals

These proposals have a mixed impact on admin burdens. Those aspects of the proposals that will increase admin burdens are:

- regular renewal of licences
- paying a fee

Those aspects of the proposals that will decrease admin burdens are:

- the increase in numbers of Compliance Officers to provide support and guidance to licensees

- the introduction of online forms for import and export applications

The net impact of the proposals on the existing admin burden, if licences are renewed annually, as under option 2a, would be £140,000, an increase of 8%

The net impact of the proposals on the existing admin burden, if licences are renewed biennially, as under option 2b, would be £200,000, an increase of 11%

Full details of how admin burdens were estimated can be found in annex C.

B. Issue

B.1. Groups affected

The main groups affected by this proposal are:

- current controlled drug and precursor chemical licensees
- potential future controlled drug and precursor chemical licensees

B.2. Consultation

Within Government

These proposals have been developed following consultation between officials at the Home Office, HM Treasury, the Department of Health, the Medicines and Healthcare products Regulatory Agency (MHRA), and the Department for Business, Innovation and Skills.

Public consultation

This consultation stage impact assessment accompanies a targeted consultation on this matter.

B.3. Rationale for government intervention

The misuse of controlled drugs and precursor chemicals imposes a cost on society greatly in excess of the perceived cost to the individual. The market alone does not prevent the diversion of controlled drugs and precursor chemicals into the illicit trade. Therefore Government intervention, through its licensing system, is necessary.

C. Objectives

C.1. Objectives

The Government has two objectives in this area:

- To use licence fee revenue to fund improvements to the regulatory regime which will benefit licensees and protect the public.
- To properly attribute licensing costs to those companies benefiting from the licences rather than the taxpayer

C.2. Background

Legislative background

Narcotic and psychotropic drugs are controlled under the Misuse of Drugs Act 1971. Section 30 of the Act gives the Secretary of State the power to set fees for licences.

Precursor chemicals are controlled through EU regulations. Regulation (EC) No 273/2004 controls intra-community trade in precursor chemicals through a system of licensing and registration and provides the power for competent authorities to charge a fee for a licence or registration (Article 3). Regulation (EC) No 111/2005 controls trade in precursor chemicals between the Community and third countries and provides the power for competent authorities to charge a fee for a licence, registration or authorisation (Article 26).

The previous charging regime

Fees were charged for controlled drug licences from at least the time of the Dangerous Drugs Act 1951. A sliding scale of fees, related to the type of licence, was in use in various forms from the 1950s through to the cessation of fees for controlled drug licences at the end of 2006.

Controlled drug licences were issued (and fees charged) per drug, per activity. Prior to 2003 licences for certain controlled drugs attracted a fee. From 2003 onwards, fees applied to all licences for controlled drugs issued under the 1971 Act.

Although the EC Regulations governing precursor control have always included the power to charge a fee, and other EU states charge fees, the UK has not previously done so.

Rational for introducing charges for controlled drug and precursor chemical licences

DLCU is in the process of making a series of changes to improve service to licensees and toughen the licensing regime to reduce the risk of diversion. In the coming year DLCU aims to:

- **Introduce a new IT system.** This will allow applicants to apply for import and export licences online for the first time, using online forms designed to ensure that the application process is quick and straightforward for users. It will eliminate invalid applications that, at present, have to be returned to licensees. The new IT system will also make the annual statistical return process more efficient and give DLCU joined-up data to make the scrutiny of applications more rigorous and effective.
- **Increase the number of Compliance Officers.** We will increase the number of Compliance Officers to ensure that our licensees receive the support and guidance they need in order to comply with their legal obligations.
- **Issue licences with time-limited validity.** A regular licence renewal process prompts licensees to evaluate their licensing requirements, and provides a regular check on compliance. The Government therefore proposes to make controlled drug domestic licences, and precursor chemical licences and registrations, of time-limited duration. Options around the length of the duration of a licence are explored in options 2a and 2b.

In order to fund these essential improvements to DLCU the Government wishes to introduce charging for licences. Licensees will receive an improved service and the wider public will benefit as the risk of the diversion of drugs and precursor chemicals is reduced. Fees may also discourage speculative applications, allowing DLCU to concentrate its resources on bona fide licensees.

D. Options

Option 1: No change – no fees introduced for any licence

This option maintains the status quo

Option 2a: Introduce charges for all controlled drug and precursor chemical licences, with domestic licences limited to one year's validity

The following licences would be charged for:

- Controlled drug domestic licences (i.e. licences to produce, supply and possess controlled drugs, charged per activity)
- Controlled drug import licences under the MDA 1971
- Controlled drug export licences under the MDA 1971
- Cannabis cultivation licences
- Precursor chemical Category 1 licences and Category 2 registrations under Regulation EC 273/2004
- Precursor chemical Category 1 licences and Category 2 and 3 registrations under Regulation EC 111/2005 (charged per category)
- Precursor chemical import authorisations
- Precursor chemical export authorisations
- Annual renewal of all the above licences and registrations, except import and export licences and authorisations.

Charging would be on a full cost recovery basis, in line with HM Treasury guidance. Domestic licences would have to be renewed on an annual basis.

Option 2b: Introduce charges for all controlled drug and precursor chemical licences, with domestic licences limited to **two** years' validity

As above, but domestic licences would have to be renewed on a biennial basis.

Option 3: Re-introduce charges only for those licences that were charged for in the past, i.e. controlled drug domestic licences

The only licences for which a fee would be charged would be controlled drug domestic licences.

Charging would be on a full cost recovery basis, in line with HM Treasury guidance. Precursor chemical licences, registrations and authorisations, and controlled drug import and export licences would continue to be issued for free.

E. Costs and benefits

General assumptions and data

Background information illustrating the scale of the problems caused by the misuse of drugs:

- The most recent estimate (for 2003/4) put the cost of class A drug misuse alone at £15.4 bn per year. Crime costs accounted for about 90% of this figure, with health costs and drug-related deaths accounting for about 9%
- There are an estimated 332,000 problem drug users in the UK

- Between a third and a half of acquisitive crime is estimated to be drug related¹
- Drug-related deaths for recent years can be seen in the table below

E1: Numbers of deaths where selected substances were mentioned on the death certificate, 2004 – 08, England and Wales					
	2004	2005	2006	2007	2008
Total mentions					
Heroin and morphine	751	842	713	829	897
Methadone	219	220	241	325	378
Cocaine	154	176	190	196	235
All amphetamines	80	103	92	97	99
MDMA/ecstasy	43	58	48	47	44
Cannabis	19	19	17	12	19
Gamma-hydroxybutyrate (GHB)	1	4	7	9	20
All benzodiazepines	233	190	177	207	230
Temazepam	78	45	42	45	37
Diazepam	94	101	89	123	133
Nitrazepam	13	11	8	10	-
Zopiclone/zolpidem	57	48	39	51	36
Barbiturates	16	14	17	6	13
Source: Office for National Statistics <i>Deaths related to drug poisoning in England and Wales, 2008</i>					
Figures for deaths registered in 2008 are provisional.					

All of the drugs in the table above are controlled drugs, due to the harm they cause if misused. Precursor chemicals are used in their manufacture and are controlled in order to reduce the supply of drugs of misuse.

Option 1: No change – no fees introduced for any licence

Costs & Benefits

- No additional costs or benefits from Option 1.
- This option is a continuation of the status quo; hence the current risk of diversion and consequent drug misuse will remain.

Option 2a: Introduce charges for all controlled drug and precursor chemical licences with domestic licences valid for one year

¹ *Drugs: Protecting Families and Communities: The 2008 Drug Strategy* p.8

Costs

- Licensees will have to pay for licences that they have previously received for free, amounting to around **£3m** per annum.
- A charge, like a tax, alters the natural market equilibrium and brings about a net loss to society known as 'deadweight'. It has not been possible to quantify this cost.
- Licenses will now have to be renewed annually, which is a change to the current system. Since the renewal process would be annual, site visits would only be required on a risk-assessed basis, with the great majority of renewals being processed through a light-touch document based application process. This will result in an increased administrative burden on companies estimated to total **£140,000** per year based on the assumption that each domestic license renewed will entail 2 hours of work for the licensee plus extra time to pay the fee..
- No firm knowledge of the change in the total stock of license holders over time is available; therefore the stock was assumed to *remain constant* at its 2009 level. An alternative approach whereby the stock grows each year by the number of new licenses in 2009 was tested but made little difference to the final figures.
- Standard assumptions relating to average wage and time required to complete administrative tasks were followed for the admin burden estimate but *no economies of scale* (for example, time saved as a result of performing multiple tasks at the same time) were assumed for multiple license holders, so the estimate is *conservative* in that regard.
- No behavioural response, i.e. changes in the stock or composition of license holders resulting from increased costs, has been modelled as it is assumed that costs would be offset by the improved service received.
- Additional DLCU running costs resulting from this option will total around **£1.2m** per annum, primarily on staffing costs.
- Introduction of the new IT system will cost an additional **£0.5m** per annum
- Total quantifiable costs come to **£4.8m** per annum, or **£41m** over 10 years discounted according to standard Green Book practise.

Benefits

- DLCU gains **£3m** per annum in revenue from the charge.
- Increased numbers of Compliance Officers will be able to provide greater levels of support and guidance to licensees, to help them comply with their legal obligations. This benefit is not quantifiable.
- The new IT system is expected to result in an administrative burden saving of **£3,000** per year. This is based on the assumptions that import/export applications will now take around 5 minutes less than under the old system.
- The revenue raised by fees will also fund improvements to services to licensees. This benefit is not quantifiable
- A fee may discourage speculative applications, freeing up Home Office resources to concentrate on bona fide licence applicants. Assuming that 50% of DLCU time is spent processing licenses, it is estimated that a monetary benefit of up to **£35,000** per annum may accrue. This benefit is small in comparison to other components of the measure so sensitivity to this assumption is low.
- There is an increase in 'fairness' resulting from the charge since licensing costs will be apportioned to those who derive benefit from possessing a licence rather than the taxpayer. This is not quantifiable.

- This option is expected to reduce the risk of diversion and subsequent misuse of substances. The total cost of Class A drug misuse alone was estimated in 2003/4 to be £15.4bn of which £1.4bn was related to health costs and deaths and £14bn to crime costs. As an illustration, in order to offset the negative value of the quantifiable outcomes listed above, the policy would only have to reduce *health*-related harms by 0.1% per annum, or *crime*-related harms by 0.01% per annum.

Net Benefit of Option 2a

- The quantifiable net benefit of this option is around **-£1.8m** per year or **-£15.0m** over 10 years, discounted to a present value. However, unquantifiable effects are likely to be positive overall and, because of the large potential benefits from reducing harm described above, could make the true net benefit positive.

Option 2b: Introduce charges for all controlled drug and precursor chemical licences, with domestic licences limited to **two** years' validity

Costs

- As above, but licenses will now have to be applied for biennially, which is a change to the current system. The admin burden would be greater than under option 2a because a biennial application process would necessitate site visits for renewal applications, given the length of time that had elapsed since the last compliance check. This will result in an increased administrative burden on companies estimated to total **£210,000** per year as the stock of license holders grows.

Benefits

- As for 2a.

Net Benefit of Option 2b

- The quantifiable net benefit of this option is around **-£1.8m** per year or **-£15.5m** over 10 years, discounted to a present value. However, unquantifiable effects are likely to be positive overall and, because of the large potential benefits from reducing harm described above, could make the true net benefit positive. The risk of diversion is greater under this option than under option 2a due to the less frequent contact licensees will have with DLCU.

Option 3: Re-introduce charges only for those licences that were charged for in the past, i.e. controlled drug domestic licences

Costs

These are equivalent to Option 2 above except that:

- The £3m charge will be borne by controlled drug domestic license holders *only*. This approach would introduce cross-subsidisation, as those who pay fees for controlled drug domestic licences would be covering the cost of import and export licences and all precursor chemical licences and registrations.
- Similarly, any deadweight loss resulting from the charge would fall upon a narrower group of companies and consumers.
- Total quantifiable costs are no different to Option 2.

Benefits

These are equivalent to Option 2 except that:

- The improvement in 'fairness' only applies for controlled drug domestic licenses.
- The benefit from a reduction in speculative applications will only apply to controlled drug domestic licenses and this is estimated to be of minimal monetary value.

Net Benefit of Option 3

- The quantifiable net benefit of Option 3 is approximately equivalent to Option 2a and b at £15.3m. The unquantifiable benefits are likely to be the same as Options 2a and 2b.
- The unquantifiable benefits may still be large enough to make the overall net benefit of Option 3 positive, and therefore better than Option 1, from a cost-benefit perspective.

F. Risks

Option 1: No change – no fees introduced for any licence

- The Home Office is unable to introduce necessary changes to the licensing regime due to lack of funding unless it takes resources away from other priority areas. This would lead to either (a) the drugs licensing regime being less secure than under other options, leading to a greater risk of diversion; or (b) the Home Office taking resources away from another priority area to fund drugs licensing, causing a decline in quality or quantity of service elsewhere
- The Home Office will continue to deal with speculative applications, taking resources away from bona fide licensees
- Providing licences for free may lead to a perception that licences are of little value, and this may in turn lead to lower levels of compliance

Option 2a: Introduce charges for all controlled drug and precursor chemical licences with domestic licences valid for one year

- The licence fee may deter applicants who should have a licence from applying for one
- The fee, and the increased admin burden, may result in companies with marginal profits leaving the industry with possible ramifications for those sectors in which their licensed substances are employed.
- The administrative burden of paying a fee and making annual licence renewal applications may not be sufficiently compensated for by an improved service to licensees through the provision of online application forms and an increase in the number of Compliance Officers.
- The impact of the new system on diversion and substance misuse may be minimal.

Option 2b: Introduce charges for all controlled drug and precursor chemical licences with domestic licences valid for two years

- As for option 2a, but, due to the increased admin burden, the risks of companies with marginal profits leaving the industry, and of the benefits of failing to outweigh the costs, are greater.

Option 3: Re-introduce charges only for those licences that were charged for in the past, i.e. controlled drug domestic licences

As for Option 2, plus:

- The cross-subsidisation of import/export licences by domestic licence holders may distort licensee behaviour

- A system whereby precursor chemical licences are free when controlled drug licences are charged for may lead to the perception that precursor chemical licences are not taken seriously by the Home Office and are not of value. This may lead to either an increase in speculative applications and/or a lessening in compliance levels by precursor chemical licensees
- A system whereby import/export licences are free when all other licences are charged for may lead to the perception that import/export licences are not of value. This may lead to an increase in speculative applications, and/or a lessening in compliance

G. Enforcement

This policy will be enforced by the Home Office's Drugs Licensing and Compliance Unit.

H. Summary and recommendations

The table below outlines the costs and benefits of the proposed changes. Option 2a is the Government's preferred option.

Table H.1 Costs and Benefits		
Option	Cost	Benefit
1	Continuation of the status quo – no additional costs or benefits	
2a	Licensees will have to pay for licences they previously received for free – amounting to approximately £3 million per annum	DLCU gains £3m per annum in revenue from the charge
	Unquantified 'deadweight' cost	New online application forms will make applications quicker and easier for licensees, reducing the admin burden by an estimated £3,000
	Annual licence renewals will result in an increased admin burden for licensees estimated at £144,000 per annum	An increased number of Compliance Officers will be able to provide greater levels of advice and support to licensees
	Additional DLCU running costs as a result of increased staff numbers estimated at £1.4m per annum	This option is expected to reduce the risk of diversion and subsequent misuse of controlled substances.
	New IT system will cost an additional £0.25m per annum	A fee may discourage speculative applications leading to a monetary benefit of around £35,000.
2b	As option 2a above, except that:	
	Biennial licence renewals will result in an increased admin burden for licensees estimated at £210,000 per annum	
3	Equivalent to option 2 except that:	
	The annual charge of £3 million, and any deadweight loss, would be borne by domestic licence holders only	The improvement in 'fairness' will only apply to domestic licences
	This approach would introduce the cross-subsidisation of import and export licences by those domestic licensees who do not use them	The benefit in reducing speculative applications will only apply to domestic licences and this is estimated to be of minimal monetary value

I. Implementation

Implementation of the proposed policy would begin on 1 October 2010.

J. Monitoring and evaluation

Fee levels would be reviewed on an annual basis. The impact of charging would be evaluated one year after its introduction.

Specific Impact Tests: Checklist

Use the table below to demonstrate how broadly you have considered the potential impacts of your policy options.

Ensure that the results of any tests that impact on the cost-benefit analysis are contained within the main evidence base; other results may be annexed.

Type of testing undertaken	<i>Results in Evidence Base?</i>	<i>Results annexed?</i>
Competition Assessment	No	No
Small Firms Impact Test	No	Yes
Legal Aid	No	No
Sustainable Development	No	No
Carbon Assessment	No	No
Other Environment	No	No
Health Impact Assessment	No	No
Race Equality	No	Yes
Disability Equality	No	Yes
Gender Equality	No	Yes
Human Rights	No	No
Rural Proofing	No	No

ANNEX A: Small Firms Impact Test

SME's will be affected by the proposal. A data gathering questionnaire was sent to existing controlled drug and precursor chemical licensees at an early stage of policy development. About 70 responses were received. Of the respondents:

- 16% were micro businesses (less than 10 employees)
- 19% were small businesses (10 - 49 employees)
- 24% were medium-sized businesses (50 – 249 employees)
- One respondent was a social enterprise.

Respondents were invited to submit details of their turnover, and the annual revenue they generate from their use of controlled drugs and/or precursor chemicals.

- 21 SME respondents gave annual turnover figures. They ranged from £63,000 p/a to £26million p/a, with a median of £4.85million.
- 15 SME respondents gave figures for annual revenue generated from work using controlled drugs or precursor chemicals. This ranged from £500 to £11.75million, with a median of £43,000.

Option 1

This option is a continuation of the status quo and will have no disproportionate impact on SME licensees.

Options 2a and 2b

SMEs would pay the same fee per licence as any other licensee. SMEs are likely to possess fewer licences than large businesses, which may have multiple sites and hold a wider variety of products requiring licences, and are therefore likely to pay a lower total annual cost than large businesses.

Option 3

Under this option holders of controlled drug domestic licences (which all controlled drug licensees must hold) may cross-subsidise users of import/export licences (which only some licensees require). Given that large businesses are the highest volume users of import/export licences, this option may result in SME's cross-subsidising the import/export licences of large businesses.

The targeted consultation on these proposals will include questions specifically aimed at SME licensees to gather their views on the proposals, to give them the opportunity to identify any disproportionate impacts, and suggest alternative approaches.

ANNEX B: Equality Impact Test

This policy was screened for its Equality Impact on the six Home Office equality target areas of race, disability, gender, gender identity, religion and belief, sexual orientation and age. This policy was not considered to have a disproportionate impact on any target area and therefore no full equality impact assessment has been completed. The consultation document on charging includes a question on equality impacts, and this decision will be revisited if responses received suggest that further work is required.

ANNEX C: Administrative burden calculations

The domestic license 'baseline' admin burden was calculated in two steps. Firstly, the volume of new licenses (340 in 2009) was multiplied by the time required to complete the various application tasks (see table) and by an average wage of £16.50 (a standard admin burdens assumption). Secondly, the stock of licenses (4,370 in 2009) was multiplied by the time required to complete compliance tasks (see table) and the same average wage. The stock is assumed to remain constant, implying that the 340 new licenses are offset by 340 withdrawals (although in the current regime, companies have no obligation or incentive to formally withdraw a license).

A stock growing by 340 licenses per year was also modelled but did not result in a significant increase in the present value costs.

The domestic license admin burden under each option was modelled in the same way, except that the additional tasks (highlighted in **red** in the table) were added to the calculation. The additional tasks translate into an annual increase in the admin burden of £140,000.

The import and export license calculation was performed in the same way. To calculate the baseline admin burden, the volumes of controlled drug export licenses (8,000 in 2008), controlled drug import licenses (3,500), and precursor chemical import and export authorisations (360) were multiplied by the time required to apply for these licenses annually (see table) and by the average wage of £16.50. Volumes are again assumed to remain constant over time.

Under the options, the application tasks are the same for each license type, so the total volume (11,860) was multiplied by the time required to apply under the new IT system (highlighted **red** in the table) rather than the old tasks which are no longer required (highlighted **green** in the table) and the same average wage. Since the new process is slightly less time consuming, this translated into an admin burden saving of £3,000 per year.

For the biennial option (2b), the calculations were the same but based on the relevant tasks in the table below and on the assumption that *half* the stock of licenses would be reapplied for each year. This represents a simple method for modelling biennial rather than annual applications. Strictly, the pattern of reapplications will be more complex because the entire existing stock will have to reapply in 2010 and every two years thereafter. However, modelling the admin burdens in this way made no significant difference to the final result so the simpler approach has been followed here.

These are the current admin burden calculations which may change following consultation responses.

Task	Time (hrs) – Current	Time (hrs) - Options
To apply for a new domestic licence		
Complete online application form	3.5	3.5
Submit application fee payment	-	0.15
Apply for CRB check	0.5	0.5
Site visit	4	4

Any further actions	7	7
Email to confirm follow up actions completed	1	1
Possible second site visit	2	2
To comply with licence conditions during the life of a licence		
Complete annual statistic return	21	21
Complete Annual Statement of Compliance	2	2
Report thefts and losses	0.25	0.25
Report any changes of personnel, company name, etc	0.5	0.5
After 1 year, re-apply.	-	2*
Submit application fee payment	-	0.15
Biennial re-application, including site visit	-	6 [†]
To apply for CD export licences		
Complete application form in hard copy alongside original import permit document.	0.3	-
Apply online using form and submit application fee payment	-	0.27
To apply for CD import licences		
Email completed MS Word application form.	0.25	-
Apply online using form and submit application fee payment	-	0.27
To apply for Precursor import and export licences		
Submit completed hard copy application form.	0.3	-
Apply online using form and submit application fee payment	-	0.27

*Option 2a and 3 (annual reapplications) only.

[†]Option 2b (biennial reapplications) only.