

<b>Title:</b> Policing and Crime Bill: Scoping the impact of new enabling powers to charge for Home Office prohibited firearms licences.  <b>IA No:</b> HO0224  <b>Lead department or agency:</b> Home Office  <b>Other departments or agencies:</b> None	<b>Impact Assessment (IA)</b>				
	<b>Date:</b> 3 <sup>rd</sup> February 2016				
	<b>Stage:</b> Consultation				
	<b>Source of intervention:</b> Domestic				
	<b>Type of measure:</b> Primary legislation				
<b>Contact for enquiries:</b> Drugs & Firearms Licensing Unit, Home Office.					
<b>Summary: Intervention and Options</b>					<b>RPC Opinion:</b> N/A

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	-£5.95m	£0.70m	No	N/A

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

Currently the Home Office (and Scottish Government) issues prohibited (section 5) firearms licences 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 in the first instance to amend the Firearms Act 1968 to introduce an enabling power to charge for prohibited firearms licences.

At the same time, the Government wants to amend the Firearms (Amendment) Act 1988 to bring existing enabling powers to charge for museum and shooting club firearms licences in line with the new power for consistency. 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 enable, at a later date, for new fees to be introduced in order to recover the costs associated with issuing prohibited firearm, museum firearm and shooting club licences. The intended effect is to reduce or 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 an enabling power to charge for the issuance of prohibited firearms licences, and bring existing charging powers for museum and shooting clubs licences in line with the new power.

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?</b> It will be reviewed. <b>If applicable, set review date:</b> Annually					
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:** Introduce a power to charge for Section 5 prohibited firearms licences through primary legislation. Bring existing powers to charge for firearms licences for museums and shooting clubs in line with the new power for consistency. Enable fee levels for each licensee group to be set 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	0.68	5.83
High	None	0.80	6.91
Best Estimate	None	0.70	5.99

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

There are no costs arising directly from the proposed enabling powers. However, in the interest of transparency, the Home Office has provided an initial estimate of the costs occurring once fees are set through secondary legislation in April 2017. On this basis, assuming fees were set at full cost recovery level, we estimate a cost to section 5 firearms dealers of £371,000 per year; a cost to section 5 firearms carriers of £122,000 per year; a cost to Private Maritime Security Companies of £40,000 per year; a cost to Olympic shooters of £3,400 per year; a cost to 'trophy of war' finders of £1,500 per year; a cost to museums of £35,000 per year; and a cost to shooting clubs of £123,000 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	0.68	5.59
High	None	0.80	6.91
Best Estimate	None	0.70	5.99

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

There are no benefits arising directly from the proposed enabling powers. However, in the interest of transparency, the Home Office has provided an initial estimate of the benefits occurring once fees are set through secondary legislation in April 2017. On this basis, assuming fees were set at full cost recovery level, we estimate a benefit to the Home Office of £570,000 per year; a benefit to the police of £78,000 per year; a benefit to the Scottish government of £42,000 per year; and a benefit to Police Scotland of £6,000 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, including any efficiency savings which might result in a monetised benefit to licence holders, will be provided at the secondary legislation stage 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 police costs and application volumes. As a result these assumptions are tested in sensitivity analysis in Section H to demonstrate the potential impacts on costs of variation.

## BUSINESS ASSESSMENT (Option 1)

Direct impact on business (Equivalent Annual) £m:			In scope of BIT?	Measure qualifies as
Costs: 0.69	Benefits: 0.00	Net: -0.69	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 issue licences to those organisations based in Scotland, although they do so under the same legislation as England and Wales as this aspect of firearms is reserved.

The Home Office (and Scottish Government) has responsibility for this aspect 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**

Home Office 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	197	117	314	No charge	3 years
S5 firearms carrier	110	37	147	No charge	3 years
Private Maritime Security Company	13	11	24	No charge	3 years
Museum	38	4	42	£200	5 years
Shooting club	74	116	190	£84	6 years
<b>TOTAL</b>	<b>432</b>	<b>285</b>	<b>717</b>		

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

The Government proposes amending the Firearms Act 1968 to introduce an enabling power to charge for s5 prohibited firearms licences. This will bring arrangements in line with other licences

<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 2012 – 2014.

which are already charged for. The Government also proposes amending 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.

Once enabling powers have been passed by Parliament, the level of the fees for all Home Office licence types will be set in secondary legislation, with the intention that new fees come into effect in April 2017. A public consultation on fee levels will take place before they are finalised.

The new and amended enabling powers, and any fees set subsequently through secondary legislation, will apply 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 licence.

As at 31 March 2014 there were 3,486<sup>3</sup> police registered firearms dealers in England, Wales and Scotland. As at 31 December 2014 there were an estimated 590<sup>4</sup> section 5 authorised dealers in prohibited firearms.

### **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 2014 there were an estimated 330<sup>5</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

---

<sup>3</sup> Data extracted from NFLMS (National Firearms Licensing Management System), the police firearms database.

<sup>4</sup> Sum of the number of applications granted or renewed in the 3 years Jan 2012 to Dec 2014. 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.

<sup>5</sup> As per footnote 4.

applications, including those by Scottish companies, are managed by the Home Office and are subject to direct Ministerial approval. As at 31 December 2014 there were 12 authorised PMSCs<sup>6</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 and require ministerial approval. However, because vetting of employees is only undertaken as part of an organisation's application, the individual is not required to apply for a personal 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 2014 there were 270 authorised maritime armed guards<sup>7</sup>. 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 Home Office licence covers all firearm types. As at 31 December 2014 there were 190<sup>8</sup> Home Office authorised museums. Five of the museums currently licensed are national museums. National museums are part funded by a direct grant from the Government (the Department of Culture, Media and Sport).

### 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 Home Office licensed club. Schools with shooting clubs or military cadet schemes also come under this category and operate in the same way. As at 31 December there were 442<sup>9</sup> Home Office approved shooting clubs.

### 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.

## **B. Rationale for intervention**

The Government proposes amending the Firearms Act 1968 to introduce a power to charge for prohibited firearms licences issued by the Home Office (and the Scottish Government). This enabling power will allow fees to be introduced at a later date through secondary legislation, with a view to licence holders paying the cost of the service. This is in line with the position set out in HM Treasury's 'Managing Public Money' guidance<sup>10</sup>. Prohibited firearms licences are currently free of charge, and therefore fully subsidised by the taxpayer, because there is no power in primary legislation to charge a fee.

Introducing a power to charge 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 so that licence holders pay the cost of the service they receive. Museums and shooting clubs (administered by the Home Office/Scottish Government) already pay a fee for their licences. Meanwhile the prohibited firearms licensing service is fully subsidised by the public.

<sup>6</sup> Sum of the number of applications granted or renewed in the year Jan – Dec 2014. Licences run for 1 year so all applicants during this period are assumed to still be authorised.

<sup>7</sup> Taken from Home Office central record of all authorised armed guards.

<sup>8</sup> Sum of the number of applications granted or renewed in the 3 years Jan 2012 to Dec 2014, scaled up by 1.66 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>9</sup> Sum of the number of applications granted or renewed in the 3 years Jan 2012 to Dec 2014, multiplied by 2 to estimate the number of applications in the last 6 years. Club licences run for 6 years so applicants during this period will be the number authorised.

<sup>10</sup> HM Treasury *Managing Public Money*, 6.2 – 6.3.

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 1994 and no longer cover the full cost of the service. Amendments to the enabling powers are needed to ensure there is enough flexibility to set fees at different rates for different services. These amendments will bring existing powers in line with the new s5 power to give a consistent set of charging powers. Fees will be set at a later date through secondary legislation with a view to licence holders paying the cost of the service. A unified set of enabling powers will allow fees to be set consistently across all licence types, with flexibility to provide a detailed fee regime where needed to ensure applicants only pay the cost of what they use.

The Home Office firearms licensing service, including prohibited firearms, museums and shooting clubs, will cost an estimated £619,300<sup>11</sup> in 2015-16, plus an initial estimate of £85,000<sup>12</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>13</sup>. This creates an overall cost of £756,000.

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 in April 2017.

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

## C. Policy objective

The policy objective is to reduce or eliminate public subsidy of the licensing service. In common with many other licensing regimes, the Government considers that the costs of the Home Office 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 power has previously prevented this change being made.

The first step in achieving this is to introduce 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).

A public consultation on fee levels will then take place in 2016, with Royal Assent of the enabling powers due in late 2016. Fees would then be implemented through secondary legislation in April 2017.

## 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. Any changes to museum and shooting club fee levels must be made under existing charging powers with limited flexibility to set different rates for different services.

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

Primary legislation would be used to introduce a new power to charge for prohibited firearms licences, and bring existing museum and shooting club charging powers in line by providing flexibility to charge different amounts for different services.

---

<sup>11</sup> Forecasted 2015-16 budget for Home Office firearms licensing unit, minus cost of activities out of scope (wider policy/diplomatic licences).

<sup>12</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>13</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.

Once primary legislation has been passed, the level of the fees would be set through secondary legislation, to be implemented in April 2017. We intend to consult on the level of the fees and a detailed assessment of the costs and benefits of any fee structure proposed will be provided at the secondary legislation stage.

## E. Appraisal – (Costs and Benefits)

### General assumptions and data

#### **There are no costs or benefits arising directly from the proposed enabling powers.**

However, the intention is to use these powers to be able to create new fees for existing Home Office licences, which are currently subsidised by the tax payer, and to increase fees for existing licences through secondary legislation at a later stage. Therefore, in the interest of transparency, and to support debate of the enabling powers, the Home Office has provided an initial assessment of the costs and benefits once secondary legislation is introduced in April 2017.

The initial estimates assume fees would be introduced at a level of full cost recovery for issued licences. Actual fee levels will be subject to public consultation in 2016 before a full and detailed assessment of the costs and benefits is 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>14</sup>. The fee structure is to be determined at consultation stage, however the fees for each category of applicant will not exceed the cost of providing the service to them. Whilst the public consultation will consider whether there are groups of licence holders where special circumstances might apply, 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 13-14.

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 before implementation in 2017, and annually 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 2015-16 data. Where data from other years has been used this is indicated, with the figures uplifted to 2015-16 prices.

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 £619,000 in costs to the Home Office, and £85,000 in costs to the police, equalling an estimated **£704,000** per annum.

The total cost to Scotland is made up of £45,000 in costs to the Scottish Government, and £7,000 in costs to Police Scotland, equalling an estimated **£52,000** per annum.

The total cost to both England & Wales and Scotland is therefore estimated to be **£756,000**.

<sup>14</sup> HM Treasury *Managing Public Money*, Box A6.1A.

## Cost breakdown

### Home Office costs

The estimated expenditure by the Home Office in providing the entire firearms licensing service in 2015-16 is £667,400. The licensing regime is administered by the Drugs and Firearms Licensing Unit in the Crime and Policing 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 £667,400 comprises staff salaries (including employer pension and national insurance contributions), staff training costs, overheads such as accommodation, IT and HR services, and ongoing annual costs associated with the expected introduction of a new online application system. The new online system is expected to improve the service by making applying quicker and easier and improving turn around times for applicants.

We estimate that 76.5% of staff time is spent on section 5 licence applications (for which there is currently no charge and no other factors weighing against cost recovery). This comprises 50.0% percent of total staff time spent on s5 firearms dealer applications, 16.7% percent on s5 firearms carrier applications, 9.1% percent on private maritime security company applications, and 0.7% percent on other types of applications<sup>15</sup>. We estimate that a further 4.7% percent of staff time is spent on museum applications and 16% percent on shooting club applications.

**A proposed fee structure will be outlined at consultation stage;** however the fee for a particular application type is expected to be in proportion to the amount of work carried out to process that application type. Therefore, the presented cost to each affected group is estimated based on the percentage of time spent above, multiplied by the cost to the Home Office of providing the entire service. The cost to s5 dealers is therefore  $50.0\% \times £667,400 = £333,700$ . The cost to museums and shooting clubs has been calculated in the same way but minus income from existing fees. Existing fees are £200 per museum licence, of which the Home Office receives £75 and 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 3 to 7.

This gives a total cost to the Home Office for activities in scope of £619,000.

The remaining 2.8% of staff time, not accounted for above, is spent on firearms licences issued to foreign police officers on UK soil, which are out of scope of this impact assessment because the Home Office will continue to cover the cost as part of reciprocal or diplomatic agreements. These include French police working across the channel tunnel, and protection officers accompanying foreign dignitaries.

### Scottish Government costs

The estimated expenditure by the Scottish Government in providing the relevant firearms licensing services in 2015-16 is £45,000<sup>16</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 506 applications in England & Wales. This represents an additional 8%<sup>17</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 £45,000 total was reached by adding the amounts by affected group, set out at figures 3 to 7.

<sup>15</sup> Based on time estimates provided in workshops with Home Office Drugs and Firearms Licensing Unit caseworkers.

<sup>16</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>17</sup> To the nearest percent.



### Police E&W costs

**A final assessment of police costs for each activity will be provided before implementation of secondary legislation, following further engagement with forces.** Early estimates have been provided below.

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>18</sup>. Work with a small sample of forces was then undertaken to produce estimates of how these unit costs could apply to the work undertaken by forces on each of the Home Office licence types. Estimates are set out in figure 2.

We estimate that 80%<sup>19</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.

A small number of Home Office licences are issued to individuals as part of the Olympic shooting team or for trophies of war. The cost to the police of assessing these individuals has been estimated at £86 - the fee set in April 2015 for granting a police firearms certificate.

**Figure 2**

Home Office firearms licences	Estimated police costs per application (renewal and grant)	Estimated police costs over and above work already completed for RFD	Estimated police costs per application (variations)
S5 firearms dealer	£310	£110	£90
S5 firearms carrier	£230	£30	£90
Private Maritime Security Company	£230	£230	£90
Museum	£310	£310	£90
Shooting club	£170	£170	£90
Olympic Shooter	£86	£86	£86
Trophy of war finder	£86	£86	£86

Based on our estimate of the police cost per licence type as outlined above, multiplied by the average number of licence applications in figure 1, the cost per affected group has been calculated and is set out at figures 3 to 7. This gives a total cost to the police of £85,000, 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>20</sup>. This gives a total cost to Police Scotland of £7,000 which can be reached by adding the cost per affected group set out at figures 3 to 7.

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

<sup>18</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>19</sup> Initial estimate based on discussions with SE region police forces.

<sup>20</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.

## **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 Home Office prohibited firearms licensing process, at an average estimated cost of £704,000 (England & Wales) and £52,000 (Scotland). This represents a total subsidy of £756,000 annually.

## **BENEFITS**

There are no additional benefits under option 1.

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

## **COSTS**

There are no costs or benefits arising directly from the proposed enabling powers. However, in the interest of transparency we have provided an initial estimate of the impact that might occur once secondary legislation is implemented in April 2017. These estimates assume fees are introduced at full cost recovery level. Actual fee levels will be subject to public consultation in 2016 before a final and detailed assessment of the costs and benefits is provided at secondary legislation stage in 2017.

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>21</sup> of applications which are refused or discontinued, for which we do not intend to charge. Costs for refused and discontinued applications will continue to be borne by the Home Office and the police.

The following sections, with their respective Figures (E1 – E5), 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, based on initial estimates, 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 (50% proportion as set out pages 6 and 7)	£333,700
Police costs (as set out on page 7)	£40,000 <sup>22</sup>
Scottish government costs (additional 8% of E&W)	£26,400
Police Scotland costs (additional 8% of E&W)	£3,200

<sup>21</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%.

<sup>22</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 197 renewals/grants (158 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. (197 grants/renewals \* 80% \* £110) + (197 grants renewals \* 20% \* £310) + (117 variations \* £90) = £40,000 (to the nearest £100).

<b>Total<sup>23</sup></b>	<b>£403,000</b>
<b>Total (minus 8% for refused/withdrawn applications not charged for)</b>	<b>£371,000</b>

This is an estimated cost of **£3.19m** over 10 years in present values.

#### Section 5 firearms carriers

If fees were introduced at full cost recovery level, based on initial estimates, there would be an annual cost to Section 5 firearms carriers, as outlined in Figure E2.

Figure E2.

<i>Cost element</i>	<i>Value</i>
Home Office licence service costs (16.7% proportion as set out pages 6 and 7)	£111,500
Police costs (as set out on page 7)	£11,000 <sup>24</sup>
Scottish government costs (additional 8% of E&W)	£8,900
Police Scotland costs (additional 8% of E&W)	£900
<b>Total</b>	<b>£132,000<sup>25</sup></b>
<b>Total (minus 8% for refused/withdrawn applications not charged for)</b>	<b>£122,000</b>

This is an estimated cost of **£1.05m** over 10 years in present values.

#### Private Maritime Security Companies (PMSCs)

If fees were introduced at full cost recovery level, based on initial estimates, there would be an annual cost to Private Maritime Security Companies, as outlined in Figure E3.

Figure E3.

<i>Cost element</i>	<i>Value</i>
Home Office licence service costs (9.1% proportion as set out pages 6 and 7)	£60,700
Police costs (as set out on page 7)	£4,000
Scottish government costs* (additional 8% of E&W)	-
Police Scotland costs* (additional 8% of E&W)	-
Subtotal	£65,000
<b>Total**</b>	<b>£44,000<sup>26</sup></b>

<sup>23</sup> To the nearest £1,000.

<sup>24</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 110 renewals/grants (88 applications), the additional police costs are estimated at £30 (as set out on page 8). For the other 20% (22 applications), the cost is £230. (110 grants/renewals \* 80% \* £30) + (110 grants renewals \* 20% \* £230) + (37 variations \* £90) = £11,000 (to the nearest £100).

<sup>25</sup> To the nearest £1,000.

<sup>26</sup> To the nearest £1,000.

<b>Total (minus 8% for refused/withdrawn applications not charged for)</b>	<b>£40,000</b>
--	----------------

This is an estimated cost of **£0.35m** 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. We estimate that approximately half of the cost (£32,500) relates to company applications (with the other half relating to approval of new guards for existing companies, which will continue to be required on an annual basis). Therefore the cost to PMSCs can be reduced by two thirds of £32,500 (£21,000) because applications no longer need to be made in 2 out of 3 years. A more detailed assessment of the effect of this policy change will be made at the secondary legislation stage.

#### 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.

#### Olympic shooters

If existing fees were increased to full cost recovery level, based on initial estimates, there would be an annual cost to British Shooting, the organisation representing the GB Olympic and Commonwealth shooting teams, as outlined in figure E4.

Figure E4.

<i>Cost element</i>	<i>Value</i>
Home Office licence service costs (0.5% proportion as set out pages 6 and 7)	£3,300
Police costs (as set out on page 7)	£400
Scottish government costs* (additional 8% of E&W)	-
Police Scotland costs* (additional 8% of E&W)	-
<b>Total</b>	<b>£3,700</b>
<b>Total (minus 8% for refused/withdrawn applications not charged for)</b>	<b>£3,400</b>

This is an estimated cost of **£0.03m** over 10 years in present values.

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

#### Trophy of War

If existing fees were increased to full cost recovery level, based on initial estimates, there would be an annual cost to individuals who find 'trophy of war' firearms, as outlined in figure E5.

Figure E5.

<i>Cost element</i>	<i>Value</i>
Home Office licence service costs (0.2% proportion as set out pages 6 and 7)	£1,300
Police costs (as set out on page 7)	£200
Scottish government costs* (additional 8% of E&W)	£100

Police Scotland costs* (additional 8% of E&W)	£14
<b>Total</b>	<b>£1,600</b>
<b>Total (minus 8% for refused/withdrawn applications not charged for)</b>	<b>£1,500</b>

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

### Museums

If existing fees were increased to full cost recovery level, based on initial estimates, there would be an annual cost to museums with firearms collections, as outlined in Figure E6.

Figure E6.

<i>Cost element</i>	<i>Value</i>
Home Office licence service costs (4.7% proportion as set out pages 6 and 7)	£28,200 <sup>27</sup>
Police costs (as set out on page 7)	£7,400 <sup>28</sup>
Scottish government costs (additional 8% of E&W)	£2,200
Police Scotland costs (additional 8% of E&W)	£600
<b>Total</b>	<b>£38,000<sup>29</sup></b>
<b>Total (minus 8% for refused/withdrawn applications not charged for)</b>	<b>£35,000</b>

This is an estimated cost of **£0.3m** 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 (the Department of Culture, Media and Sport).

### Shooting clubs

If existing fees were increased to full cost recovery level, based on initial estimates, there would be an annual cost to Home Office approved shooting clubs, as outlined in Figure E7.

Figure E7.

<i>Cost element</i>	<i>Value</i>
Home Office licence service costs (16.0% proportion as set out pages 6 and 7)	£100,600 <sup>30</sup>
Police costs (as set out on page 7)	£23,000
Scottish government costs (additional 8% of E&W)	£8,000
Police Scotland costs (additional 8% of E&W)	£1,800

<sup>27</sup> Net of Home Office portion of existing fee = £75 per application (including variations). £75 x 42 applications = £3150.

<sup>28</sup> Net of police portion of existing fee = £125 per grant/renewal application (nothing for variations). £125 x 38 grants/renewals = £4750.

<sup>29</sup> To the nearest £1,000.

<sup>30</sup> Net of existing fee of £84 per application (nothing for variations). £84 x 74 applications = £6216.

<b>Total</b>	<b>£133,000<sup>31</sup></b>
<b>Total (minus 8% for refused/withdrawn applications not charged for)</b>	<b>£123,000</b>

This is an estimated cost of **£1.06m** over 10 years in present values.

#### Costs to business

As demonstrated, the impact on business is expected to 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>.

The total cost to business (dealers, carriers and PMSCs) and civil society organisations (museums and shooting clubs) is estimated to be £691,000<sup>33</sup> annually. This is an estimated cost of £5.95m 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 and civil society organisations) from option 2 is £696,000<sup>29</sup> annually. This is an estimated cost of £5.99m 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 £696,000. 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 £78,000 annually and secondly the total benefit to Police Scotland is estimated at £6,000 annually. Thirdly the total benefit to the Home Office is estimated at £570,000 annually and fourthly the total benefit to the Scottish Government at £42,000 annually.

**The total benefit to the police from option 2 is £0.73m in present values over 10 years. The total benefit to the Home Office and Scottish Government from option 2 is £5.27m in present values over 10 years. The total benefit from option 2 is £5.99m in present values over 10 years.**

#### Licence holders

In 2016 the Home Office plans to introduce a new online application system, which 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 in April 2017, and annually 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

<sup>31</sup> To the nearest £1,000.

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

<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.

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 E6 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 E6.

	<b>Best Estimate</b>
<b>Net Present Cost (Over 10 Years)</b>	<b>£5.99m</b>
<b>Net Present Benefit (Over 10 Years)</b>	<b>£5.99m</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 Home Office 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.

Further work will be done ahead of consultation on fee structure to ascertain whether organisation size is an accurate predictor of time taken to deal with an application. If so, we will consider a fee structure based on organisation size, which would allow small organisations to pay less and reduce the possible risk of smaller organisations stopping this area of activity.

## **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 uncertainty in two areas:

- A. Possible variation in our estimate of the cost of the police work once a full assessment of costs and assumptions is completed before secondary legislation stage. The extent of this possible variation is unknown but +/- 20% is our best estimate at present.
- B. 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, 807 applications were received, which exceeds the 3 year average (717) by 13%. An upper bound of +13% has been set out below to account for this peak.

There were 692 applications in 2012 and 652 in 2014, a decrease of 6%. 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%.

The uncertainties about costs have 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
A: Cost to police (+ or - 20%)	0%	-20%	+20%
B: Application numbers (+13%)	0%	0%	+13%

Figure H2 shows the impact on annual costs of variation in assumptions A and B, demonstrating the cumulative effect to each affected group at the upper and lower bound.

**Figure H2.**

Combined effect of A and B cost to affected groups	Best	Low	High
Section 5 firearms dealers	£371,000	£363,000	£427,000
Section 5 firearms carriers	£122,000	£119,000	£140,000
Private Maritime Security Companies	£40,000	£40,000	£46,000
Museums	£35,000	£34,000	£41,000
Shooting clubs	£123,000	£118,000	£143,000
<b>TOTAL COST TO BUSINESS / CIVIL SOC. GROUPS</b>	<b>£691,000</b>	<b>£674,000</b>	<b>£798,000</b>
Olympic shooters	£3,400	£3,000	£3,400
Trophy of war	£1,500	£1,300	£1,500
<b>TOTAL COST TO ALL AFFECTED GROUPS<sup>34</sup></b>	<b>£696,000</b>	<b>£678,000</b>	<b>£803,000</b>

The results from the sensitivity analysis show overall costs could vary between £678,000 and £803,000 dependent on changes to underlying assumptions.

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

**Figure H3.**

	Best	Low	High
<b>Net Present Cost (Over 10 Years)</b>	<b>£5.99m</b>	<b>£5.84m</b>	<b>£6.91m</b>
<b>Net Present Benefit (Over 10 Years)</b>	<b>£5.99m</b>	<b>£5.84m</b>	<b>£6.91m</b>
<b>Net Present Value (Over 10 Years)</b>	<b>£0.00m</b>	<b>£0.00m</b>	<b>£0.00m</b>

<sup>34</sup> Figures may not be exact sum of components as subtotals are rounded.



A sustained reduction in application numbers over time might result in an equivalent reduction in staff numbers. However, this would not reduce cost any further than identified under (B), because the cost per application remains unchanged. Revision 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**

<b>Table J1 Costs and Benefits</b>		
<b>Option</b>	<b>Costs</b>	<b>Benefits</b>
<b>2</b>	Costs to business from increased fees of £5.95m (PV over 10 years) Costs to non-business from increased fees of £0.04m (PV over 10 years)	Savings to Home Office and police (and by extension the taxpayer) who previously subsidised the licensing process: <ul style="list-style-type: none"> <li>• Home Office and Scottish Government: £5.27m (PV over 10 years)</li> <li>• Police (England, Wales and Scotland): £0.73m (PV over 10 years)</li> </ul>

## K. Implementation plan

The Government will introduce a power to charge for prohibited firearms licences, and amend existing powers to charge for museum and shooting club licences, via primary legislation as part of the Policing and Criminal Justice Bill 2015-16. The level of fees would be set, following Royal Assent of the Bill and a public consultation in 2016, in secondary legislation. Provisionally, we anticipate the new fees commencing in April 2017.

Fee levels will be reviewed annually.