

IMPACT ASSESSMENT

Title: Potential impact of increasing firearms licensing fees IA No: HO0131 Lead department or agency: Home Office Other departments or agencies: None	Impact Assessment (IA)
	Date: 13 January 2015
	Stage: Final
	Source of intervention: Domestic
	Type of measure: Secondary legislation
Contact for enquiries: Drugs and Firearms Licensing Unit, Home Office.	

Summary: Intervention and Options **RPC Opinion: Confirmed for fast track**

Cost of Preferred (or more likely) Option

Total Net Present Value	Business Net Present Value	Net cost to business per year (EANCB on 2009 prices)	In scope of One-In, One-Out?	Measure qualifies as
£m	-£m	£0.3m	No	N/A

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

Firearm and shotgun certificates are administered by local police forces and attract a licence fee. The fee levels have not changed since 2001, although the cost of administering the process has increased to meet, for example, the need for a more robust approach to domestic violence risks. According to police estimates, the level of fees currently collected equate to around 27% of the total cost of administering the manual licensing system based on an assessment by the Association of Chief Police Officers in 2010. This means a net cost to the taxpayer estimated to be on average £20m annually over the next 10 years under the existing manual system. The 2010 Home Affairs Select Committee (HASC) report into firearms control recommended raising the fees charged to applicants on a full cost recovery basis. The fees can only be increased by means of secondary legislation and this is therefore a Government responsibility. Any increase must be proportionate and reflect service efficiencies.

What are the policy objectives and the intended effects?

The primary objective is to enable police forces to achieve (as nearly as possible) full cost recovery for the issuing of firearm and shotgun licences when an IT system (eCommerce) is adopted. This will rebalance the current burden on the public purse to redress a shortfall in funding generated by the current fee levels for firearm and shotgun licences.

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. Increase the fees to reflect the cost of administering firearm and shotgun licences. This proposal is in line with the HM Treasury guidance set out in 'Managing Public Money', which states that where a fee is charged for a licence or service the amount should reflect the full cost of the activity involved in its delivery.

The preferred option is option 2.

Will the policy be reviewed? It will be reviewed. **If applicable, set review date:** Annually depending on when the fees are introduced.

Does implementation go beyond minimum EU requirements?			No		
Are any of these organisations in scope? If Micros not exempted set out reason in Evidence Base.	Micro Yes	< 20 Yes	Small Yes	Medium Yes	Large Yes
What is the CO ₂ equivalent change in greenhouse gas emissions? (Million tonnes CO ₂ equivalent)			Traded: N/A	Non-traded: N/A	

I have read the Impact Assessment and I am satisfied that (a) it represents a fair and reasonable view of the expected costs, benefits and impact of the policy, and (b) that the benefits justify the costs.

Summary: Analysis & Evidence**Policy Option 2**

Description: Update licensing fees to reflect full-cost recovery for the eCommerce platform

FULL ECONOMIC ASSESSMENT

Price Base Year 2013	PV Base Year 2013	Time Period Years 10	Net Benefit (Present Value (PV)) (£m)		
			Low: 0	High: 0	Best Estimate: 0

COSTS (£m)	Total Transition (Constant Price) Years	Average Annual (excl. Transition) (Constant Price)	Total Cost (Present Value)
Low		2.2	19.2
High		4.4	38.1
Best Estimate	N/A	3.4	29.5

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

- **Registered Firearm Dealers (RFDs)** will incur a cost of around £0.7m (present values over 10 years) due to the cost of a three year licence increasing from £150 to £200.
- **Businesses** (farmers, zoo keepers, game keepers and vets) will incur a cost of £2.8m (present values over 10 years) due to the cost of shotgun and firearm grants and renewals increasing.
- **Individuals** will incur a cost of £23.5m (present values over 10 years) from the proposed licence fee increases.

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

- There may be an indirect impact on business as the fee increase may for firearm holders who renew their personal licences might deter some holders from visiting their RFDs.

BENEFITS (£m)	Total Transition (Constant Price) Years	Average Annual (excl. Transition) (Constant Price)	Total Benefit (Present Value)
Low		2.2	19.2
High		4.4	38.1
Best Estimate	N/A	3.4	29.5

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

- **The police** will benefit £29.5m (present values over 10 years) from the fee increases. The increased fees paid by the shooting community would lead to equivalent savings for police forces and will offset police funding previously used to subsidise the licensing process and allowing that police funding to be deployed to other policing priorities.

Other key non-monetised benefits by 'main affected groups'**Key assumptions/sensitivities/risks****Discount rate (%)**

3.5

Key assumption: Full cost figures for administering the licensing process are based on an activity based costing model which anticipates the benefits in time and resource from the administration of the licensing system moving online.

Risks: The proposed fees have been developed with a wide group of key partners but there may be less well represented groups who may still challenge. Further, eCommerce is yet to be rolled out nationally and so there is a risk that the activity based costing model may not achieve full cost recovery.

BUSINESS ASSESSMENT (Option 2)

Direct impact on business (Equivalent Annual) £m:	In scope of OITO?	Measure qualifies as
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Costs: £0.3	Benefits: £0	Net: -£0.3	No	NA
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Evidence Base (for summary sheets)

A. Strategic Overview

A.1 Background

Firearms licensing is a chargeable service provided by the police. The Home Office owns the overarching fee structure and sets national fees in discussion with key partners. The fees for firearm and shotgun licence applications have not been amended since 2001 and there is no legislative mechanism to ensure that fees increase automatically on an annual basis. Firearms licences are generally valid for five years, though licences for registered firearms dealers (RFD) are valid for three. The owner of the firearm or shotgun must renew his or her licence at the end of the relevant cycle and will incur a renewal fee.

Firearms fees are governed by the Firearms Act 1968¹. Section 43 enables the Secretary of State to amend the fees by order.

In 2012/13 police forces in England, Wales and Scotland² granted around 39,500 firearm and shotgun licences, and renewed a further 128,000. It should be noted that the demand for grants and particularly renewals of licences fluctuates over time.

In December 2010 the Home Affairs Select Committee produced a report into firearms control, including the following recommendation:

“... raising the fees charged to applicants so that it covers the costs of licensing, to ensure that police spending cuts do not jeopardise the rigour of the licensing process”

The Home Office accepted the need for review and set out proposals in August 2013 for an increase that would recover about 50% of the estimated cost of the existing manual system of fee administration. The proposals were not approved by the Reducing Regulation Committee (RRC) on the grounds that the suggested fees did not represent value for money to the individual firearms holder. The RRC also took the view that there needed to be more specific consultation with groups that use firearms and shotguns as part of their business delivery such as farmers.

The Home Office fully accepted this view and since then has worked with key partners including the shooting organisations, the police and the Department for the Environment, Food and Rural Affairs to develop a revised set of fees for the eligible fee types. The proposals are based on the estimated full cost of administering licences using a more efficient IT-enabled system (eCommerce). The time savings from eCommerce will result in a reduction in the cost of service delivery and better value for money for licence applicants and holders. These benefits are reflected in the proposed fees.

All those involved in developing the proposals have agreed the fee levels and supported a consultation on them.

We ran a consultation from 27 November to December 2014. We received over 11,800 responses and 73% of respondents were in favour of the proposed changes to the fee levels.

A.2 Groups affected

Police forces in England, Wales and Scotland

The police issue a licence and so incur the administrative cost. Under the proposals in this consultation the police will benefit financially as the new fees will recoup the estimated full cost of the administration of firearm and shotgun licences under the incoming IT based system, eCommerce. Communities may

¹ These are firearm grant, shotgun grant, coterminous grant, firearm renewal, shotgun renewal, coterminous renewal, registered firearm dealers licence, replacement certificate, visitor's permit, game fairs, and variation (not like for like).

² Scotland record figures in calendar rather than financial years. Therefore the 2012/13 figures have been derived from quarterly averages for the relevant periods.

also benefit as the police will be able to redirect funding which would have been used to subsidise the licensing process to other policing priorities relevant to the particular area.

Registered firearms dealers

The main commercial users of the licensing service are **registered firearms dealers** (RFDs). This covers any person who is registered in Great Britain under the 1968 Firearms Act who, by way of trade or business (a) manufactures, sells, transfers, repairs, tests or proves firearms or ammunition to which section 1 of this Act applies or shotguns; or (b) sells or transfers air weapons.³

Businesses with shotgun licences

There are a number of occupations that require the use of a firearm and shotgun and therefore require a licence. These are farmers, gamekeepers, zoo keepers and vets. Table A.1 shows the numbers for each occupation in June 2014 and is taken from the National Firearms Licensing Management System (NFLMS). There are 66,453 licence holders registered as either farmers or farm managers; 3,896 registered as gamekeepers; 1,676 vets and 213 zoo keepers.

NFLMS collects data for England and Wales only. Data for Scotland is not collected under NFLMS, so it is necessarily assumed that the proportion of licences held by businesses will be the same in Scotland⁴ as it is in England and Wales (see Section E).

Table A.1: Numbers of businesses in England and Wales that will be affected by updating fees for firearm or shotgun licences

Occupation	Number in England and Wales
Farmers	66,453
Gamekeepers	3,896
Vets	1,676
Zoo keepers	213

Other sectors which may hold firearm/shotgun licences

NFLMS does not categorise any other business types of any volume that hold firearms licences. Other sectors which may be affected will be primarily those with a leisure interest including shooting enthusiasts who require licences for their sport as well as those who wish to own firearms for collection or conservation. However these numbers will be small and therefore not in scope for consideration of impact.

In 2012/13, there were 39,500 firearm and shotgun certificates granted and 128,000 renewed.

It is important to note that armed maritime security guards who work for private maritime companies are authorised by the Home Secretary under section 5 of the 1968 Act to carry firearms and therefore licensing charges do not apply to them.

B. Rationale for intervention

Firearm and shotgun certificates are issued by local police forces and attract a licence fee. The fee levels have not changed since 2001, although the cost of administering the process has increased through, for example, the need to have a more robust assessment of the risk of domestic violence in an application. The 2010 Home Affairs Select Committee (HASC) report into firearms control recommended raising the fees charged to applicants so that it covers the costs of licensing. The Government accepted

³Note: the Air Weapons and Licensing (Scotland) Bill proposes extending the definition of RFDs in Scotland to include manufacture, repair, and testing of air weapons.

⁴The number of businesses in Scotland that own a shotgun licence is assumed to be 6,174. This is 13% of all shotgun licence holders, the same proportion as for England and Wales. A full explanation can be found in section E.

this but recognised that it was essential to align any fee increase with a more efficient service for the end user.

The net cost to the taxpayer to support firearms licensing was an estimated £17m in 2012/13, and is expected to be around £15m in 2013/14 under the current manual arrangements. The figure fluctuates due to the changing demand in licensing levels but over the next ten years, the average cost to the taxpayer is estimated to be around £20m⁵ annually should the existing manual system continue. The net result is that the public purse is subsidising the licensing process. The Home Office aims to rebalance the income generated against the costs of administration and to continue work to improve the service that is being delivered by police forces.

The Treasury document, *Managing Public Money*⁶, states that where a fee is charged for a licence or service the amount should reflect the full cost of the activity involved in its delivery. This is balanced by the requirement for service providers to ensure efficiency and effectiveness so that the fees charged represent value for money. The Home Office is seeking to achieve that balance in the interests of all parties.

The fee levels can only be changed by means of secondary legislation. Therefore it falls to Government to make any changes. It is recognised that any such change must be proportionate and that it should relate to service effectiveness and efficiency. The Government in consultation with key partners has therefore determined that any increase in the eligible fees types should be based on the estimated timings for the licensing process once it is IT enabled. This means the proposed fees reflect the expected time savings of the process resulting in both a more efficient service and a reduced cost to the end user.

C. Policy objective

The primary aim of this proposal is to rebalance the burden on the public purse stemming from a shortfall in funding generated by the fee levels currently charged for firearm and shotgun licences. There is a secondary aim of continuing to reduce the risk to public safety through a more efficient firearms licensing process.

Our assumption is that we will work with key partners to review the fees regularly to assess whether efficiencies have been made and to what level before determining any future fee increase.

The primary effect is that under option 2 (the preferred option) the police will recover (to the extent that it is possible) the estimated full cost of administering firearm and shotgun licences based on that process being delivered through an IT enabled system (eCommerce).

D. Options

Option 1: Do nothing

Fee levels could remain at those set in 2001. Under the current manual system this would mean that police forces (and the public purse) are likely to continue to cover the cost of around 70% of the licensing system.

However, the baseline for this appraisal includes savings from the IT-enabled system, eCommerce. This IT system is expected to reduce the cost of issuing a firearm certificate. Therefore, the cost to the police is expected to be less than £20 million a year under the Do Nothing option.

All other options are considered against the counterfactual of police forces implementing the eCommerce system.

⁵ This is based on the difference between the cost to the police of administering the licensing system, as calculated by ACPO (see 'Section G: Full Cost') and the total income collected from licence fees – average £5.6m to £6.4m annually.

⁶ <https://www.gov.uk/government/publications/managing-public-money>

Option 2: Update fees to recover the estimated full cost of administering firearm and shotgun licences based on that process being delivered through an IT-enabled system (eCommerce)

Fee levels would be updated to recover (to the extent that it is possible) the estimated full cost of administering firearm and shotgun licences based on that process being delivered through an IT enabled system (eCommerce).

Table D.1 compares the proposed fee levels with the previous fees.

	Current fee	Estimated cost from 2015 with eCommerce ⁷
Firearm Grant	£50.00	£88.00
Firearm Renewal	£40.00	£62.00
Shotgun Grant	£50.00	£79.50
Shotgun Renewal	£40.00	£49.00
Coterminous Grant	£10.00 + £50 grant	£90.00
Coterminous Renewal	£10.00 + £40 renewal	£65.00
Registered Firearms Dealers (RFDs)	£150.00	£200.00
Replacement certificate	£9/ £8	£4.00
Visitor's permit - individual	£12.00	£20.00
Visitor's permit – group	£60.00	£100.00
Game fairs	£12.00	£13.00
Variation (not like for like)	£26.00	£20.00

The approach and proposed level of fees have been worked through and agreed by a range of key partners including the shooting organisations, the police and the Department for the Environment, Food and Rural Affairs. The proposals are based on the estimated full cost of administering licences using a more efficient IT-enabled system (eCommerce). The time savings from eCommerce will result in a reduction in the cost of service delivery and better value for money for licence applicants and holders. These benefits are reflected in the proposed fees.

The eCommerce system is expected to be piloted and rolled out in due course. The efficiencies in process and resource generated by eCommerce will continue to be monitored.

We ran a public consultation from 27 November to December 2014. We received over 11,800 responses and 73% of respondents were in favour of the proposed changes to the fee levels.

E. Appraisal – (Costs and Benefits)

General assumptions and data

Police cost of time

An hourly wage of police staff time for firearm enquiry officers and firearm administration officers has been estimated. The cost components of the fees comprise as applicable:

- indirect overheads such as management and office equipment;

⁷ Figures have been rounded to the nearest whole number and reflect the financial objective of full cost recovery for each fee.

- overheads directly attributable to the service; and
- staff time, which is divided between administrative staff and enquiry officers. Staff time includes salary and on-costs.

Staffing costs: The administration of the licensing process is carried out by enquiry and administrative officers. These are police staff not officers and are paid at different rates. The average salary of for an enquiry or administrative officer has been taken from data received from five forces. The average salary for an enquiry officer is £27,000 and for an administration officer is £19,300. These are summarised in Table E.1.

Average salaries have then been uplifted by approximately 21% to account for on-costs. The 21% can be broken down into pension contributions and national insurance rates. Pension contributions have been estimated at 15.2% based on estimates by the Local Government Pension Scheme National average employer pension contribution rate (future service rate). National insurance contributions are based on HMRC guidance and are equal to 5.8% for administration and enquiry officers.

Indirect overheads: Annex 6.1 of *Managing Public Money* stipulates a number of indirect overheads which should be included when calculating fees. The ACPO⁸ guide on charging for police services estimates indirect overheads to run at 30% of salary plus on costs. The guide was developed following a legal challenge to the basis of the fees the police were charging. It reflects the principles of *Managing Public Money* and its purpose is to ensure that proper cost recovery across the police service is not undermined. The proposed fees reflect the 30% figure.

Direct overheads: ACPO's guide also includes direct overheads. These are costs occurring at the point of service. The direct overheads of licensing are the eCommerce transaction charge of £1.98 and mileage undertaken to carry out a security compliance visit. Mileage costs vary according to force geography. The proposed fees therefore include an average of 15 miles per visit for the grant of both shotgun and firearms licences. 15 miles per visit is an average of the actual mileage done by the police in a number of different forces when carrying out compliance visits. The government mileage allowance is 45p per mile equating to £6.75 per visit.

The proposed fees include a proportionate amount for the 20% of cases requiring second visits. Second visits are only conducted on a risk-assessed basis, for example to determine whether an applicant has followed advice on secure storage. Renewals only require face-to-face compliance visits in 10-12% of cases and this reduced activity is reflected in the calculations for the renewal fee.

Number of days worked: The hourly rate for the different roles is based on the factors which the police use to make all staff cost calculations. It is derived from the estimated number of productive days for police staff in any one year multiplied by the official number of hours worked (208 days x 7.25 hours = 1508 productive hours per annum). This assumes 8 training days, 11 sickness days and 35 days annual leave and bank holidays.

Table E.1: Hourly rate for enquiry and administrative officers

Staff type	Average salary per annum 2013	On costs	Indirect overheads	Total cost per annum for 2013	Hourly
Enquiry officer	£27,000	£5,670	£9,801	£42,471	£28.16
Administrative officer	£19,300	£4,053	£7,006	£30,359	£20.13

Fees

The process for the grant and renewal of a firearm or shotgun licence has four main stages:

- initial administration and allocation (intelligence checks);
- initial enquiries, visit, recommendation report (intelligence checks);
- follow-up administration, completion of intelligence checks, certificate; and

⁸ <http://www.acpo.police.uk/documents/finance/2013/201307-frba-acpo-apcc-guid-charging-police-services.pdf>

- follow-up visit in grant cases as appropriate (average 20%), face-to-face visit in renewal cases as appropriate (average 10-12%).

An activity based cost model was used to develop the timings for each licence fee. The proposed fees anticipate the savings that will be achieved by the introduction of eCommerce and are based on a best estimate of the full unit cost. For example, the fees for the grant and renewal of firearm licences have been set at a higher rate than those for shotguns. This reflects the greater level of compliance and risk assessment that is required for the grant and renewal of a firearm licence as opposed to that of a shotgun.

The additional impact of the policy on businesses and society is not the full fee, but the difference between the new proposed fee and the current fee. The difference for each fee is shown in Table E.2.

Table E.2: Current fees and proposed fees for option 2

	Current fee	Estimated cost from 2015 with eCommerce ⁹	Difference between old and new fee
Firearm Grant	£50.00	£88.00	£38.00
Firearm Renewal	£40.00	£62.00	£22.00
Shotgun Grant	£50.00	£79.50	£19.50
Shotgun Renewal	£40.00	£49.00	£9.00
Coterminous Grant	£10.00 + £50 grant	£90.00	£30.00
Coterminous Renewal	£10.00 + £40 renewal	£65.00	£15.00
Registered Firearms Dealers (RFDs)	£150.00	£200.00	£50.00
Replacement certificate	£9/ £8	£4.00	−£5.00
Visitor's permit – individual	£12.00	£20.00	£8.00
Visitor's permit - group	£60.00	£100.00	£40.00
Game fairs	£12.00	£13.00	£1.00
Variation (not like for like)	£26.00	£20.00	−£6.00

Registered Firearm Dealers (RFDs)

The number of RFDs has been obtained from Home Office and Scottish Government statistics¹⁰.

The general assumption is that numbers of applicants for new certificates, and renewals of existing certificates reflects that of previous years and is not significantly influenced by the proposed fee increase.

The average number of grants and renewals for the previous three years is assumed as the central estimate for RFDs. Table E.3 shows the number of RFDs over the previous three years and the average number that is used from 2013/14 onwards. The total number is for England, Wales and Scotland. The upper bound scenario takes the year with the maximum number of grants and renewals i.e. 2010/11, whereas the lower bound takes the year with the minimum number of grants and renewals. Therefore, our upper bound scenario assumes 866 grants and 1,425 renewals and our lower bound scenario assumes 580 grants and 680 renewals.

⁹ Figures have been rounded to the nearest whole number and reflect the financial objective of full cost recovery for each fee.

¹⁰ England and Wales - <https://www.gov.uk/government/publications/firearm-and-shotgun-certificates-in-england-and-wales-2012-to-2013>
Scotland - <http://www.scotland.gov.uk/Publications/2014/05/4588/downloads>

Table E.3: Number of RFDs from 2010/11 to 2012/13

	Grants	Renewals	Dealers registered
2010/11	866	1,425	3,551
2011/12	696	708	3,770
2012/13	580	680	3,846
2013/14 onwards	714	938	

Number of firearm and shotgun licences

The number of firearm and shotgun grants and renewals has also been obtained from Home Office and Scottish Government statistics. The number of grants and renewals from 2008/09 to 2012/13 is shown in Tables E.4 and E.5. It is assumed the number of grants and renewals over the next ten years will reflect the average of the previous five. It is therefore estimated there will be approximately 11,500 firearm grants, 30,000 firearm renewals, 30,000 shotgun grants and 95,000 shotgun renewals each year for businesses and individuals.

Table E.4: Number of firearm grants and renewals

	Grants	Renewals	Certificates registered
2008/09	11,158	11,768	164,800
2009/10	10,597	19,199	167,810
2010/11	12,407	40,517	167,178
2011/12	12,639	41,968	167,522
2012/13	11,136	30,515	172,446
2013/14 onwards	11,587	28,793	

Table E.5: Number of shotgun grants and renewals

	Grants	Renewals	Certificates registered
2008/09	27,082	28,884	625,254
2009/10	25,685	58,553	630,102
2010/11	30,804	143,177	612,995
2011/12	33,142	148,861	610,864
2012/13	28,168	97,450	619,505
2013/14 onwards	28,976	95,385	

Businesses that own a shotgun licence

The numbers of licences held by business type (e.g. farmers, gamekeepers, zookeepers and vets) have been sourced from the National Firearms Licensing Management System (NFLMS). This data source only covers England and Wales. For the purposes of modelling the financial impact nationally, we have assumed that within Scotland the same proportion of firearms and shotgun certificate holders are for business purposes.

Data from NFLMS (June 2014) show that there are 66,453 farmers, 3,896 gamekeepers, 1,676 vets and 213 zoo keepers in England and Wales. This is a total of 72,238 businesses in England and Wales. It is assumed that 22% of these (approximately 16,000) own a firearm and 78% (approximately 56,000) own a shotgun¹¹. Therefore, around 10%¹² of the shotgun licensed population and 11%¹³ of the firearm licensed population are businesses.

To obtain an estimate for Scotland it is assumed that the same proportion of shotgun and firearm licences, 10% and 11% respectively, are used for business purposes. This gives approximately 5,000

¹¹ This is based on the total ratio of shotgun to firearm certificates registered in 2012/13. There were 172,000 firearm licences and 620,000 shotgun licences.

¹² 56,000 out of 570,000 shotgun licences in England and Wales are assumed to be for businesses.

¹³ 16,000 out of 146,000 firearm licences in England and Wales are assumed to be owned by businesses.

businesses in Scotland who own a shotgun and 2,800 businesses in Scotland who own a firearm licence¹⁴.

It is also assumed that the same proportion of grants and renewals as for the total number licensed will fall on businesses. Therefore, the number of shotgun grants and renewals are approximately 2,900 and 9,500 respectively¹⁵ and the number of firearm grants and renewals is approximately 1,200 and 3,000 respectively¹⁶. Tables E.6 and E.7 summarises this data.

Table E.6: Shotgun certificates held by businesses

	Share of licenced population	Total number licensed	Number of Shotgun Grants (Annual)	Number of Shotgun Renewals (Annual)
Farms	9%	56,426	2,639	8,688
Zoo Keepers	0.0%	181	8	28
Vets	0.2%	1,423	67	219
Gamekeeper	0.5%	3,308	155	509
Total (13/14 onwards)	10%	61,338	2,869	9,444

Table E.7: Firearm certificates held by businesses

	Share of licenced population	Total number	Number of Firearm Grants (Annual)	Number of Firearm Renewals (Annual)
Farms	10%	17,041	1,145	2,845
Zoo Keepers	0.0%	55	4	9
Vets	0.2%	430	29	72
Gamekeeper	0.6%	999	67	167
Total (13/14 onwards)	11%	18,525	1,245	3,093

Individuals that own a shotgun licence

It is assumed that the remaining shotgun licences are held by individual members of the shooting community. There are approximately 25,000 grants and 85,000 renewals each year to individuals.

Individuals that own a firearm licence

It is also assumed that the remaining firearm licences are held by individual members of the shooting community. There are approximately 10,000 grants and 26,000 renewals each year to individuals.

Visitor Permits

The number of shotgun and firearm licence visitor permits is provided by Home Office and Scottish Government statistics. The cost of an individual visitor permit is currently £12 per person (up to a maximum of £60) and so it is the number of individuals covered by visitor permits that are of interest. The number of visitor permits has been fairly constant over the past five years and so an average is taken as the number of visitor permits for the appraisal period. This is shown in Table E.8.

Table E.8: Number of visitor permits applications nationally

	Firearm	Shotgun	Total
2008/09	4,372	11,157	15,529
2009/10	4,507	11,553	16,060
2010/11	4,668	12,162	16,830
2011/12	5,420	11,776	17,196
2012/13	4,114	11,075	15,189
2013/14 onwards	4,616	11,545	16,161

¹⁴ 10% of around 49,000 shotgun licences in Scotland are assumed to be owned by businesses, and 11% of around 26,000 firearm licences in Scotland are assumed to be owned by businesses.

¹⁵ Approximately 10% of 28,976 shotgun grants and 95,385 shotgun renewals, as shown in Table 4.

¹⁶ Approximately 11% of 11,587 firearm grants and 28,793 firearm renewals, as shown in Table 3.

Replacements and Variations (not like for like)

The estimates for the number of variations (not like for like) and replacements of licences have been provided by NFLMS. Since January 2014 there have been 4,156 variations for which a fee was charged, and 709 replacements for which a fee was charged¹⁷. These numbers are doubled to take into account a full year and so it is estimated that there are approximately 8,300 variations and 1,400 replacements each year in England and Wales.

The proportion of variations and replacements compared to the total number of firearm and shotgun licences in England and Wales is used to scale up the NFLMS estimates to account for Scotland. Variations take place for 1%¹⁸ of the total number firearm and shotgun licences in England and Wales, and 0.2%¹⁹ for replacements. Therefore, it is assumed that there are approximately 870 variations and 150 replacements in Scotland. This gives a total of around 9,200 variations and 1,600 replacements each year.

The proportion of variations and replacements that are made by individuals is assumed to be the same as for the number of firearm and shotgun grants and renewals made by individuals (90%²⁰). For variations it is assumed 900 will be by businesses and 8,300 by individuals. For replacements it is assumed 160 will be businesses and 1,400 by individuals. Table E.9 summarises this data.

Table E.9: Estimated number of variations and replacements

	England and Wales	Estimated Number for Scotland	Estimated Total	Estimated Business Total	Estimated Individuals Total
Variation	8,312	867	9,179	928	8,251
Replacement	1,418	148	1,566	158	1,408

Game Fair Dealers

The number of game fair dealers has also been provided by NFLMS. The number currently on issue is 629. This is the difference between the number of certificates held by dealers and the number of dealers. This does not capture certificates which may well have been issued this year, for events this year, but have expired. Given the uncertainty around the number of game fair dealers issued each year and as the fee for a game fair dealer is only rising by £1, the cost to business will be negligible and so the impact of the change in the fee is not quantified.

Coterminous licences

A coterminous certificate is merely a means of issuing both firearm and shotgun certificates where an applicant requires both (to expire at the same time) at a cheaper cost to the applicant and also at a reduced administration cost to the police force. NFLMS estimate that there are currently 111,888 coterminous licences on issue. This is 16% of the number of firearm and shotgun certificates that were registered in England and Wales in 2012/13²¹.

The ratio of coterminous grants and renewals to firearm and shotgun grants and renewals in England and Wales and in Scotland is also assumed to be 16%. The number of coterminous grants and renewals is shown in Table E.10. There is a risk that this ratio isn't constant across grants and renewals or across countries. If the ratio increased to 20% there would be an increased cost of £80,000 a year to businesses and individuals.

Table E.10: Estimated number of coterminous grants and renewals

¹⁷ There were also 287 replacements where a fee was not charged

¹⁸ 8,312 variations from 717,512 firearm and shotgun licences in England and Wales

¹⁹ 1,418 replacements from 717,512 firearm and shotgun licences in England and Wales

²⁰ 148,090 shotgun and firearm licence grants and renewals are made by individuals. This is equal to the sum of 26,000 shotgun grants, 86,000 shotgun renewals, 10,500 firearm grants and 25,500 firearm renewals. In total it is assumed there 164,742 shotgun and firearm grants and renewals.

²¹ There are 717,512 firearm and shotgun licences registered in 2012/13

	England and Wales		Scotland	
	Grants	Renewals	Grants	Renewals
2013/14 onwards	5,881	17,358	447	2,016

The proportion of coterminous grants and renewals made by individuals is also assumed to be the same as for the number of firearm and shotgun grants and renewals made by individuals (90%). Therefore, it is assumed that the number of coterminous grants will be 640 for businesses and 5,700 for individuals. The number of coterminous renewals will be 2,000 for businesses and 17,500 for individuals. Table E.11 shows this.

Table E.11: Number of businesses and individuals applying for coterminous grants and renewals

	Estimated Business Total		Estimated Individuals Total	
	Grants	Renewals	Grants	Renewals
2013/14 onwards	640	1,958	5,689	17,416

Option 1: Do nothing

COSTS

There are no additional costs under this option. Police forces will adopt the eCommerce system, but will continue to subsidise the firearms licensing process.

BENEFITS

There are no additional benefits under option 1.

Option 2: Update fees to recover the estimated full cost of administering firearm and shotgun licences based on that process being delivered through an IT enabled system (eCommerce)

COSTS

Costs to Businesses

Registered firearms dealers

The impact on business is expected to be relatively small, as firearms are a specialist area of interest. Based on the assumption that there will be 714 grants and 938 renewals each year (table E.3) and an increase in the fee of £50 (table E.2), **there will be an annual cost of £80,000 to RFDs**. This is a total cost of £0.7m over 10 years (in present values).

There might be an indirect impact on business as the fee increase might deter the purchase of new or additional firearms from RFDs. Firearm licences and the purchase of firearms are complements so if the price of a firearm licence goes up the number of guns purchased might fall. It is difficult to estimate the financial impact, but it is likely to be small as the individual impact on licence holders who wish to renew will be an increased cost of £22 to be paid once every five years. This equates to an equivalent £4.40 a year for firearm licence holders. It is therefore considered unlikely that this small increase in cost will deter firearms holders from renewing their firearms licence and consequently from visiting their RFD.

In addition, when fees were last revised in 2001 there was not a significant drop off in the number of grants and renewals in 2002. The number of grants increased from 7,100 to 8,600 and the renewals fell slightly from 31,300 to 28,800. Although, other external factors could have influenced these trends it indicates roughly that there is no clear relationship between the price of firearms licences and volume of applications.

Farms and Gamekeepers

Under the proposals the fee for a shotgun grant would rise to £79.50, and the fee for a shotgun renewal would rise to £49, the fee for a firearm grant would rise to £88 and the fee for a firearm renewal would rise to £62. Licences are renewed once every five years. The increased cost to these businesses is therefore £29.50 for shotgun grants, £9 for shotgun renewals, £38 for firearm grants and £22 for firearm renewals to be paid once every five years. Based on the estimated number of licence holders in the farming industry and the number of gamekeepers (tables E.6 and E.7), and the increased fee costs, **the total cost is estimated to be approximately £280,000 on average each year.**

Vets and zoo keepers

Vets and zoo keepers will also be affected by the increased costs. Based on the estimated number of these licence holders (tables E.6 and E.7) **the total cost is estimated to be approximately £7,000 on average each year²².**

Variations and Replacements

The impact of a fee change for variations and replacements is negative because the new proposed fee is less than the current fee, by £5 in each instance. Based on the number of variations and replacements that businesses make (table E.9) **there is a saving to businesses of approximately £5,000 per year.**

Coterminous licences

Businesses that apply for coterminous licences will also be affected by the fee changes. A coterminous grant will increase by £30, whilst a coterminous renewal will increase by £15. Based on the number of coterminous grants by businesses, 640, and the number of coterminous renewals by businesses, 2,000, **the total cost is estimated to be approximately £50,000 a year.**

Total cost to business

Over ten years the average annual impact on business from the fee changes will be approximately £0.4m. This equates to a total cost to business over ten years of £3.5m (in present values).

Costs to Firearm or Shotgun Users

The grant and renewal of certificates for individuals forms the majority of the volume of certificates processed (in 2012/13 they account for an estimated 90% of the volume of certificates). Of these an estimated 25% are coterminous (i.e. where a shotgun licence is also applied for or renewed alongside a firearm licence).

Grants

The proposal entails a £38 increase for firearm grants and a £29.50 increase for shotgun grants. Based on the average number of grants assumed for 2013/14 onwards (25,000 for shotgun grants and 10,000 for firearm grants), **it is estimated that the proposed fee increases would lead to an increased cost to applicants of £1.2m each year.**

Renewals

Renewals would increase by £22 for firearms and £9 for shotguns. Based on the average number of renewals assumed for 2013/14 onwards (85,000 for shotgun renewals and 26,000 for firearm renewals), **it is estimated that the proposed fee increases would lead to an increased cost to firearm and shotgun applicants of £1.3m nationally each year.**

²² $67 \times £29.50 + 8 \times £29.50 + 28 \times £9 + 219 \times £9 + 29 \times £39 + 4 \times £38 + 9 \times £22 + 72 \times £22$

Visitors' Permits

Visitors' permits are expected to increase by £8 under the new proposed licence fees. Based on the estimated average number of renewals (table E.8), **it is estimated that the proposed fee increases would lead to an increased cost to individuals of £0.1m nationally each year.**

Variations and Replacements

The impact on individuals of changes to the fee for variations and replacements is also negative as the new proposed fee is less than the current fee. **This is a saving to individuals of approximately £47,000 each year.**

Coterminous certificates

Individuals that apply for coterminous licences will also be affected by the fee changes. A coterminous grant will increase by £30, whilst a coterminous renewal will increase by £15. Based on the number of coterminous grants by individuals, 5,600, and the number of coterminous renewals by businesses, 17,500, **the total cost is estimated to be approximately £432,000 a year.**

Total cost to individuals

The total cost to non-business firearm and shotgun users²³ is approximately £3.0m annually. The cost over ten years is estimated to be £23.5m in present values.

Total Costs

The total cost to all firearm and shotgun users (including businesses) is £2.9m annually. The cost over ten years is estimated to be £26.0 in net present value terms.

BENEFITS

Under option 2, assuming full-cost recovery, the increased fees paid by the shooting community would lead to equivalent savings to police forces, in terms of income that was previously spent on subsidising the licensing process.

Therefore the total benefit to the police is £3.4m annually. The total benefit to the police from option 2 is £29.5m in net present value terms over ten years.

NET EFFECT

Under option 2 the proposed increase in fees will incur a transfer from individuals and businesses of the shooting community to the police. Therefore, the costs of this policy will equal the benefits and there will be no net effect. Table E.12 summarises the net benefit to each party.

Table E.12: Net benefits of Option 2 to the affected parties²⁴

	<i>Average Annual</i>	<i>Net Present Value</i>
Businesses	-£410,862	-£3,536,569
Individuals	-£3,016,327	-£25,963,594
Police	£3,427,188	£29,500,163
Total	£0	£0

ONE-IN-TWO-OUT (OITO)

The proposal is updating existing legislation for licensing fees which have not changed since 2001. It imposes no increased regulatory burden. The intention is to better reflect the costs associated with the licensing process in line with HMT guidelines. This is therefore outside of the scope of OITO (paragraph

²³ The numbers of visitor's permits, replacements and variations are small and the cost commensurately small.

²⁴ Negative values indicate that costs are greater than benefits.

1.9.8 vii of the Better Regulation Framework Manual). The Regulatory Policy Committee has confirmed that the proposal is suitable for the fast track as a low cost regulation and out of the scope for One In, Two Out.

SENSITIVITY ANALYSIS

There is some uncertainty over the number of grants and renewals that will occur each year. Sensitivity analysis demonstrates the scale and direction of potential error resulting from this uncertainty.

An upper bound scenario is created where the number of grants and renewals for RFDs is the maximum over the last three years, and the number of grants and renewals for shotgun and firearm users (including businesses) is the maximum over the last five years. The year used for the upper bound scenario for RFDs is 2010/11; and 2011/12 for shotgun and firearm licences and visitor permits.

A lower bound scenario assumes the opposite. The number of grants and renewals for RFDs is the minimum over the last three years, and the number of grants and renewals for shotgun and firearm users (including businesses) is the minimum over the last five years. The year used for the lower bound scenario for RFDs is 2012/13, whereas for the other licences it is 2008/09. The differences of the number of grants and renewals are shown in Table E.13.

Table E.13: Number of grants and renewals for each licence type used in sensitivity analysis

Licence Type	Best Estimate	Lower Bound	Upper Bound
RFD			
Grant	714	580	866
Renewal	938	680	1,425
Shotgun - Businesses			
Grant	2,869	2,681	3,281
Renewal	9,444	2,860	14,739
Shotgun - Individuals			
Grant	26,107	24,401	29,861
Renewal	85,941	26,024	134,122
Firearm - Businesses			
Grant	1,245	1,199	1,358
Renewal	3,093	1,264	4,508
Firearm - Individuals			
Grant	10,342	9,800	11,281
Renewal	25,700	7,260	39,108
Visitor Permits	16,161	15,529	17,196

The results of the sensitivity analysis in Table E.14 show the average annual cost under each scenario. Although the net effect remains at zero there is some variation in the cost to businesses and individuals. The cost to business varies from £0.2 to £0.5m and the cost to individuals varies from £1.5m to £3.5m. This falls below the £1m threshold below which fast track clearance can be sought in accordance with the Better Regulation Framework Manual (paragraph 1.3.3).

Table E.14: Average annual net benefit under each scenario

	Best Estimate	Lower Bound	Upper Bound
Businesses	-£410,862	-£235,929	-£538,072
Individuals	-£3,016,327	-£1,995,416	-£3,899,638
Police	£3,427,188	£2,231,345	£4,437,710
Total	£0	£0	£0

F. Risks

Option 1: Do nothing

The risk is that police forces will continue to subsidise fees to an increasing degree as their costs increase over time.

HASC may question why their recommendation has not been followed through when the Government's initial response indicated that it accepted that a review in fees would play an important part in ensuring the resources for firearms licensing departments. There has also already been some media attention on this issue.

Option 2: Update fees to recover the estimated full cost of administering firearm and shotgun licences based on that process being delivered through an IT enabled system (eCommerce)

There has been detailed consultation with key partners in developing the proposed set of fees. We ran a consultation from 27 November to December 2014. We received over 11,800 responses and 73% of respondents were in favour of the proposed changes to the fee levels.

There is a risk that the estimated full cost recovery may not have been accurately reflected as it based on approximate timing for eCommerce in its current state of development. The system has yet to roll out and could still result in a cost to the public purse or even, though assessed to be unlikely, a surplus for the police. The impact and benefits of eCommerce will be closely monitored and an assessment made of whether there needs to be further adjustments to the fees at the next review point (anticipated being annual).

It is possible that eCommerce will be further delayed meaning that it would be longer before the licence fee payers benefit from the improved service delivery times of an online system. In this scenario the police would need to continue to offset the higher cost of the manual system for a longer period also.

Should the eCommerce project stall or be terminated, licence fee payers would not receive any benefit from an IT based system and the police would need to meet the difference between the new fees based on estimated costs for eCommerce and the higher cost of the continuing manual system .

G. Summary and preferred option

Table G.1 below outlines the costs and benefits of the proposed changes. Option 2 is preferred.

Option	Costs	Benefits
2	Costs to business from increased fees of £3.5m (PV over ten years) Costs to firearm and shotgun users from increased fees of £26m (PV over ten years)	Savings to police who previously subsidised 29.5m (PV over ten years)
	Indirect cost to business from deterrent effect of higher fees on demand for firearms and shotguns (not quantified)	

The increase in fees will be complemented by an ongoing programme to improve the consistency and level of service delivered to end-users.

H. Implementation plan

The Government will implement these changes via a negative statutory instrument, to come into force in April 2015.