



Department of Justice

**Canadian Firearms
Program Review**

**Business Case Assessment
and Risk Analysis**

Final Report

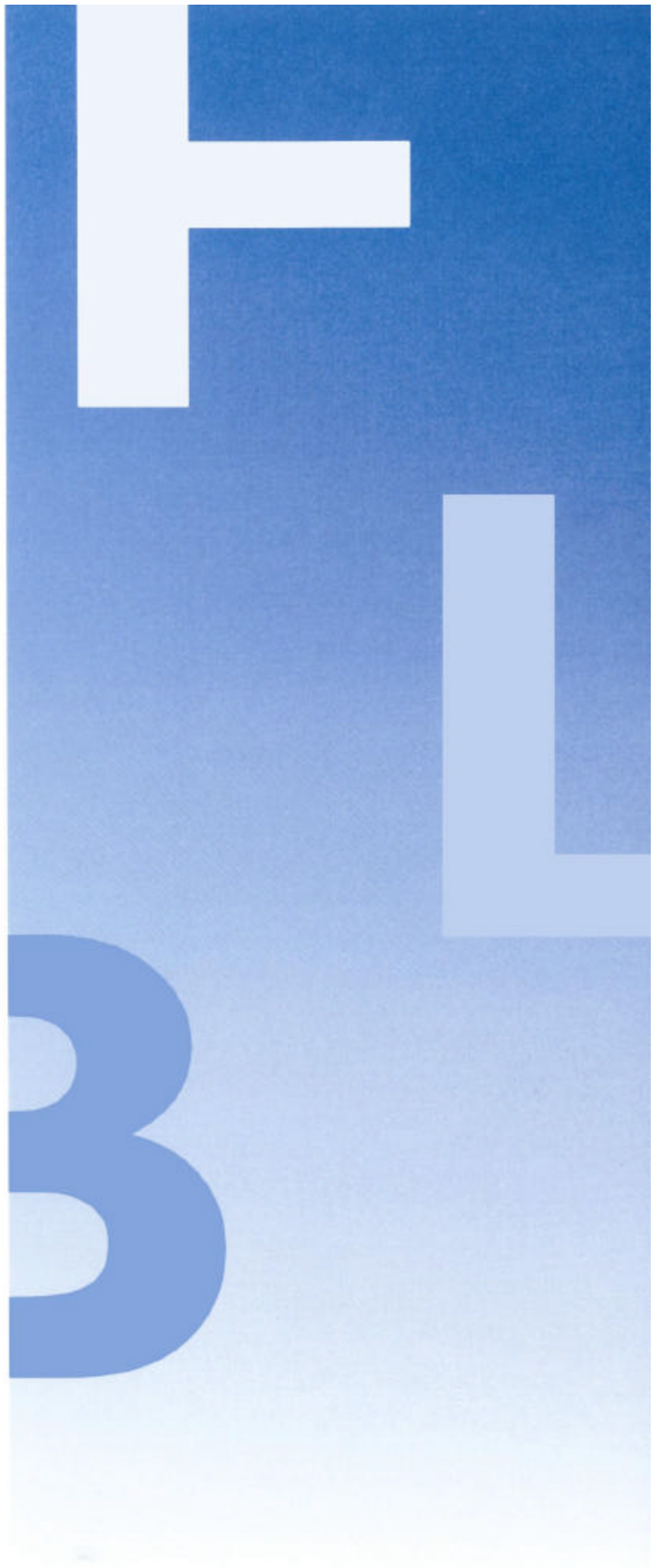
by

**HLB Decision Economics Inc.
31 Jan 2003**

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10 Feb 2003**

HLB DECISION ECONOMICS INC.

RISK ANALYSIS • INVESTMENT AND FINANCE
• ECONOMICS AND POLICY



Department of Justice

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Prepared by:

**HLB Decision Economics Inc.
Ottawa, Ontario**

**31 Jan 2003
HLB Reference:
6752**

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EXECUTIVE SUMMARY

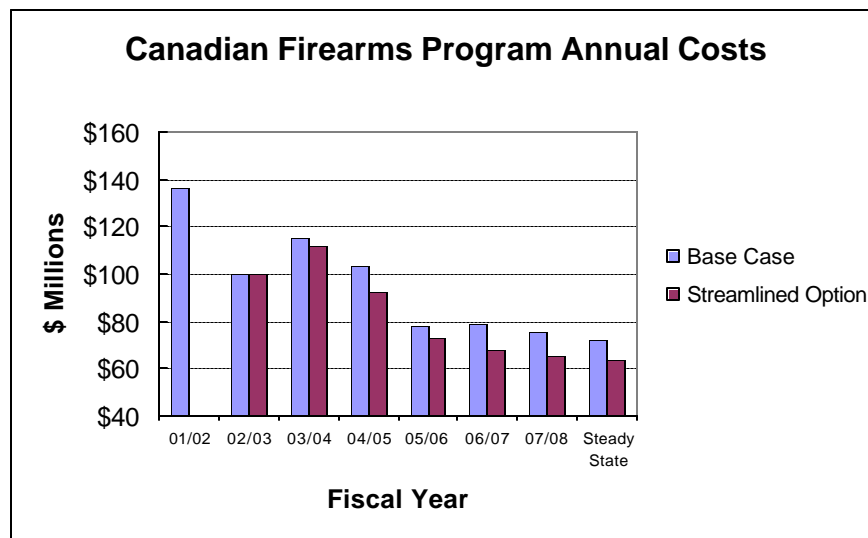
In comparison with existing plans for structuring and managing the Canadian Firearms Program over the forthcoming 10 years, the range of managerial, technological and procedural initiatives identified in this report would produce expected net estimated savings of \$53 million (present value, in constant 2002 dollars). The risk-adjusted savings reported here indicate there is a 10 percent chance of failure to achieve savings of at least \$39 million under streamlined management.

Summary Table 1: Business Case Results for Life Cycle Cost Estimates (2002 dollars)

Management Option	Costs (PV)	Revenues (PV)	Net Program Cost (PV)	Risk-Adjusted Savings (90% level)
Base Case	\$541 million	\$197 million	\$344 million	
Streamlined Option	\$488 million	\$197 million	\$291 million	
Savings	\$53 million		\$53 million	\$39 million

As shown graphically at Summary Figure 1, and numerically at Summary Table 2, the savings reported above would begin to emerge in 2003/2004 and grow steadily thereafter. This profile allows for the initial period of legislative change, investment, technical restructuring and managerial re-organization required in order to enable the streamlining initiatives. Gross program costs would stabilize near \$63 million after 7 years.

Summary Figure 1: Comparative Annual Gross Costs for Base Case and Streamlined Option.



Summary Table 2: Annual Cost Results, Savings from Base Case Due to Streamlining Initiatives, and Expected Revenues (constant 2002 dollars - millions)

Option	02/03	03/04	04/05	05/06	06/07	07/08	Steady State	NPV (10 Yrs)
Base Case	\$90+\$10	\$115.4	\$103.4	\$77.8	\$79.0	\$75.3	\$72.3	\$541.4
Streamlined Management	\$90+\$10	\$111.4	\$92.7	\$72.6	\$67.9	\$65.6	\$63.4	\$488.0
Savings	\$0.0	\$4.0	\$10.7	\$5.2	\$11.1	\$9.7	\$8.9	\$53.4
Expected Revenues	\$12.5	\$16.3	\$23.5	\$35.2	\$34.7	\$33.5	\$35.1	\$196.6

Note: 2002/03 forecast includes a \$10M reserve for solution realization. This expense appears unlikely in 02/03.

The savings reported reflect certain assumptions that, due to their dependence on federal policy decisions, have not been subjected to probabilistic risk analysis. Key among these are:

- ?? The passage of Bill C-10A by March 15, 2003 and adoption of related regulations¹.
- ?? The integration of processing sites following start-up of operations under the Alternative Service Delivery (ASD) contract; and
- ?? The payment of delay costs during the period of any slippage between certification of the ASD solution and the initiation of that solution.

It should also be noted that the forecasts reported here do not account for a “contingent” cost associated with the eventual contractual treatment of approximately \$15 million in functional requirements presently under negotiation between the ASD provider (“Team Centra”) and the federal government.

The starting point for HLB’s streamlining assessment is the federal government’s Bill C-10A, a legislative program that amends the Firearms Act of 1995. While HLB identified and assessed various ways and means to streamline the Canadian Firearms Program as contemplated in Bill C-10A, it was beyond the scope of our brief to consider the withdrawal and comprehensive reformulation of the Bill and its underlying policy foundations.

Forecast expenditures in the next two years for the Canadian Firearms Program under the streamlined management option developed in this review are shown at Summary Table 3. Note that expenditures for 2002-03 are less than 2003-04 due to imposed spending limitations pending the program review. Expected revenues in this table were derived using the proposed fee schedule with no increases. The 5-year forecast for 2007/08 approaches steady state expenditure levels.

¹ Although schedule risk was originally considered in the quantitative analysis and risk model, interpretation and communication of results among management alternatives proved to be difficult due to timing of cash flows.

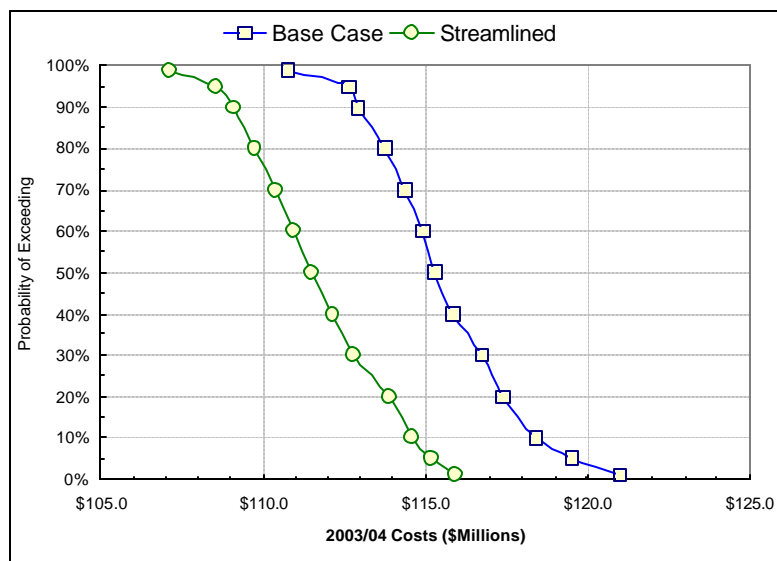
Summary Table 3: Canadian Firearms Program Forecast Expenditures – Streamlined Management (constant 2002 dollars), by Program Element.

Program Element	Year-end Forecast 02/03	Forecast 03/04 (million \$)	Forecast 04/05 (million \$)	Forecast 07/08 (million \$)
Canadian Firearms Centre	74.6	58.5	29.3	26.6
ASD Solution Realization and Operations	10.0*	26.9	44.7	22.5
Other Planned Expenditures	0.0	5.4	3.0	2.4
Other Government Departments	15.4	20.7	15.7	14.0
Total Costs	100.0	111.4	92.7	65.6
Expected Revenues	12.5	16.3	23.5	33.5
Net Program Costs	87.5	95.2	69.2	32.1

Note: A \$10M contingency has been included in the 2002/03 forecast. Forecast revenues are based on the proposed fee schedule with no increase. Other Government Departments include RCMP and CCRA.

The above results represent expected values obtained from the life cycle cost analysis. When risk is taken into account, the above forecasts are expressed in terms of a range of values with associated probabilities. The probability of exceeding any given level of expenditure can be obtained from the risk profile depicted at Summary Figure 2 below. For instance, there is a 10% chance that expenditures will exceed \$118 million in the base case unless appropriate actions are taken to control costs. Note that streamlining the program not only reduces expected resource demands but also reduces risk of cost over-runs.

Summary Figure 2: Distribution of 2003-04 Gross Program Costs for Base Case and the Streamlined Management Alternative.



The existence of different forecasts at different probability levels gives rise to the question of which probability level to employ in budgeting for future costs. (The probability levels themselves arise from uncertainty in the host of variables and assumptions that enter into the forecasting process. It is the statistical analysis of uncertainty in each of these variables and assumptions that gives rise to the probability forecasts given in Summary Figure 2.) The choice of a forecast for budgeting purposes is a trade-off between the need to minimize the risk of under-stating costs versus the need to create incentives for management to be resourceful and achieve efficient, lower cost outcomes. The choice of a risk level is appropriately made by policy makers. The key consideration is the degree of internal control available to program managers to shape actual outcomes. HLB’s assessment leads us to suggest that the 50 percent probable outcomes are achievable through control levers available to program managers.

Among the range of initiatives by which to improve productivity and reduce costs, some would require legislative or regulatory authority. Although the concept has been to expedite efficiencies enabled by Bill C-10A, a second round of streamlining would no doubt enable further savings without derogation from public safety goals. An illustrative list of such initiatives is given in Summary Table 4.

Summary Table 4: Illustrative Range of Possible Legislative Initiatives that could achieve productivity gains in the Canadian Firearms Program

Initiative	Section in FIREARMS ACT
Removal of 60-day non-resident declarations in favor of one-year pre-approved applications only	Sections 6, 35
Removal of requirement for authorizations to transport restricted and prohibited firearms	Sections 17-19
Removal of notion of producing licenses and CFO authorization of transfers	Sections 23,24,26,27
Removal of requirement for approval of shooting clubs and ranges (done by other authorities)	Section 29
Removal of all requirements to declare firearm exports for non-residents	Sections 37, 38
Removal of requirement to provide purpose for acquisition of restricted or prohibited firearms	Sections 28, 71
Moving of Registrar to Department of Justice	Sections 82,93
Removal of requirement to provide prescribed purposes for prohibited firearms	Sections 11,22
Requirement to submit to verification only if required by Registrar	Sections 2,3
Limiting of fields for reporting protected firearms	Section 8
Removal of gun show requirement (since transfers are tracked and buyers/sellers must be licensed)	Section 117

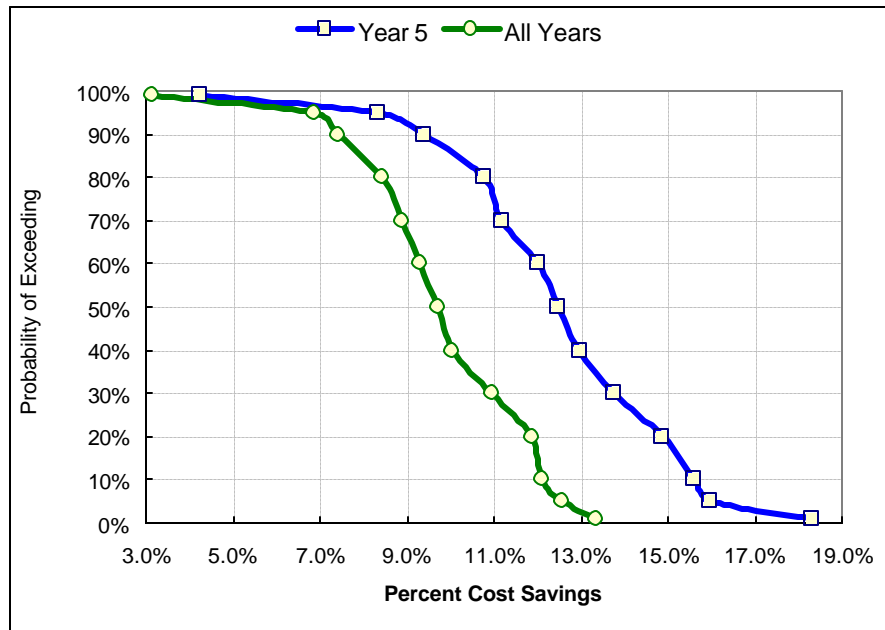
A wide range of considerations entered into HLB’s assessment of the CFP. Those of higher importance to achieve productivity gains and cost savings are outlined in Summary Table 5.

Summary Table 5 - Key Business Case Findings

- ?? **Financial Controls.** The CFRS is highly transaction oriented with a large set of inter-dependent business processes involving multiple agents. There is presently no systematic activity-based accounting process for use in financial performance management and planning.
- ?? **Streamlining.** Legislative streamlining has the potential to generate the greatest benefits both in labor force reductions and operations and maintenance costs. Rationalizing field services could lead to large efficiency gains.
- ?? **Operations Costs.** ASD business operations costs are determined by transaction volumes within service channels used by the public (e.g. electronic versus manual processing of calls and applications). Each 10% reduction in electronic service usage amounts to approximately \$1 million per year in incremental ASD costs to be paid by the government (see Figure 12 at Section 4).
- ?? **Delay Costs.** Significant costs of the CFP are driven by project schedule risk. Until the ASD solution is realized and implemented, the “incremental” cost to maintain the present CFRS and other supporting processes as compared to ASD is on the order of \$1.0M per month. Legislation and other key milestones such as data clean-up and conversion should be expedited so as to minimize delay costs to solution certification and the initial service effective date for ASD.
- ?? **Forms.** Regulations related to the Firearms Act specify that a large number of forms be maintained. Changes to these forms imply significant system maintenance costs impacting multiple screens and registry functionality. Streamlining and standardizing forms would significantly reduce system maintenance as well as processing costs and error rates.
- ?? **Field Services.** Service standards for firearms officers do not appear to be in place nationwide. The streamlined option would implement means to achieve funding parity among jurisdictions. Field services currently account for approximately 25% of the annual cost of the Canadian Firearms Program.
- ?? **Fees.** While costs to maintain and operate the CFRS are expected to increase over the systems life cycle (in nominal terms), no policy has yet been formulated on user fee adjustments. Revenue forecasts were conducted based on the proposed fee schedule for Bill C10-A, and also for nominal periodic increases.
- ?? **Change Management.** The current firearms registry was faced with nearly 2000 system change requests from various users, thereby increasing system “function points” from 900 to over 12,000 in a five year period. The management of system functional requirements must be tracked closely and coordinated centrally through task authorizations and continuous improvement.
- ?? **Program Budgeting.** The review by HLB Decision Economics Inc. was conducted over the span of a few weeks. An updated lifecycle cost forecast should be carried out within one year, with the benefit of a Continuous Improvement Plan to be developed through the Senior Financial Officer.

Under the streamlined program alternative, accounting for all efficiencies that could be gained², cost savings are significant. Summary Figure 6 shows the distribution of relative savings over the first 5 years and for the entire life cycle under the management alternative. Based on the processes and program management needs resulting from the Firearms Act, productivity gains of at least 8% appear achievable in the medium to long term.

Summary Figure 3: Distribution of Savings for the streamlined case as compared to the Base Case at Year 5 and over the 10-year life cycle.



² The magnitude of these benefits may in fact be understated when consideration is given to user benefits derived from time savings and convenience. Quantifying direct user and social benefits were outside the scope of this

1 INTRODUCTION

The Firearms Act of 1995, together with a series of associated regulations, govern the registration of guns and crossbows and the licensing of their owners under the Canadian Firearms Program (CFP). This report, one of three commissioned by the federal government in late 2002, identifies a range of options and initiatives for streamlining the CFP and assesses the costs, productivity gains, cost-effectiveness and risks of their implementation.

The starting point for HLB's streamlining assessment is the federal government's Bill C-10A, a legislative program that amends the Firearms Act of 1995. While HLB identified and assessed various ways and means to streamline the Canadian Firearms Program as contemplated in Bill C-10A, it was beyond the scope of our brief to consider the withdrawal and comprehensive reformulation of the Bill and its underlying policy foundations.

The report was developed in coordination with two other studies commissioned by the Department of Justice in December 2002. The first, conducted by Mr. Raymond V. Hession, examines the management and administration of the Canadian Firearms Program. Mr. Hession's recommendations for managerial and administrative change are reflected in the streamlining analysis conducted by HLB. The second report, authored by the firm KPMG, examines the past financial performance and controls of the Canadian Firearms Centre, the division of the Department of Justice established to implement the Canadian Firearms Program. HLB's forecasts of the costs of going-forward options, including streamlining alternatives, have been aligned with the KPMG analysis to ensure that the forecasts are consistent with all categories of expenditure incurred.

1.1 Assumptions

The analysis in this report reflects certain assumptions that, due to their dependence on federal policy decisions, have not been subjected to probabilistic risk analysis. Key among these are:

- ?? The passage of Bill C-10A by March 15, 2003 and adoption of related regulations³.
- ??
- ?? The integration of processing sites following start-up of operations under the Alternative Service Delivery (ASD) contract; and
- ??
- ?? The payment of delay cost during the period of any slippage between certification of the ASD solution and the initiation of that solution.

³ Although schedule risk was originally considered in the quantitative analysis and risk model, interpretation and communication of results among management alternatives proved to be difficult due to timing of cash flows.

1.2 Plan of the Report

The report is presented in six Sections. Section 2 outlines the methodological framework, a business case and risk analysis approach consistent with federal Treasury Board recommended procedures and guidelines. The base case and streamlining options are presented in Section 3. Section 4 explains the business case and risk analysis simulation model developed for purpose simulating and forecasting the costs, productivity and other related outcomes of each option. Section 5 documents the results obtained through risk analysis. Technical and financial assumptions derived through consensus have been documented at Appendix A. The Canadian Firearms Program review questions that framed this analysis are reported at Appendix B.

2 APPROACH

The process set out in this analysis gives rise to estimates of the costs and benefits of alternative methods of optimizing the business operations and effectiveness of the Canadian Firearms Program. The outcome will be a projection and risk analysis of the costs, productivities, timing and net financial benefits of ways and means of improving the business processes and decision making apparatus of the program. Conclusions will be drawn regarding the least-risk means by which the administration of the program can be optimized. This document represents the first stage in arriving at such conclusions.

HOW THE ASSESSMENT PROCESS WORKS

Economic and financial assessments of the costs, productivities and other benefits of major information technology-based business processes traditionally take the form of a single "expected outcome" supplemented with alternative scenarios. The limitation of a forecast with a single expected outcome is clear -- while it may provide the single best statistical estimate, it offers no information about the range of other possible outcomes and their associated probabilities. The problem becomes acute when uncertainty surrounding the forecast's underlying assumptions is material.

The scenario approach can exacerbate the problem of dealing with risk because it gives no indication of likelihood associated with the alternatives business case outcomes. The commonly reported "high case" may assume that most underlying assumptions deviate in the same direction from their expected value, and likewise for the "low case." In reality, the likelihood that all underlying factors shift in the same direction simultaneously is just as remote as everything turning out as expected.

Another common approach to providing added perspective on reality is "sensitivity analysis." Key forecast assumptions are varied one at a time in order to assess their relative impact on the expected outcome. A problem here is that the assumptions are often varied by arbitrary amounts. A more serious concern with this approach is that, in the real world, assumptions do not veer from actual outcomes one at a time. It is the impact of simultaneous differences between assumptions and actual outcomes that are needed to provide a realistic perspective on the "riskiness" of a forecast.

Risk Analysis provides a way around the problems outlined above. It helps avoid the lack of perspective in "high" and "low" cases by measuring the probability or "odds" that an outcome will actually materialize. This is accomplished by attaching ranges (*probability distributions*) to the forecasts of each input variable. The approach allows all inputs to be varied simultaneously within their distributions, thus avoiding the problems inherent in conventional sensitivity analysis. The approach also recognizes interrelationships between variables and their associated probability distributions.

Risk Analysis in Application

The Risk Analysis Process involves four steps:

Step 1. Identification of the structure and logic of the business case problem;

Step 2. Assignment of estimates and ranges (probability distributions) to each variable in the business case structure and logic;

Step 3. Expert and stakeholder engagement in the assessment of the business case model and assumption risk (The RAP Session); and

Step 4. Issuance of the business case risk analysis.

Step 1. Structure and Logic of the Business Case Problem

A “structure and logic model” depicts the variables and cause and effect relationships that underpin the business case problem at-hand (Figure 1). Although the structure and logic model is written down mathematically to facilitate analysis, it is also depicted diagrammatically in order to permit stakeholder scrutiny and modification in Step 3 of the process (see below).

The structure and logic model is presented in the context of a base case and alternatives to it. As shown in Figure 2, the base case is defined as the status quo streamlined for maximum efficiency within existing budgetary endowments and authorities. The benefits of alternatives that might require additional costs and authorities are compared to the base case, not the status quo, in order to avoid the exaggeration of efficiencies obtainable without additional spending.

Figure 1: Example of a Structure and Logic Model

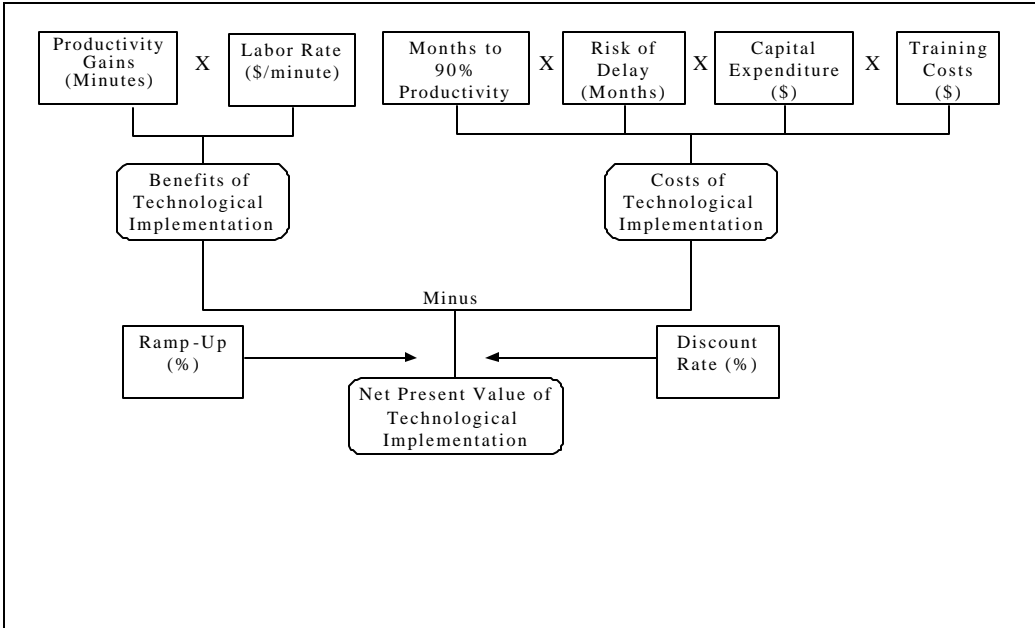
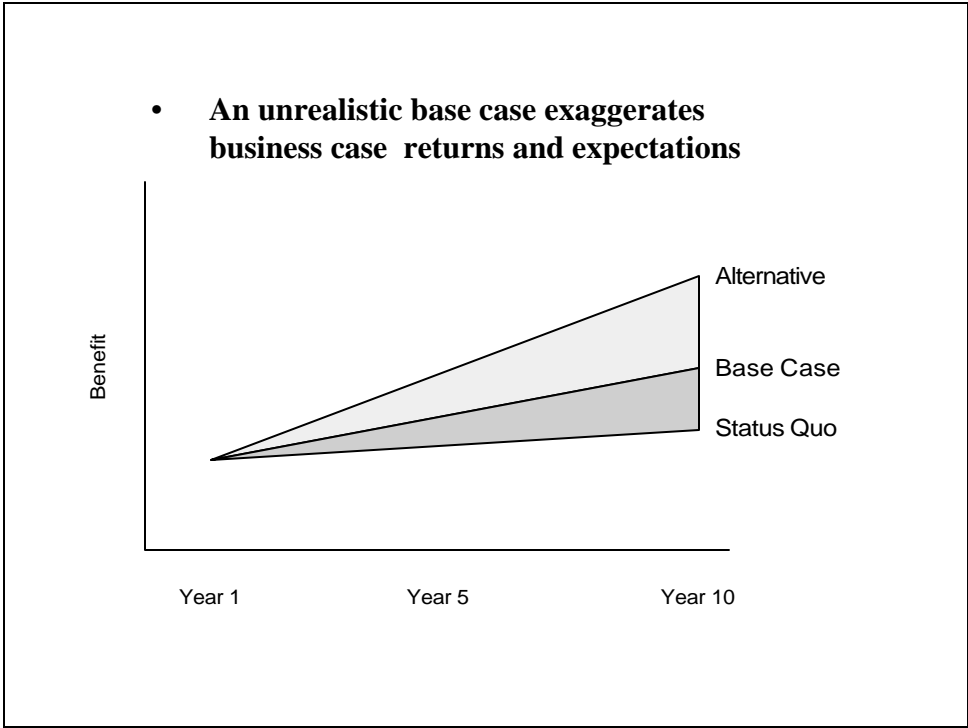


Figure 2: The Base Case



Step 2. Central Estimates and Probability Analysis

Each variable in the business case assessment model is assigned a central estimate and a range (a probability distribution) to represent the degree of uncertainty. Special data sheets are used (see Figure 3) to record the estimates. The first column gives an initial median while the second and third columns define an uncertainty range representing an 80 percent confidence interval. This is the range within which there exists an 80 probability finding the actual outcome. The greater the uncertainty associated with a forecast variable the wider the range.

Probability ranges are established on the basis of both statistical analysis and subjective probability. Probability ranges need not be normal or symmetrical -- that is, there is no need to assume the bell shaped normal probability curve. The bell curve assumes an equal likelihood of being too low and being too high in forecasting a particular value. It might well be, for example, that if a projected inflation rate deviates from expectations, circumstances are such that it is more likely to be higher than the median expected outcome than lower.

The RAP computer program transforms the ranges as depicted above into formal probability distributions (or "probability density functions" see Figure 4). This liberates the non-statistician from the need to appreciate the abstract statistical depiction of probability and thus enables stakeholders to understand and participate in the process whether or not they possess statistical training.

Where do the central estimates and probability ranges for each assumption in the business case structure and logic framework come from? There are two sources. The first is an historical analysis of statistical uncertainty in all variables and an error analysis of the business case "coefficients." "Coefficients" are numbers that represent the measured impact of one variable (say, income) on another (such as retail sales). While these coefficients can only be known with uncertainty, statistical methods help uncover the magnitude of such error (using diagnostic statistics such as "standard deviation," "standard error," "confidence intervals" and so on).

The uncertainty analysis outlined above is known in the textbooks as "frequentist" probability. The second line of uncertainty analysis employed in risk analysis is called "subjective probability" (also called "Bayesian" statistics, for the mathematician Bayes who developed it). Whereas a frequentist probability represents the measured frequency with which different outcomes occur (i.e., the number of heads and tails after thousands of tosses) the Bayesian probability of an event occurring is the degree of belief held by an informed person or group that it will occur. The use of both frequentist and subjective probability is especially important in business case outcomes such as schedule adherence where past performance is only a partial guide to the future. Management beliefs about schedule risk and achievability must also be taken into account (see Figure 5). Obtaining subjective probabilities is the subject of Step 3.

Figure 3: Sample Data Sheet

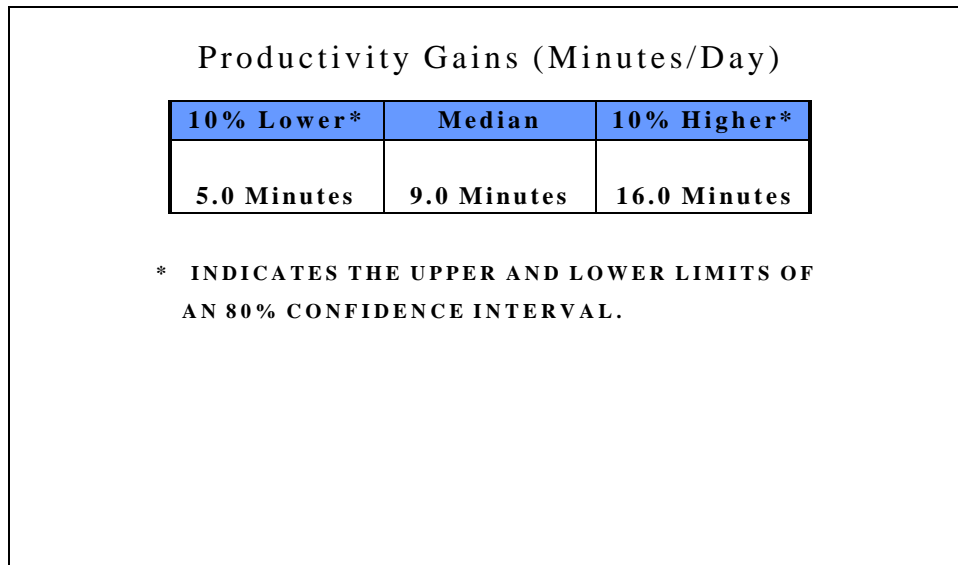


Figure 4: Assessing Uncertainty

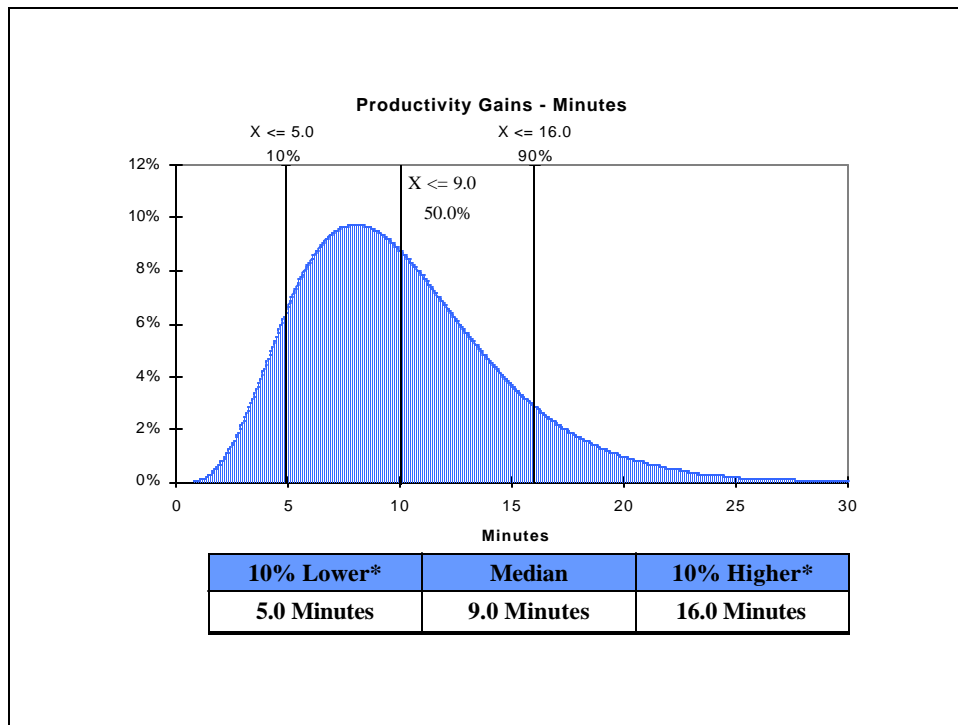
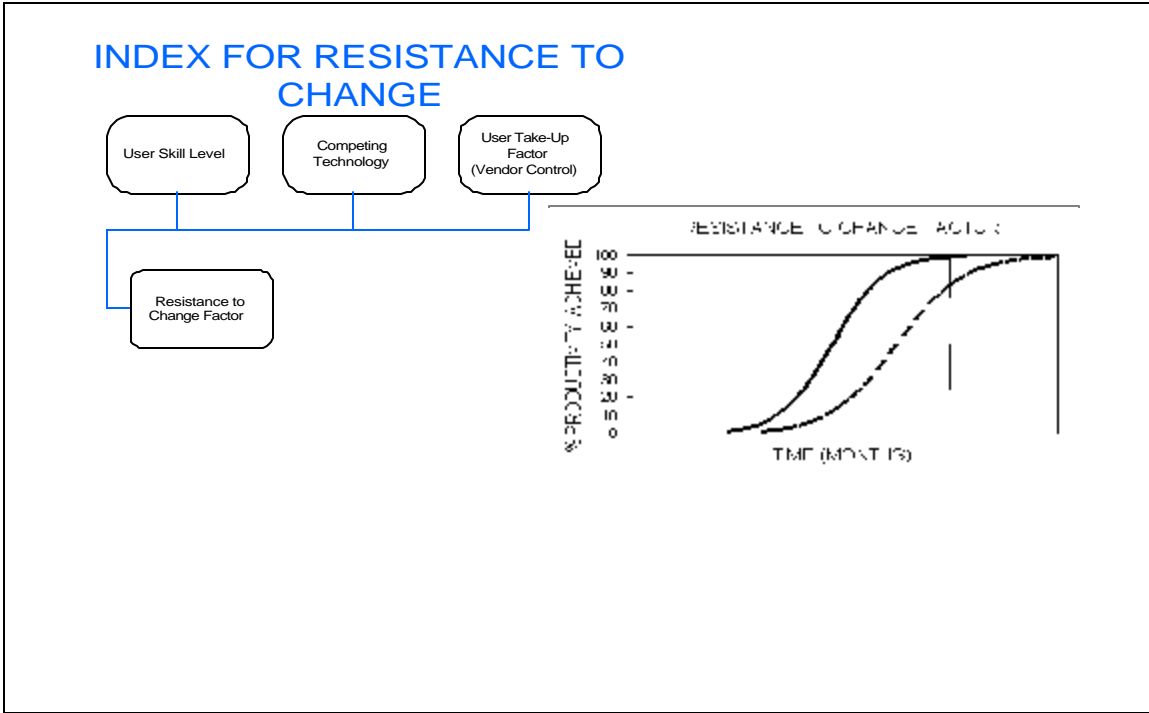


Figure 5: Ramp-Up and Organizational Change



Step 3. Stakeholder Evaluation: The RAP Session

Step 3 involves the formation of a stakeholder panel and the use of facilitation techniques to elicit, from the panel, risk and probability beliefs about:

- i. The structure of the business case framework; and
- ii. Uncertainty attached to each variable and business case coefficient within the framework.

In (i), technical experts, managers and other stakeholders are invited to add variables and hypothesized causal relationships that may be material, yet missing from the model. In (ii), panelists are engaged in a discursive protocol during which the frequentist-based central estimates and ranges, provided to panelists in advance of the session, are modified according to subjective expert beliefs. This process is aided with an interactive “groupware” computer tool that permits the visualization of probability ranges under alternative belief systems.

Step 4. Risk Analysis

The final probability distributions are formulated by the risk analyst (HLB) and represent a combination of frequentist and subjective probability information drawn from Step 3. These are combined using simulation techniques (called Monte Carlo analysis) that allow each variable and business case coefficient to vary simultaneously according to its associated probability distribution (Figure 6). The result is a forecast of net benefit (discounted life-cycle costs minus discounted life-cycle benefits) together with estimates of the probability of achieving alternative outcomes given the uncertainty in underlying variables and coefficients (Figure 7).

Figure 6: Combining Probability Distributions

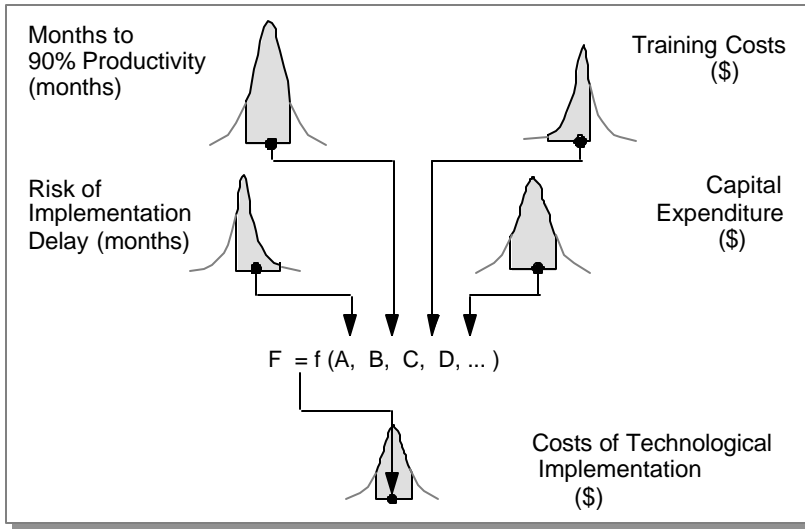
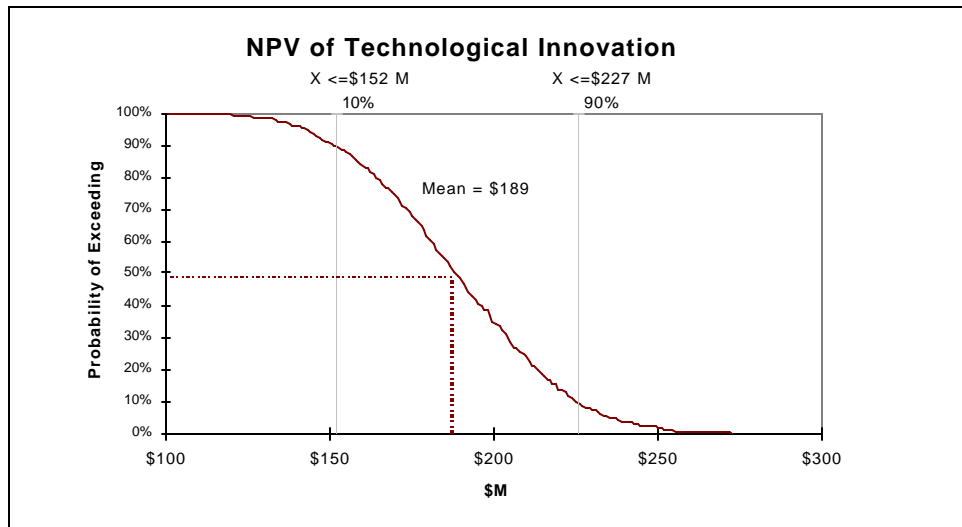


Figure 7: Risk Analysis, Sample Results



3 PROGRAM ALTERNATIVES

As part of the process of developing program management alternatives and collecting data for a baseline forecast, areas of inquiry for the review were identified early and directed to program staff and the Solutions Team. These addressed the areas of program schedule, financial planning, provincial agreements and field services, regulations, and organizational and management structures. A specific list of questions is included at Appendix A.

Based on the findings from these questions, the following two program alternatives were developed for assessment.

Base Case

For the purpose of this analysis, the Base Case is predicated on the Canadian Firearms Program Statement of Requirements for Alternate Service Delivery. It assumes, in particular, that the passing of Bill C10-A will result in the Firearms Registry adopting business processes as documented in Annex A – Appendix B of the SOR with associated volumes and service levels according to Appendix G.

The Base Case represents the current business plan with no significant investment beyond what is currently programmed for the CFRS. It assumes the passing of Bill C10-A with implied organizational structures and management models. No fixed assumptions are made on the timing for the introduction of Bill C10-A, for certification of the ASD solution, and for the ASD service effective date. Schedule risk is an integral part of the analysis.

Management actions that are currently planned by the Canadian Firearms Centre are considered part of the Base Case. This includes a load leveling strategy for renewals to mitigate the need for surge resources to be applied during the first licensing renewal cycle. It also includes an expansion of the role of the CFC Accreditation Unit so that it can screen out events centrally and conduct primary matching as part of continuous eligibility monitoring. This option assumes that Memorandums of Agreement (MOU) with provincial jurisdictions will be renewed and that public client services are handled through a single Central Processing Site (CPS).

Features of the Streamlined Program Option

The review by HLB Decision Economics in consultation with the Solutions Team and other stakeholders has led to a range of management and technology initiatives that could reduce program costs and risks while maintaining the policy objectives of Canada's Firearms Program. The attributes of a program management alternative called the "Streamlined Option" have been developed for business case assessment.

This option was developed for the purposes of the risk analysis exercise and does not necessarily represent official government policy. A specific action plan could be developed based on some of these ideas, which are intended to improve the efficiency and effectiveness of delivering the

Canadian Firearms Program. The streamlining option assumes that Bill C-10A will pass and that further legislative changes will be implemented.

The exploratory “Streamlined Option” addresses the areas of program governance, systems development, operations management, regulations, finance, and administration.

GOVERNANCE

Program Management Council and Continuous Improvement Plan

Reporting to the Minister responsible for the CFP, a Program Management Council (PMC), with a part-time Chair appointed by order-in-council, made up of senior representatives of organizations and stakeholders with a legitimate interest in the continuous improvement of the administration and operations of the CFP, would be created:

- ~~///~~ To act as “Chief User” for the CFP;
- ~~///~~ To provide regular guidance, in the form of advice on program quality, to the CFP leadership and the Minister;
- ~~///~~ To approve the annual CFP Continuous Improvement Plan; and
- ~~///~~ To ensure, to the maximum extent practicable, the CFP “steady state” operations are managed within the real expenditure cap established for the CFP beginning in 2003-2004.

Leadership

To allow the management of the Department of Justice to focus on its core policy role and to enable the CFP to focus on the efficient execution of its operational mission, the CFP would report to a Minister responsible for the CFP as an entity in its own right. A Chief Executive Officer would be appointed to lead the implementation of the changes and improvements found in Bill C10-A and within the streamlined program option described here in anticipation of “steady state” operations.

Quality and Integration Coordination

The CFP would implement a quality and integration coordination process that:

- ~~///~~ Is managed by a senior officer responsible for quality standards and risk management;
- ~~///~~ Encourages all parties involved in program delivery to continuously improve program efficiency;
- ~~///~~ Produces a 2003 Continuous Improvement Plan by May 2003;
- ~~///~~ Produces a Continuous Improvement Plan annually thereafter; and
- ~~///~~ Ensures that the CFP business process, organization and technology components are integrated and consistent with CFP work performance and cost standards that support the real expenditure cap established for the CFP beginning 2003-2004.

Controller (Senior Financial Officer)

The position of Controller (Senior Financial Officer) for the CFP would be established with a core FTE complement of fourteen. Primarily responsible for the planning, budgeting, recording, reporting and control of financial resources, and, as a key step in remedying past fiduciary weaknesses, the Controller would exercise financial functional control over all program activities.

The implementation of an Activity-Based-Costing capability would also be a priority for the development of standard costs for transactions involving repeatable procedures and functions.

SYSTEMS DEVELOPMENT AND OPERATIONS MANAGEMENT

Freeze on Technical Infrastructure Development

To bring development costs under control, with the exception of normal application maintenance, no additional software functions would be added to the existing technical infrastructure. With the exception of the development of the required interfaces to CCRA, DFAIT and RCMP systems to enable the efficient management of import, export and enforcement activities respectively, no additions to the scope of the ASD technical infrastructure would be considered until the 2003 Continuous Improvement Plan is approved.

Task Authorization Process

A Task Authorization (responsibility for results) management discipline is applied for significant initiatives and related investment and resource allocation decisions, applying that discipline now to priority work items, including:

- ~~///~~ Task Authorization One - User acceptance test and certification of the ASD contractor's solution;
- ~~///~~ Task Authorization Two - Data clean-up and data conversion in preparation for "going live" with the ASD contractor's certified solution;
- ~~///~~ Task Authorization Three - Development of the program to promote the use of Internet access to the CFP for licensing, transfers and registration transactions; and
- ~~///~~ Task Authorization Four - Development of proposed legislative changes beyond those found in Bill C-10A that further reduce costs, improve service, reduce overhead and eliminate ambiguity.

Internet Access

As a powerful means of improving service and reducing processing costs, enable the ability of applicants for licensing and registration to apply via the Internet and actively promote the use of this means of access.

Integrated Headquarters and Central Processing

The CFP headquarters, currently located in Edmonton, would be integrated with the Firearms Registry in one place with a target complement of seventy FTE's, down from a current eighty-six. It is recognized that the headquarters requires intensive day-to-day management of the myriad issues and initiatives facing the CFP. The Central Processing Site in Miramichi and the Quebec Processing Site would be integrated in one place to achieve the significant savings and economies of scale available.

The Canadian Firearms Centre (CFC) corporate functions are focused on licensing and registration following the achievement of steady state operations (e.g. scale back communications, research, policy etc). CFC's legislative training function is phased-out.

Federal Standards for Firearms Officers

Service Delivery Models for Firearms Officers are developed to implement work performance and cost standards for the federal Chief Firearms Officer and Firearms Officers administering the Firearms Act. These models are consistent with the budgetary objective of a minimum 25% reduction from previous operating costs for "steady state".

Provinces Maintain Federal Standards

To achieve budgetary objectives for "steady state" operations, existing service agreements are renegotiated with those provincial jurisdictions currently performing the Chief Firearms Officer and Firearms Officer roles in their respective provinces to implement and maintain federal work performance and cost standards for these functions.

Federal "Step In" Provisions

To achieve and maintain budgetary objectives for "steady state" operations, the Federal Government assumes the Chief Firearms Officer and Firearms Officers roles in those provinces that are unable or unwilling to implement and maintain the federal work performance and cost standards.

Cost Limitations

To achieve budgetary objectives for "steady state" operations, provinces wishing to maintain their Chief Firearms and Firearms Officers roles at levels that exceed the federal work performance and cost standards do so at their incremental cost.

National Weapons Enforcement Support Team (NWEST)

The National Weapons Enforcement Support Team (NWEST) is transferred to the RCMP to be managed there in the interest of the improved integration of its law enforcement mission.

REGULATIONS

Additional Legislative Changes

Legislative changes, in addition to those found in Bill C10A, that further reduce program delivery costs, improve service delivery, reduce program overhead burden, and eliminate ambiguity or uncertainty in the Firearms Act are expected to result from the 2003 Continuous Improvement Plan and would be considered for approval promptly thereafter. All such changes would become the subject of an intensive program of communication and training for front-line officers and administrators to ensure adequate comprehension and to facilitate the performance of their duties.

Outcomes-based legislative streamlining includes a review of the following sections and possible changes:

Sections 6, 35-51	Non-resident import/export processing to implement pre-clearance
Sections 17-19	Remove requirement for authorization to transport restricted and prohibited firearms
Sections 23,24,26,27	Remove notion of producing licenses and CFO authorization of transfers
Section 29	Remove approvals for shooting clubs and ranges; transfer to other authorities. Eliminate non-resident reporting on firearms export
Sections 28, 71	Remove reference to purpose for possession of restricted firearms
Sections 82,93	Move Registrar to DOJ
Sections 11,22	Remove requirement for prescribed purpose
Sections 2,3	Requirement to submit to verification only if required by Registrar
Section 8	Limit fields for reporting protected firearms
Section 117	Remove gun show req't since transfers are tracked and buyers/sellers must be licensed

Each of these initiatives would be subject to cost and public safety risk assessments. The range and nature of field services are aligned with the resulting legislative and regulatory streamlining.

FINANCE

Alternative Services Delivery (ASD) Contract Terms

With the early passage of Bill C10-A, negotiate arrangements within the terms of the existing ASD contract that:

- ~~☒~~ Enable the transfer of cost and service level risk to the contractor in exchange for sharing in any cost displacement or productivity gains arising from approved Continuous Improvement Plan initiatives;
- ~~☒~~ Enable technical infrastructure solutions to be delivered that satisfy the requirements of Bill C10-A and the CFP 2003 Continuous Plan, based on specified outcomes.
- ~~☒~~ Enable management responsibility for the processing of applications for licenses, transfers and firearms registrations by the Central Processing Site to be transferred to the ASD contractor, based on the achievement of stipulated service levels and cost thresholds

at or below 75% of the current CFP business model and that planned for “steady state” operations.

User Fees

User fee incentives are developed to maximize compliance while minimizing operational costs. This involves the analysis of marginal costs of providing service using various channels within the licensing and registration processes. The ability of a governing body to modify the user fee structure and levels within prescribed boundaries is considered.

ADMINISTRATION

Transition Planning and Communications

The streamlined program features described above create a significant change dynamic for the CFP staff, stakeholders and users. A comprehensive transition and communications plan is developed and implemented following their approval to ensure that:

- ~~///~~ Affected CFP staff, stakeholders, partners and users are made aware of the changes;
- ~~///~~ The expected timing and operational outcomes of the changes are made known;
- ~~///~~ Individuals affected by the changes are informed of their new work arrangements, where applicable; and
- ~~///~~ Individuals requiring adjustment assistance (job training, relocation, placement, etc.) are notified of their disposition in a timely way.

The features of this streamlined option represent an integrated plan of action intended to optimize the economy of the administration of the CFP and the services it provides to its participants and users. Their acceptance should, with diligent and expeditious implementation, improve program relevance and acceptance.

4 BUSINESS CASE MODEL STRUCTURE

The following structure and logic diagrams display elements of the business case model in a non-technical way that was used to facilitate stakeholder review and validation. They list variables considered in the business case, most of which have been forecasted as part of the risk analysis.

Program effectiveness was assessed qualitatively in this exercise and assumed constant over the alternatives considered. The objective was to minimize life cycle cost without negatively affecting program performance.

Figure 8: High Level Structure and Logic of CFP Lifecycle Costs

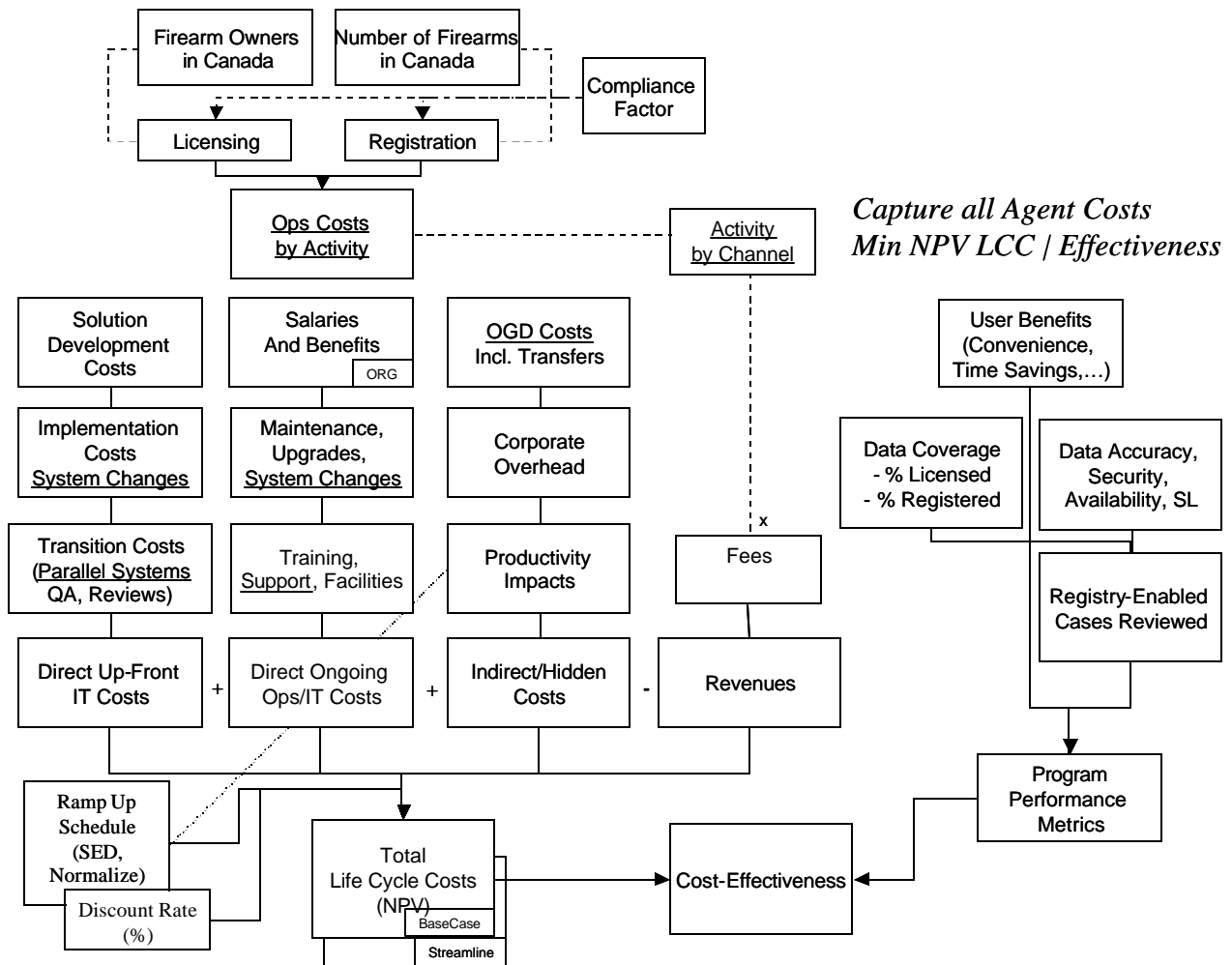


Figure 9: CFP Development and Ongoing Costs

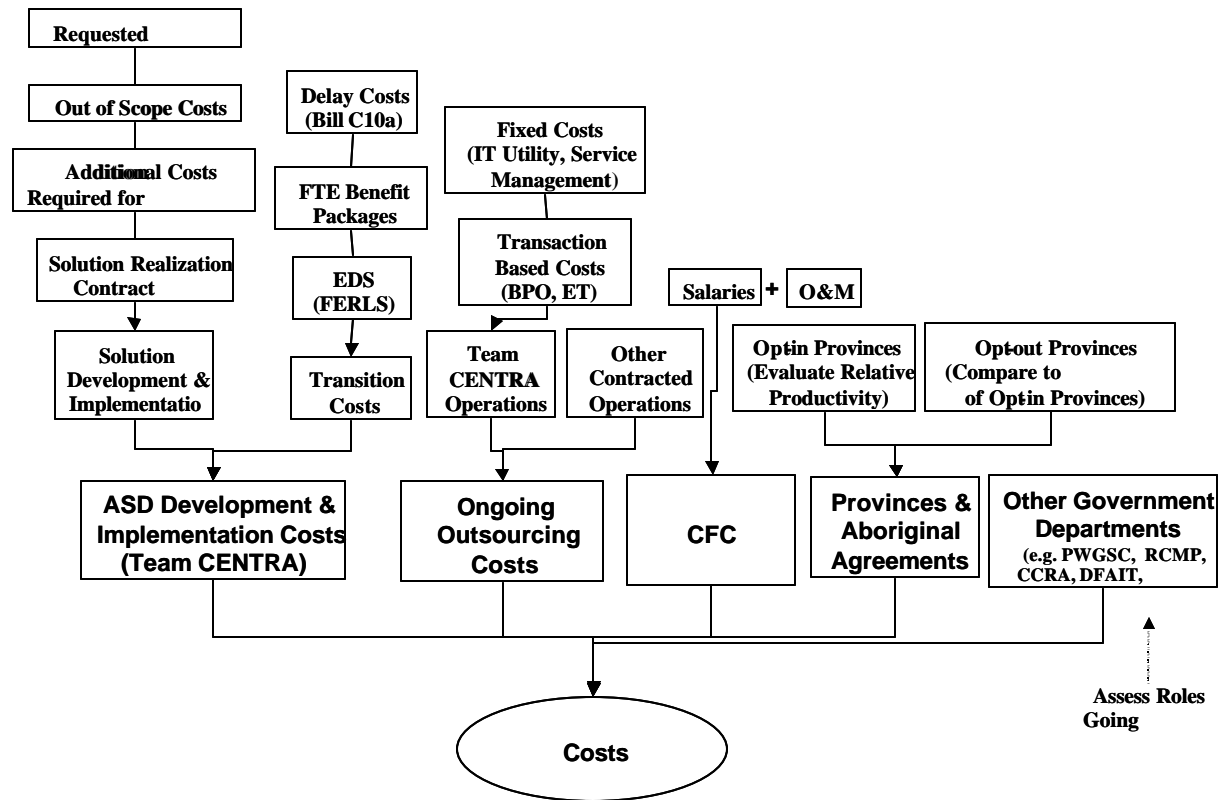
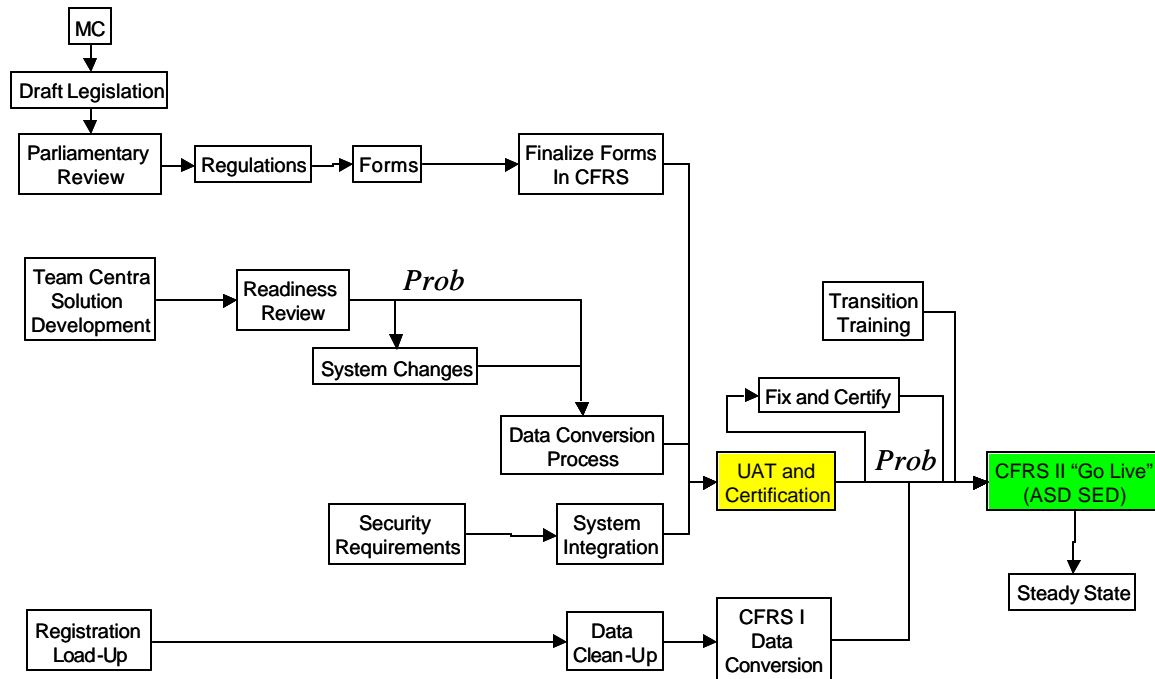


Figure 10: Schedule Risk Critical Path



Schedule risk can be represented by the above critical path network. It is a variant of a standard structure and logic diagram.

The ASD service effective date is a function of three key milestones: solution certification, completion of data conversion, and transition training. User acceptance testing and certification can only take place once regulations and forms associated with Bill C-10A have been finalized, once system integration has been carried out (with agreement and compliance with security requirements which are not yet finalized), and the data conversion process has been demonstrated. Certification may occur on first attempt, but there is a probability (*Prob*) that the solution provider will need to carry out remedial actions and demonstrate compliance.

Note that more stringent security requirements for the CFRS are being contemplated before integration with RCMP and CCRA systems (e.g. PKI).

Figure 11: ASD Business Operations Costs

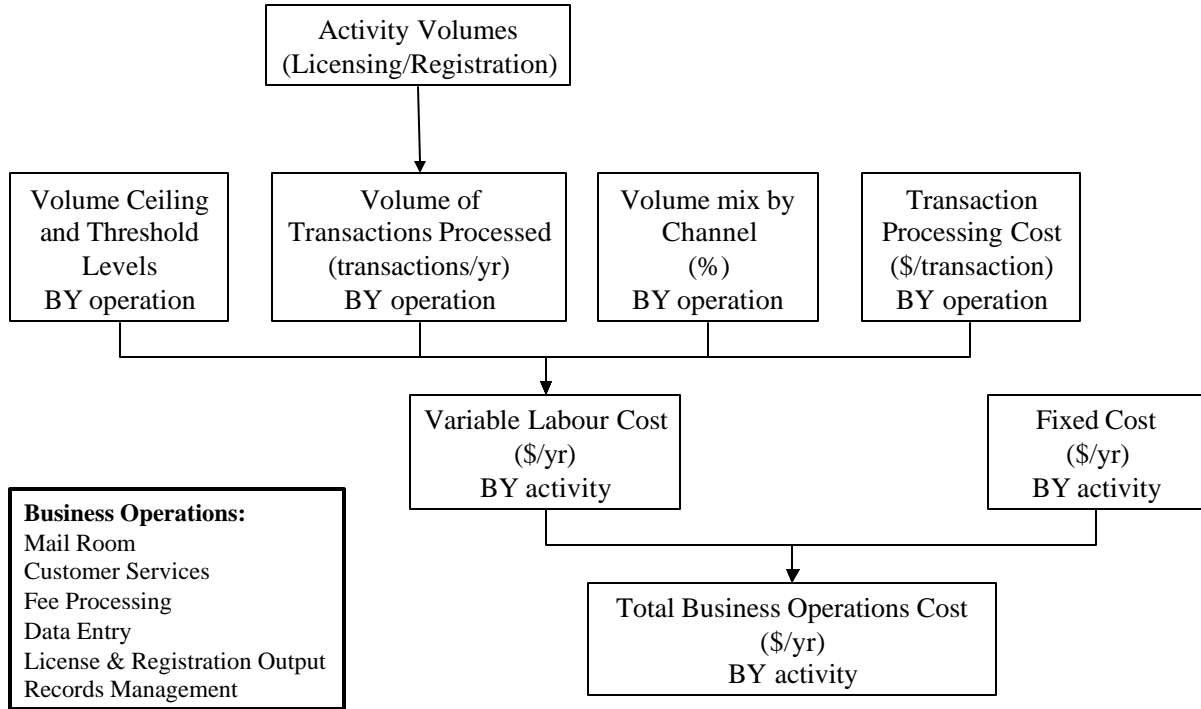


Figure 12: ASD Business Operations Cost Impact as a Function of Channel Use

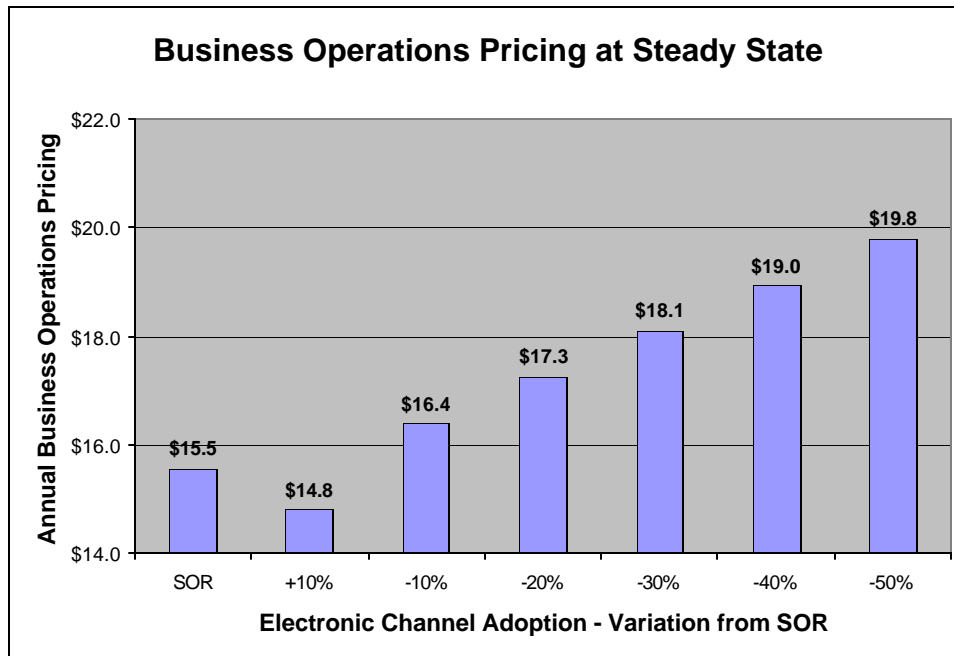


Figure 13: Revenue Forecast

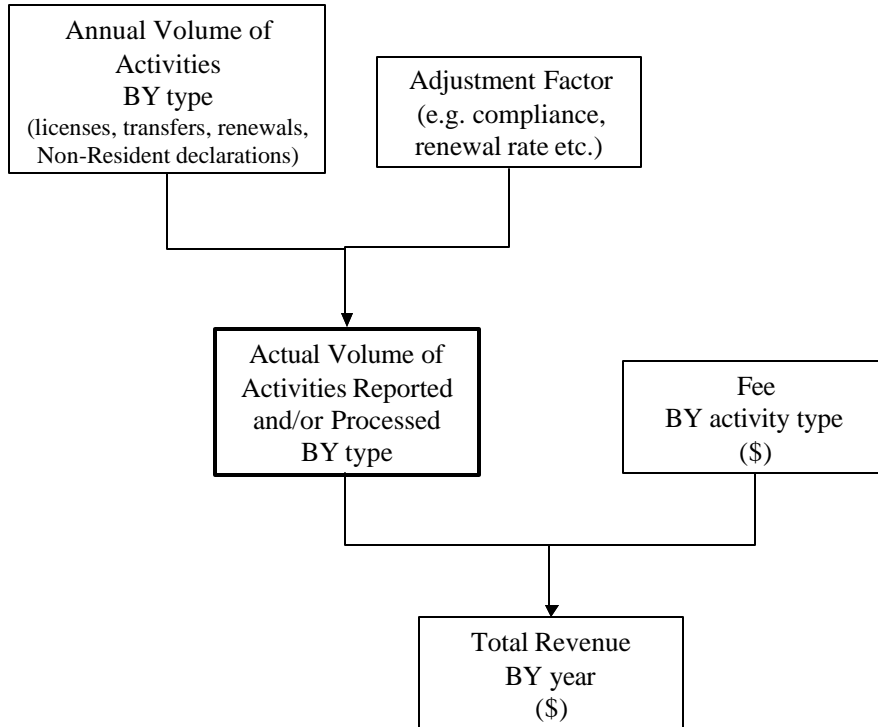
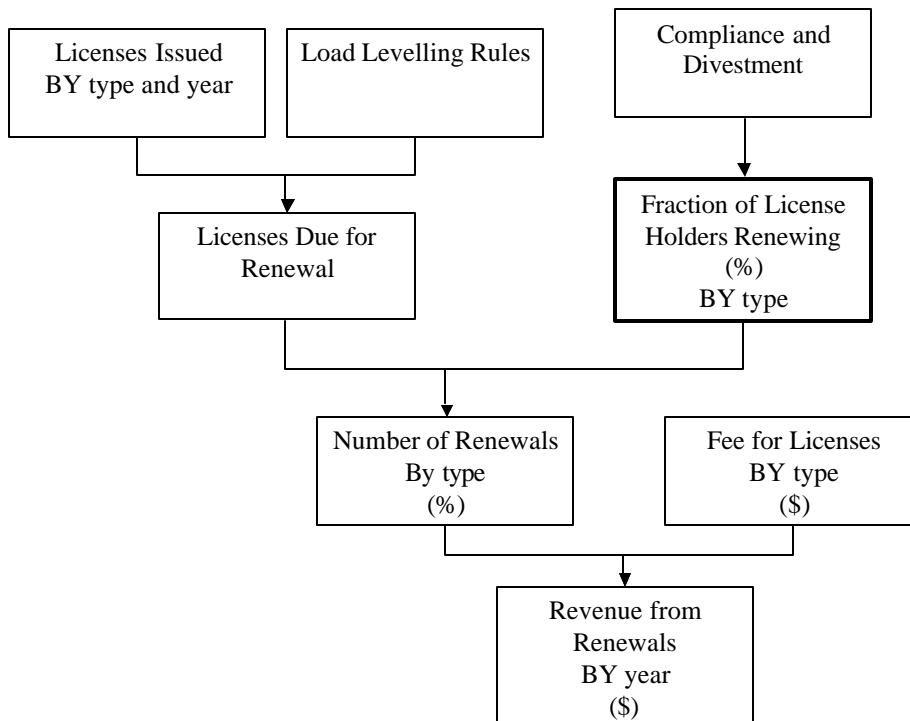


Figure 14: Revenue from License Renewals



5 RESULTS

5.1 Life Cycle Cost Estimates

In comparison with existing plans for structuring and managing the Canadian Firearms Program over the forthcoming 10 years, the range of managerial, technological and procedural initiatives identified in this report would produce expected net estimated savings of \$53 million (present value, in constant 2002 dollars). The risk-adjusted savings reported here indicate there is a 10 percent chance of failure to achieve savings of at least \$39 million under streamlined management.

Table 1: Business Case Results for Life Cycle Cost Estimates (2002 dollars)

Management Option	Costs (PV)	Revenues (PV)	Net Program Cost (PV)	Risk-Adjusted Savings (90% level)
Base Case	\$541 million	\$197 million	\$344 million	
Streamlined Option	\$488 million	\$197 million	\$291 million	
Savings	\$53 million		\$53 million	\$39 million

As shown graphically at Figure 15, and numerically in Table 2, the savings reported above would begin to emerge in 2004/2005 and grow steadily thereafter. This profile allows for the initial period of legislative change, investment, technical restructuring and managerial re-organization required in order to enable the streamlining initiatives. Gross program costs would stabilize near \$63 million after approximately 7 years, down from \$136 million in 2001/02.

Figure 15: Comparative Costs for Base Case and Streamlined Management alternative over lifecycle.

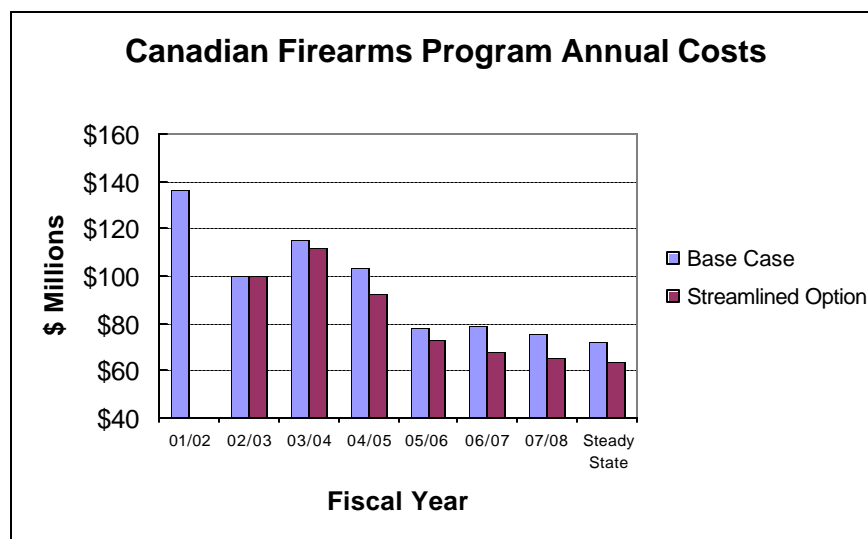


Table 2: Annual Cost Results, Savings from Base Case Due to Streamlining Initiatives, and Expected Revenues (constant 2002 dollars - millions)

Option	02/03	03/04	04/05	05/06	06/07	07/08	Steady State	NPV (10 Yrs)
Base Case	\$90+\$10	\$115.4	\$103.4	\$77.8	\$79.0	\$75.3	\$72.3	\$541.4
Streamlined Management	\$90+\$10	\$111.4	\$92.7	\$72.6	\$67.9	\$65.6	\$63.4	\$488.0
Savings	\$0.0	\$4.0	\$10.7	\$5.2	\$11.1	\$9.7	\$8.9	\$53.4
Expected Revenues	\$12.5	\$16.3	\$23.5	\$35.2	\$34.7	\$33.5	\$35.1	\$196.6

Note: 2002/03 forecast includes a \$10M reserve for solution realization. This expense appears unlikely in 02/03.

It should be noted that the forecasts reported here do not account for a “contingent” cost associated with the eventual contractual treatment of approximately \$15 million in functional requirements presently under negotiation between the ASD provider (“Team Centra”) and the federal government.

Forecast expenditures in the next two years for the Canadian Firearms Program under the streamlined management option developed in this review are shown at Table 3. Note that expenditures for 2002/03 are less than 2003/04 due to spending limitations pending the program review. Expected revenues in this table were derived using the proposed fee schedule with no increases. The 5-year forecast for 2007/08 approaches steady state expenditure levels.

Table 3: Canadian Firearms Program Forecast Expenditures – Streamlined Management (constant 2002 dollars)

Program Element	Year-end Forecast 02/03	Forecast 03/04 (million \$)	Forecast 04/05 (million \$)	Forecast 07/08 (million \$)
Canadian Firearms Centre	74.6	58.5	29.3	26.6
ASD Solution Realization and Operations*	10.0	26.9	\$44.7	22.5
Other Planned Expenditures	0.0	5.4	3.0	2.4
Other Government Departments**	15.4	20.7	15.7	14.0
Total Costs	100.0	111.4	92.7	65.6
Expected Revenues***	12.5	16.3	23.5	33.5
Net Program Costs	87.5	95.2	69.2	32.1

Note: *A \$10M contingency has been included in the 2002/03 forecast.

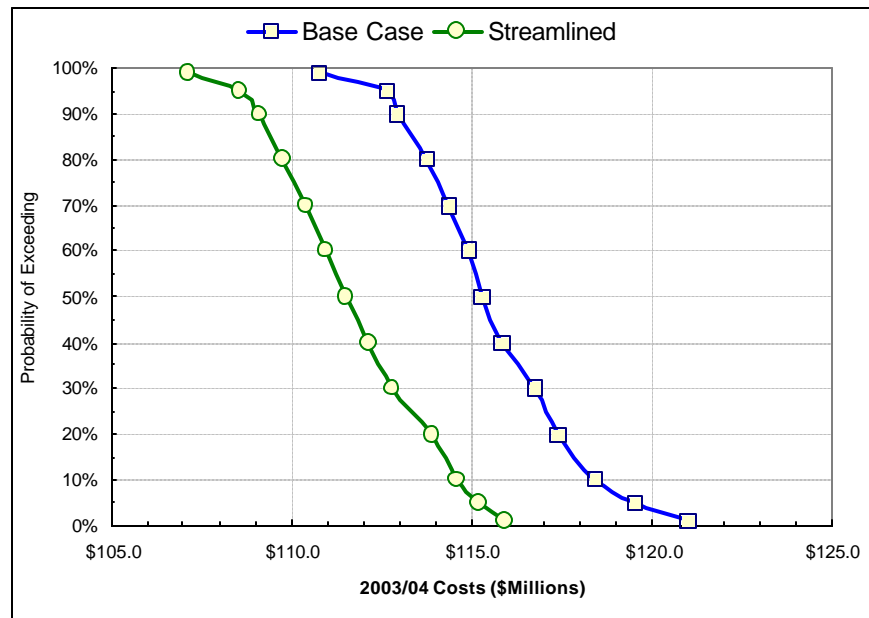
** Other government departments include RCMP and CCRA.

*** Forecast revenues are based on the proposed fee schedule with no increase.

The above results represent expected values obtained from the life cycle cost analysis. When risk is taken into account, the above forecasts are expressed in terms of a range of values with associated probabilities. The probability of exceeding any given level of expenditure can be

obtained from the risk profile depicted at Figure 16 below. For instance, there is a 10% chance that expenditures will exceed \$118 million in the base case unless appropriate actions are taken to control costs. Note that streamlining the program not only reduces expected resource demands but also reduces risk of cost over-runs.

Figure 16: Distribution of 2003-04 Gross Program Costs for Base Case and the Streamlined Management Alternative.



Although CFP spending for future years had been previously reported at \$95M for FY2003-04 and \$80M for 2004-05, these estimates were based on a previous proposal to cabinet dealing with Bill C-68, administrative streamlining provisions and a future licensing and registration system with the benefit of “raw” bid estimates. Comparing these previous budget estimates with what is shown here in the next few years can lead to misinterpretation since the ASD solution realization and associated payments have been delayed.

The existence of different forecasts at different probability levels gives rise to the question of which probability level to employ in budgeting for future costs. (The probability levels themselves arise from uncertainty in the host of variables and assumptions that enter into the forecasting process. It is the statistical analysis of uncertainty in each of these variables and assumptions that gives rise to the probability forecasts given in Figure 16.) The choice of a forecast for budgeting purposes is a trade-off between the need to minimize the risk of understating costs versus the need to create incentives for management to be resourceful and achieve efficient, lower cost outcomes. The choice of a risk level is appropriately made by policy makers. The key consideration is the degree of internal control available to program managers to shape actual outcomes. HLB’s assessment leads us to suggest that the 50 percent probable outcomes are achievable through control levers available to program managers.

5.2 Legislative Streamlining

Among the range of initiatives by which to improve productivity and reduce costs, some would require legislative or regulatory authority. Although the concept has been to expedite efficiencies enabled by Bill C-10A, a second round of streamlining would no doubt enable further savings without derogation from public safety goals. An illustrative list of such initiatives is given in Table 4.

Table 4: Illustrative Range of Possible Legislative Initiatives that could achieve productivity gains in the Canadian Firearms Program

Initiative	Section in FIREARMS ACT
Removal of 60-day non-resident declarations in favor of one-year pre-approved applications only	Sections 6, 35
Removal of requirement for authorizations to transport restricted and prohibited firearms	Sections 17-19
Removal of notion of producing licenses and CFO authorization of transfers	Sections 23,24,26,27
Removal of requirement for approval of shooting clubs and ranges (done by other authorities)	Section 29
Removal of all requirements to declare firearm exports for non-residents	Sections 37, 38
Removal of requirement to provide purpose for acquisition of restricted or prohibited firearms	Sections 28, 71
Moving of Registrar to Department of Justice	Sections 82,93
Removal of requirement to provide prescribed purposes for prohibited firearms	Sections 11,22
Requirement to submit to verification only if required by Registrar	Sections 2,3
Limiting of fields for reporting protected firearms	Section 8
Removal of gun show requirement (since transfers are tracked and buyers/sellers must be licensed)	Section 117

5.3 Important Business Case Findings

A wide range of considerations entered into HLB’s assessment of the CFP. Those of higher importance to achieve productivity gains and cost savings are outlined in Table 5.

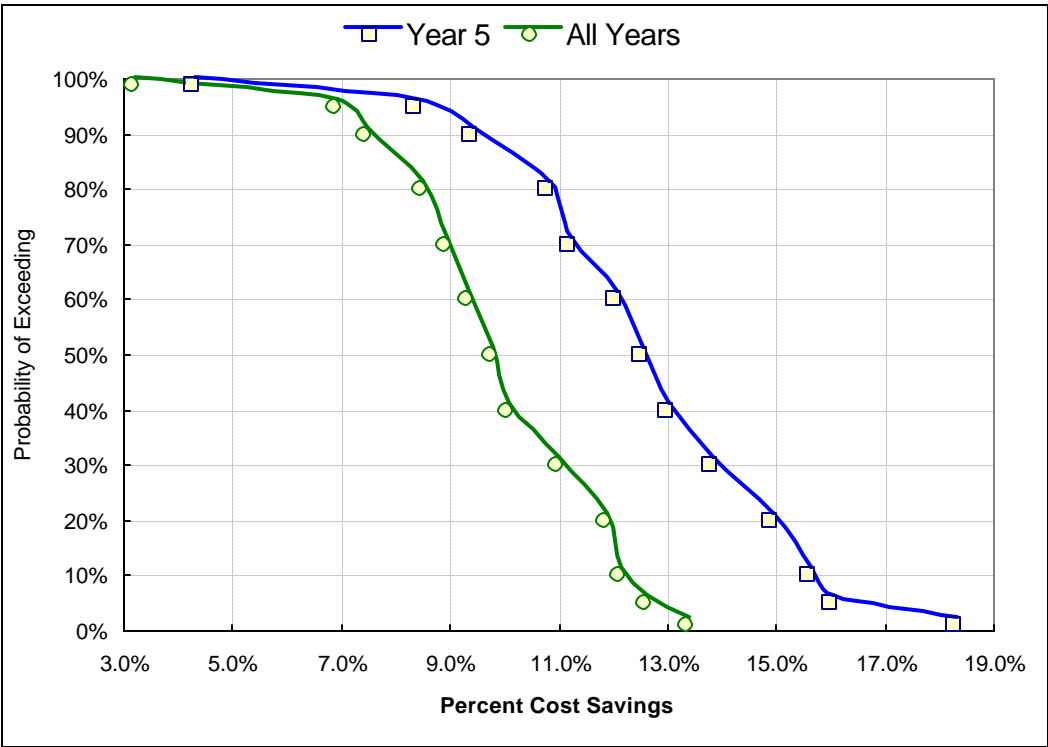
Table 5: Key Business Case Findings

<p>?? Financial Controls. The CFRS is highly transaction oriented with a large set of inter-dependent business processes involving multiple agents. There is presently no systematic activity-based accounting process for use in financial performance management and planning.</p> <p>?? Streamlining. Legislative streamlining has the potential to generate the greatest benefits both in labor force reductions and operations and maintenance costs. Rationalizing field services could lead to large efficiency gains for the program.</p> <p>?? Operations Costs. ASD business operations costs are determined by transaction volumes within service channels used by the public (e.g. electronic versus manual processing of calls and applications). Each 10% reduction in electronic service usage amounts to approximately \$1 million per year in incremental ASD costs to be paid by the government (see figure 12).</p> <p>?? Delay Costs. Significant costs of the CFP are driven by project schedule risk. Until the ASD solution is realized and implemented, the “incremental” cost to maintain the present CFRS and other supporting processes as compared to ASD is on the order of \$1.0M per month. Legislation and other key milestones such as data clean-up and conversion should be expedited so as to minimize delays to solution certification and the initial service effective date for ASD.</p> <p>?? Forms. Regulations related to the Firearms Act specify that a large number of forms be maintained. Changes to these forms imply significant system maintenance costs impacting multiple screens and system functionality. Streamlining and standardizing forms would significantly reduce system maintenance as well as processing costs and error rates.</p> <p>?? Field Services. Service standards for firearms officers do not appear to be in place nationwide. The streamlined option would implement means to achieve funding parity among jurisdictions. Field services currently account for approximately 25% of the annual cost of the Canadian Firearms Program.</p> <p>?? Fees. While costs to maintain and operate the CFRS are expected to increase over the systems life cycle (in nominal terms), no policy has yet been formulated on user fee adjustments. Revenue forecasts were conducted based on the proposed fee schedule for Bill C10-A, and also for nominal periodic increases.</p> <p>?? Change Management. The current firearms registry was faced with nearly 2000 system change requests from various users, thereby increasing system “function points” from 900 to over 12,000 in a five year period. The management of system functional requirements needs to be tracked closely and coordinated centrally through task authorizations and continuous improvement.</p> <p>?? Program Budgeting. The review by HLB Decision Economics Inc. was conducted over the span of a few weeks. An updated lifecycle cost forecast should be carried out within one year, with the benefit of a Continuous Improvement Plan to be developed through the Senior Financial Officer.</p>

5.4 Productivity Gains

Under the streamlined program alternative, accounting for all efficiencies that could be gained, cost savings are significant⁴. Figure 17 shows the distribution of savings over the first 5 years and for the entire life cycle under the management alternative. Based on the processes and program management needs resulting from the Firearms Act, productivity gains of at least 8% appear achievable in the medium to long term.

Figure 17: Distribution of Savings for the streamlined case as compared to the Base Case at Year 5 and over life cycle.



⁴ The magnitude of these benefits might be understated when consideration is given to user benefits derived from time savings and convenience. Quantifying direct user and social benefits were outside the scope of this analysis.

5.5 Revenue Forecast

Revenues were estimated on the basis of historical volumes of activities as well as volume projections included in the Statement of Requirements (SOR). Table 6 below lists the activities that were taken into account in modeling the stream of revenues, their volume in steady state and fee. Note that activities for which there is no fee at the present time are also included in the model (with the resulting assumption that the fee is \$0).

Table 6: Current Proposed Fee Schedule

	ACTIVITY	STEADY STATE VOLUME	FEE
1	POL Renewals	50,000 to 250,000	\$60
2	PAL Renewals (Non-Restricted)	80,000 to 250,000	\$60
3	PAL Renewals (Restricted & Prohibited)	20,000 to 60,000	\$80
	<i>Total Renewals (POL + PAL)</i>	<i>365,000</i>	<i>\$60/\$80</i>
4	POL to PAL upgrade	7,500	\$30
5	Possession License - Minor (various)	4,000	\$20
6	Non-Resident Confirmed Declaration	100,000	\$50
7	License to borrow firearms by non-residents	10,000	\$30
8	New PAL (non-restricted)	32,800	\$60
9	New PAL (restricted & prohibited)	7,200	\$80
10	Minors Upgrading to PAL	3,500	\$60
11	Business Transactions - all	5,050	\$180
12	Transfers (Non-Restricted)	123,000	\$25
13	Transfers (Restricted & Prohibited)	27,000	\$25
14	Newly manufactured firearms	250,000	\$0
15	ATC - to protect life	530	\$100
16	ATC - lawful profession or occupation (one year or less)	5,300	\$40
17	ATC - lawful profession or occupation (more than one year)	5,300	\$80
18	Long-term Authorization to Transport L-ATT	60,000	\$0
19	Short-term Authorization to Transport S-ATT	50,000	\$0
20	Process Canadians who reenter Canada with firearms	10,000	\$0
21	Destroyed and de-activated firearms	20,000	\$0

The annual volumes of individual license renewals were estimated by HLB using the historical information on licenses issued over the period from program inception to January 2003, projected volumes of new PAL licenses and projected upgrades from minor to regular PAL licenses. It was assumed that licenses would be renewed every 5 years. In order to avoid large fluctuations in renewal volumes, POL licenses were “load leveled” in such a way as to ensure a fairly even distribution of POL and PAL renewals over time. It was also assumed that only a certain fraction of POL and PAL holders would renew their license. The split between non-restricted PAL renewals and restricted PAL renewals was not modeled explicitly but assumed on the basis of historical volumes of non-restricted and restricted PAL licenses. Table 7 below shows the details of load leveling and renewal rate assumptions.

Table 7: Load Leveling and Renewal Rates

KEY ASSUMPTIONS FOR RENEWALS PROJECTIONS	
POL Renewal Rate (1st round)	0.75
POL Renewal Rate (next rounds)	0.9
PAL Renewal Rate (1st round)	0.9
PAL Renewal Rate (next rounds)	0.95
Load leveling of POL renewals	<i>Licenses expiring in 2005 (523,167 licenses):</i>
	270,000 licenses to year 2007
	173,167 licenses to year 2008
	<i>Licenses expiring in 2006 (715,594 licenses):</i>
220,000 licenses extended to year 2009	
315,594 licenses extended until year 2010	
Non-restricted PAL licenses as proportion of total PAL licenses	0.82

The main source of volume projections for the remaining activities listed in Table 6 was the SOR. All business transactions were aggregated into one item, and the corresponding fee was calculated from the historical business activity volumes as the weighted average fee charged.

Some adjustments to SOR projections were made in cases where the historical volume of the activity in question does not support the SOR projection. For example, the SOR anticipates the annual volume of minor licenses of 10,000. This seems to be very optimistic as the volume of minor licenses over the period from 1999 to 2003 did not exceed a 2,500 to 3,500-level. Therefore, the revenue model assumes an average of 4,000 minor applications a year.

Figure 18 below shows the projected revenues over the 15 years starting from the Service Effective Date under the assumptions of constant fees over time. Figure 19 illustrates expected revenues with sample periodic increases.

Figure 18: Revenue Share by transaction type (constant fees).

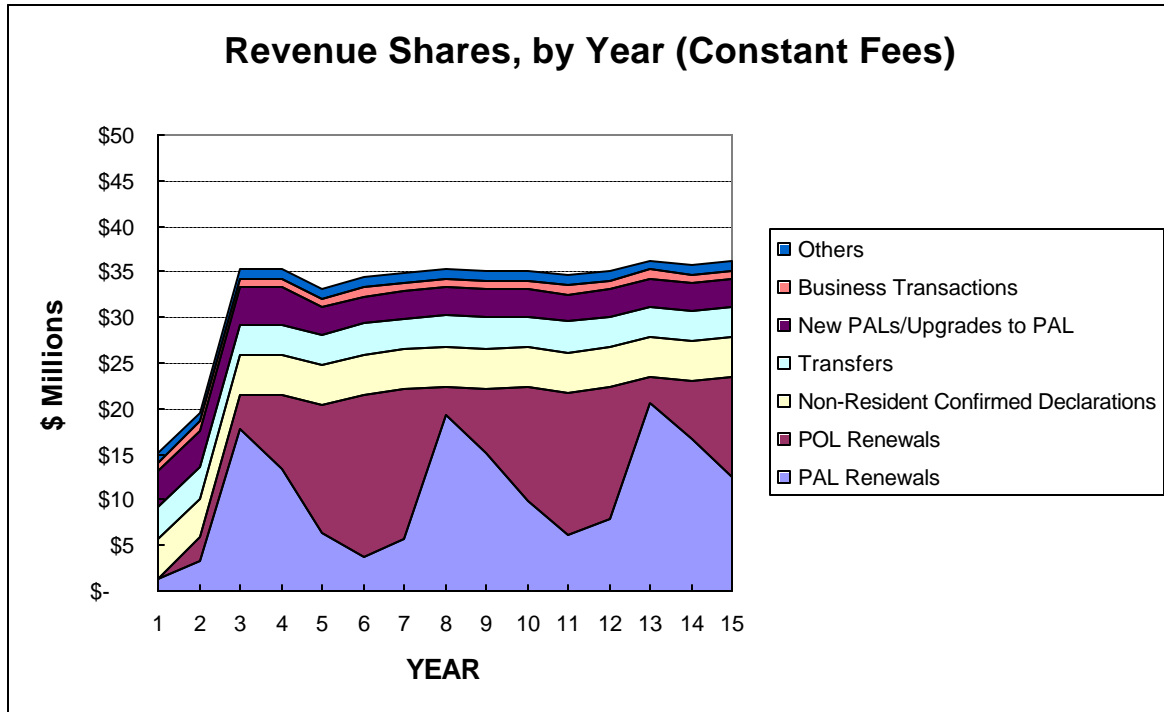
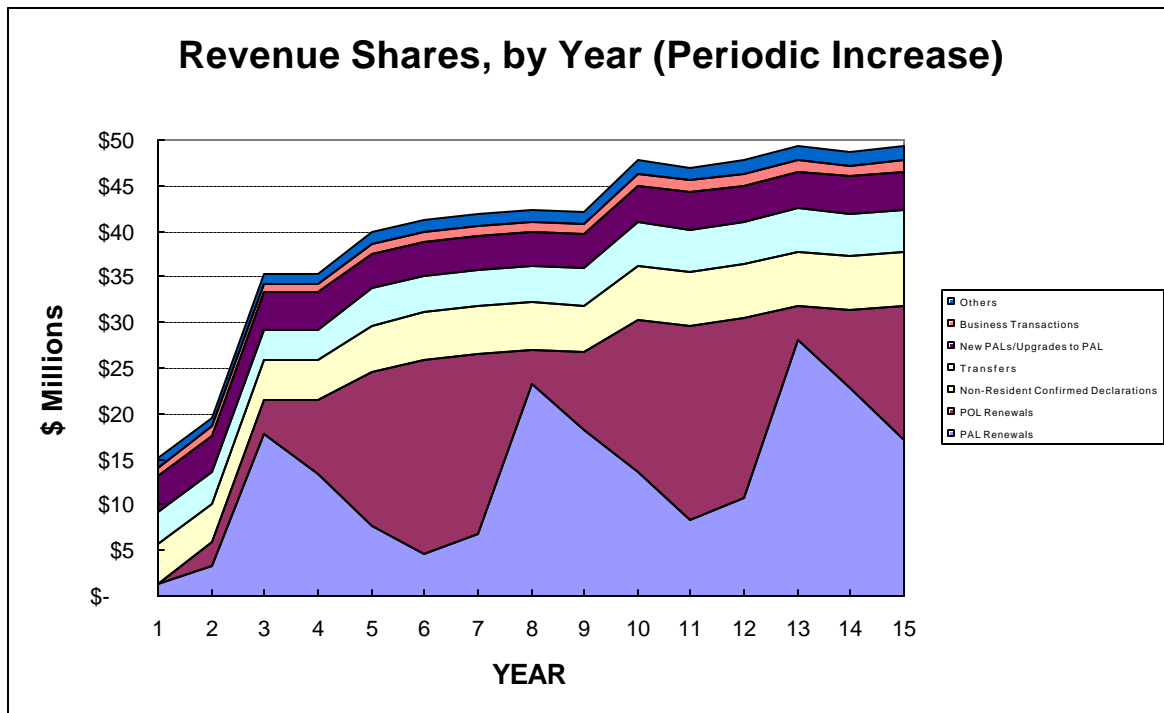


Figure 19: Revenue Share by transaction type (demonstrative fee increase).



APPENDIX A. VARIABLES AND DATA VALUES

HLB validated assumptions and developed consensus on forecasts for this business case assessment through its proven stakeholder risk analysis methodology (commonly known as RAP).

This section presents “data sheets” with probability ranges that have been used to facilitate the risk analysis. The objective has been to critically review these values to derive appropriate median and ranges of uncertainty. These tables have been grouped under sections covering development costs, schedule risk, productivity impacts, and revenue. Values were initially derived by HLB Decision Economics and refined through a facilitated risk analysis panel session with the Solutions Team on January 24th.

ASD Solution Development Costs

RAP Variables			
Variable	ASD Incremental Costs Required for Certification		
Variable Description:	The additional costs refer to items that may be required for certification and are considered as tasks related to increased scope or under-scoped requirements for automated solution. These costs are subject to negotiation with the solution provider.		
Unit:	\$ millions		
Initial Range			
	10% LOWER	MEDIAN	10% UPPER
Development (Base Case)	\$13.0 M	\$14.0 M	\$15.5 M
On-Going Costs (Base Case)	\$3.1 M	\$3.9 M	\$4.6 M
Source: Team CENTRA and Risk Analysis Panel #1			
Panel Range			
	10% LOWER	MEDIAN	10% UPPER
Development (Base Case)			
On-Going Costs (Base Case)			
Panel Comments			
<u>Comments and Rationale / Barriers, Risk Factors and Enablers:</u>			

RAP Variables			
Variable	ASD Development & Ongoing Costs: Requested Changes		
Variable Description:	Costs related to requirement changes requested by the Crown for RCMP interfaces and CCRA/DFAIT connectivity.		
Unit:	\$ Millions		
Initial Range			
	10% LOWER	MEDIAN	10% UPPER
Development costs	\$7.0 M	\$10.0 M	\$12.0 M
Ongoing costs	\$0.5 M	\$0.8 M	\$1.5 M
Source: Team Centra, HLB.			
Panel Range			
	10% LOWER	MEDIAN	10% UPPER
Development costs			
Ongoing costs			
Panel Comments			
<p><u>Comments and Rationale / Barriers, Risk Factors and Enablers:</u></p>			

RAP Variables			
Variable	ASD Continuous Development Costs		
Variable Description:	Annual ongoing program development costs expressed as percentage of the one-time up-front development costs.		
Unit:	% of One-Time Costs		
Initial Range			
	10% LOWER	MEDIAN	10% UPPER
Continuous Development Costs (Base Case)	6%	12%	24%
Source: HLB, Solutions Group			
Panel Range			
	10% LOWER	MEDIAN	10% UPPER
Continuous Development Costs (Base Case)			
Panel Comments			
<u>Comments and Rationale / Barriers, Risk Factors and Enablers:</u>			

RAP Variables			
Variable	Additional Costs to be incurred up to SED		
Variable Description:			
Unit:	\$ Millions		
Initial Range			
	10% LOWER	MEDIAN	10% UPPER
UAT & Certification	\$0.5 M	\$0.6 M	\$0.8 M
Data Clean-up and Conversion	\$0.5 M	\$0.6 M	\$1.2 M
Transition Training	\$0.4 M	\$0.5 M	\$0.8 M
Process Letters Of Intent (130,000+)	\$1.6 M	\$2.2 M	\$ 2.5 M
Source: HLB			
Panel Range			
	10% LOWER	MEDIAN	10% UPPER
UAT & Certification			
Data Clean-up and Conversion			
Transition Training			
Process Letters Of Intent (130,000+)			
Panel Comments			
<u>Comments and Rationale / Barriers, Risk Factors and Enablers:</u>			

Schedule Risk

RAP Variables			
Variable	Months to ASD solution certification		
Variables Description:	Time to carry out user acceptance testing (UAT), to certify, and/or to carry out remediation.		
Unit:	Months		
Initial Range			
	10% LOWER	MEDIAN	10% UPPER
Months to Certification – Base Case	11	12	16
Months to Certification – Streamlined Option	8	9	12
Source: HLB based on simulation of SED from critical path individual time estimates (Base Case), Solutions Group			
Panel Range			
	10% LOWER	MEDIAN	10% UPPER
Months to SED – Base Case			
Months to SED – Streamlined Option			
Panel Comments			
<p><u>Comments on Risk Factors, Barriers, and Enablers:</u></p>			

RAP Variables			
Variable	Months to CFRS II Service Effective Date (SED)		
Variables Description:	Time to implement C-10A, convert data and “Go Live”		
Unit:	Months		
Initial Range			
	10% LOWER	MEDIAN	10% UPPER
Months to Initial SED – Base Case	10	14	18
Months to initial SED – Streamlined Option	10	12	16
Source: HLB based on simulation of SED from critical path analysis (Base Case), Solutions Group			
Panel Range			
	10% LOWER	MEDIAN	10% UPPER
Months to SED – Base Case			
Months to SED – Streamlined Option			
Panel Comments			
<u>Comments on Risk Factors, Barriers, and Enablers:</u>			

RAP Variables			
Variable	ASD-Related Delay Costs		
Variable Description:	Delay costs for ASD services to be paid after certification		
Unit:	\$Millions		
Initial Range			
	10% LOWER	MEDIAN	10% UPPER
Delay costs to June 30th	0	0	0
Monthly delay costs - Post Certification	\$ 0.5 M	\$0.6 M	\$ 0.9 M
Source: Team CENTRA and HLB.			
Panel Range			
	10% LOWER	MEDIAN	10% UPPER
Delay costs to June 30th			
Monthly delay costs - Post Certification			
Panel Comments			
<u>Comments and Rationale / Barriers, Risk Factors and Enablers:</u>			

Productivity Impacts

RAP Variables			
Variable	Cost Reductions from Base Case		
Variable Description:	Reduction in costs from specific management initiatives		
Unit:	% change in annual cost as compared to Base Case		
Initial Range			
	10% LOWER	MEDIAN	10% UPPER
Program Management Council and Continuous Improvement Plan	1%	2.5%	5%
Federal Standards for Firearms Officers including Cost Limitations	10%	25%	28%
Centralized CPS operations	5%	10%	15%
Source: HLB, Solutions Group Note: * Net program savings after funding adjustments			
Panel Range			
	10% LOWER	MEDIAN	10% UPPER
Program Management Council and Continuous Improvement Plan			
Federal Standards for Firearms Officers including Cost Limitations			
CPS operations in Miramichi			
Panel Comments			
<u>Comments and Rationale / Barriers, Risk Factors and Enablers:</u>			

Streamlining Option Development Costs

RAP Variables			
Variable	ASD Continuous Development Costs		
Variable Description:	Annual ongoing program development costs expressed as percentage of the one-time up-front development costs.		
Unit:	% of One-Time Costs		
Initial Range			
	10% LOWER	MEDIAN	10% UPPER
Continuous Development Costs (Streamlined Option)	5%	10%	18%
Source: HLB, Solutions Group			
Panel Range			
	10% LOWER	MEDIAN	10% UPPER
Continuous Development Costs (Streamlined Option)			
Panel Comments			
<u>Comments and Rationale / Barriers, Risk Factors and Enablers:</u>			

RAP Variables			
Variable	Additional Costs – Streamlined Option		
Variable Description:	Additional Costs in the Streamlined Option		
Unit:	\$ Millions		
Initial Range			
	10% LOWER	MEDIAN	10% UPPER
Activity-based Accounting	\$0.3 M	\$0.4 M	\$0.8 M
Continuous Improvement Plan	\$0.4 M	\$0.5 M	\$0.7 M
Professional Services	\$1.3 M	\$1.5 M	\$2.0 M
Internet Access Promotion	\$0.7 M	\$0.8 M	\$ 0.9 M
Source: Hession Report to the Minister			
Panel Range			
	10% LOWER	MEDIAN	10% UPPER
Activity-based Accounting			
Continuous Improvement Plan			
Professional Services			
Internet Access Promotion			
Panel Comments			
<u>Comments and Rationale / Barriers, Risk Factors and Enablers:</u>			

Fee Adjustment Policy

RAP Variable			
Variable	Fee Adjustment		
Variable Description:	Percentage change in fees in steady state		
Unit:	%		
Initial Range			
	%		
	10% LOWER	MEDIAN	10% UPPER
% change in fees in Year 5 from YR1		20%	
% change in fees in Year 10 from YR1		36%	
Source: HLB. This data is used for scenario analysis only. It does not represent government policy.			
Panel Range			
	10% LOWER	MEDIAN	10% UPPER
% change in fees in Year 5 from YR1			
% change in fees in Year 10 from YR1			
Panel Comments			
<p><u>Comments and Rationale / Barriers, Risk Factors and Enablers:</u></p>			

Firearms and Owners in Canada

RAP Variables			
Variable	Number of firearms and firearm owners in Canada in 2003		
Variable Description:	Firearms and firearm owner counts in 2003		
Unit:	Millions		
Initial Range			
	10% LOWER	MEDIAN	10% UPPER
Firearm owners in Canada in 2003	2.2 M	2.3 M	2.6 M
Firearms in Canada in 2003	6.6 M	7.2 M	8.7 M
Source: GPC Survey 2000-2001, Solutions Group			
Panel Range			
	10% LOWER	MEDIAN	10% UPPER
Firearm owners in Canada in 2003			
Firearms in Canada in 2003			
Panel Comments			
<p><u>Comments and Rationale / Barriers, Risk Factors and Enablers:</u></p>			

Figure 20: Number of Firearm Owners in Canada

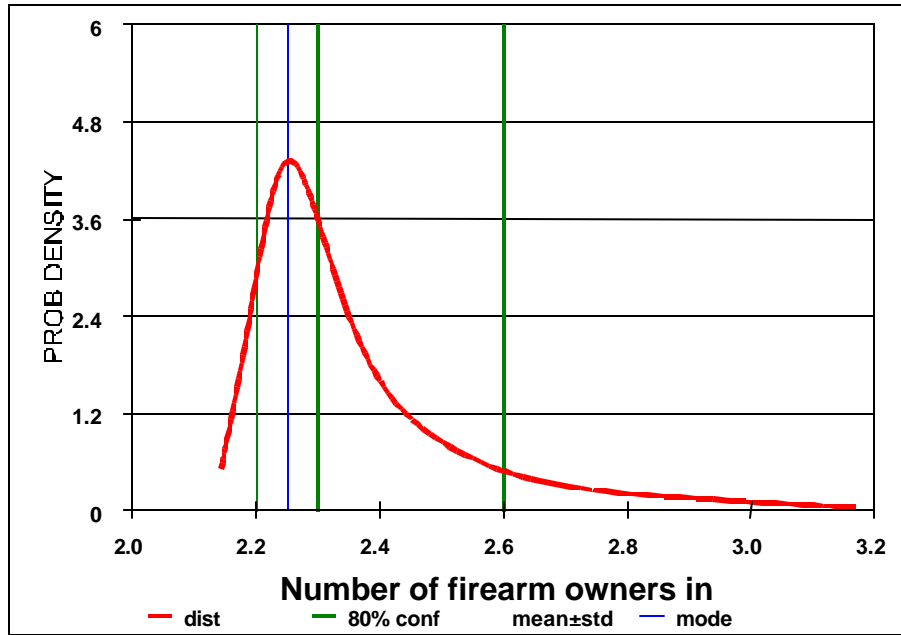
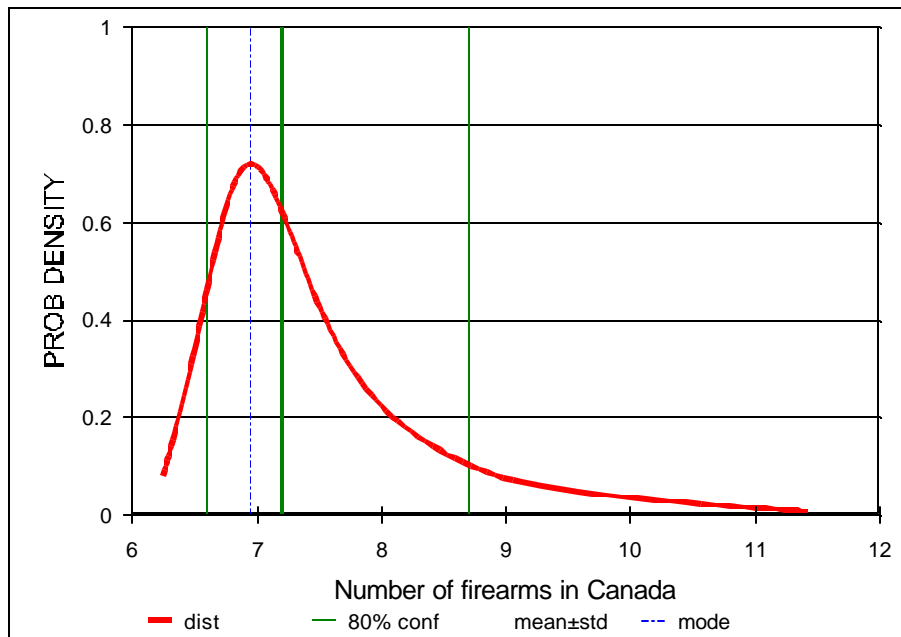


Figure 21: Number of Firearms in Canada



Other ASD costs

RAP Variables			
Variable	ASD Development & Ongoing Costs: Out of scope changes not necessary for certification.		
Variable Description:	“Under-Scoped” or “Out-of-Scope” changes including conversion of FRT data, CPIC accreditation long term solution and support capability.		
Unit:	\$ Millions		
Initial Range			
	10% LOWER	MEDIAN	10% UPPER
Development costs	\$1.2 M	\$2.8 M	\$6.0 M
Ongoing costs	\$0.3 M	\$0.7 M	\$2.0 M
Source: Team CENTRA			
Panel Range			
	10% LOWER	MEDIAN	10% UPPER
Development costs			
Ongoing costs			
Panel Comments			
<u>Comments and Rationale / Barriers, Risk Factors and Enablers:</u>			

Figure 22: ASD Development Costs (Out of Scope Changes Not Necessary for Certification)

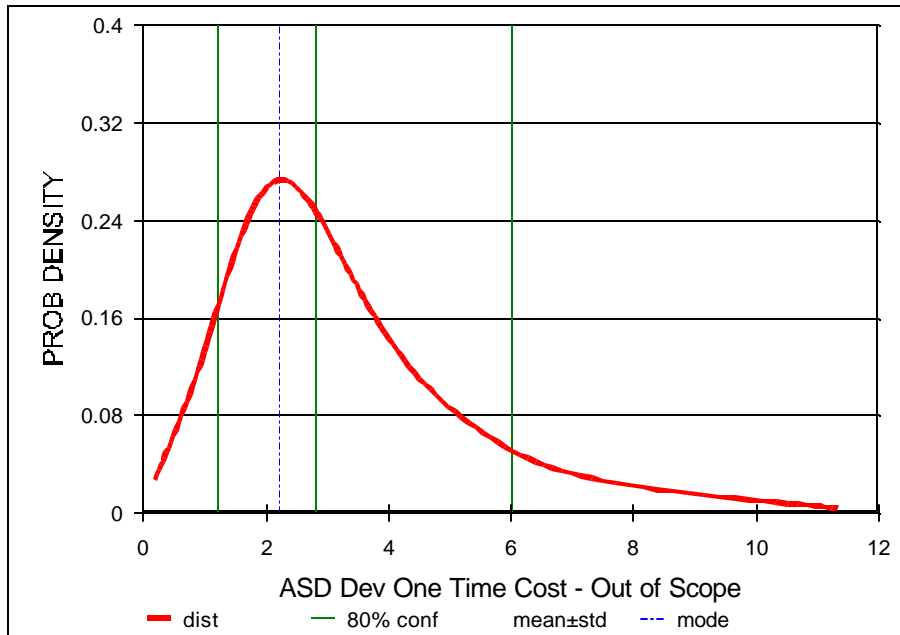
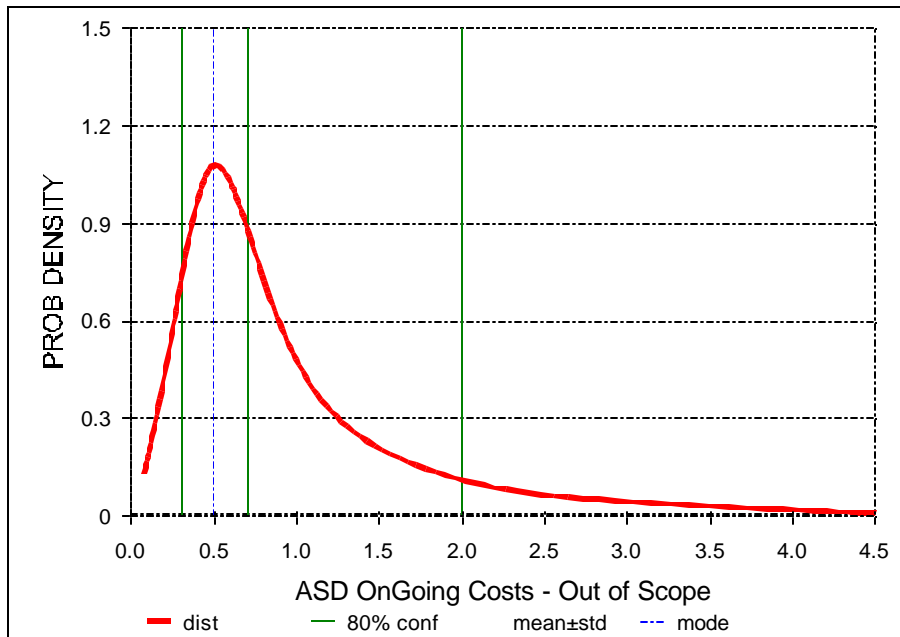


Figure 23: ASD On-going Costs (Out of Scope Changes Not Necessary for Certification)



RAP Variables			
Variable	Months to reach Steady State after “Go Live”		
Variables Description:	Time for normalization period after ASD service effective date		
Unit:	Months		
Initial Range			
	10% LOWER	MEDIAN	10% UPPER
Months to Steady State – Base Case	5	6	18
Months to Steady State – Streamlined Option	4	5	12
Source: HLB based on expected normalization period as per contract 19162-000860/002/XI.			
Panel Range			
	10% LOWER	MEDIAN	10% UPPER
Months to Steady State – Base Case			
Months to Steady State – Streamlined Option			
Panel Comments			
<u>Comments and Rationale / Barriers, Risk Factors and Enablers:</u>			

Figure 24: Months to Steady State – Base Case

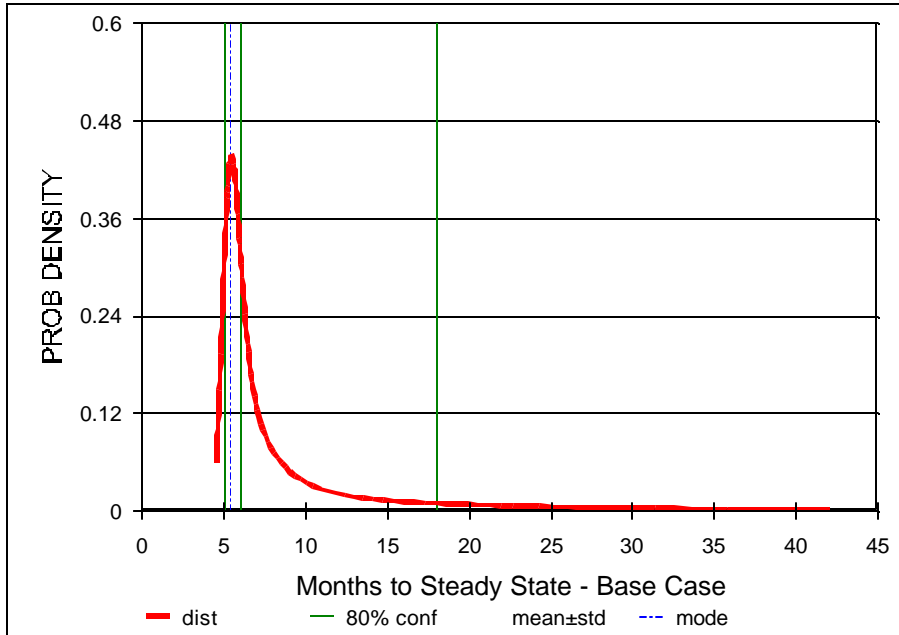
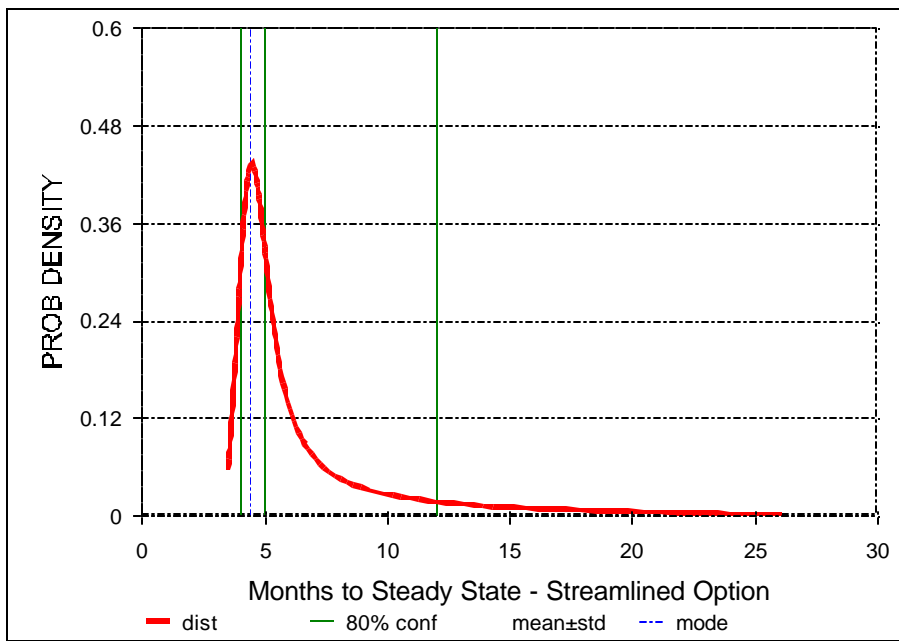


Figure 25: Months to Steady State – Streamlined Option



RAP Variables			
Variable	Proportion of ASD business operations processed electronically at steady state in Base Case (BC) and Streamlined Option (SO)		
Variable Description:	% of business operations that are electronically processed.		
Unit:	%		
Initial Range			
	%		
	10% LOWER	MEDIAN	10% UPPER
Percentage of:			
Mail received electronically – BC	50%	75%	80%
Mail received electronically – SO	65%	80%	90%
Calls handled through IVR – BC	30%	50%	60%
Calls handled through IVR – SO	35%	55%	65%
Fees processed electronically – BC	50%	75%	80%
Fees processed electronically – SO	65%	80%	90%
License cards processed electronically – BC	50%	75%	80%
License cards processed electronically – SO	65%	80%	90%
Data captured electronically – BC	50%	75%	80%
Data captured electronically – SO	65%	80%	90%
Source: HLB, Solutions Group, Team CENTRA pricing model			
Panel Range			
	10% LOWER	MEDIAN	10% UPPER
Percentage of:			
Mail received electronically			
Calls handled through IVR			
Fees processed electronically			
License cards processed electronically			
Data captured electronically			
Panel Comments			
<u>Comments and Rationale / Barriers, Risk Factors and Enablers:</u>			

Figure 26: Percentage of Mail Received Electronically – Base Case

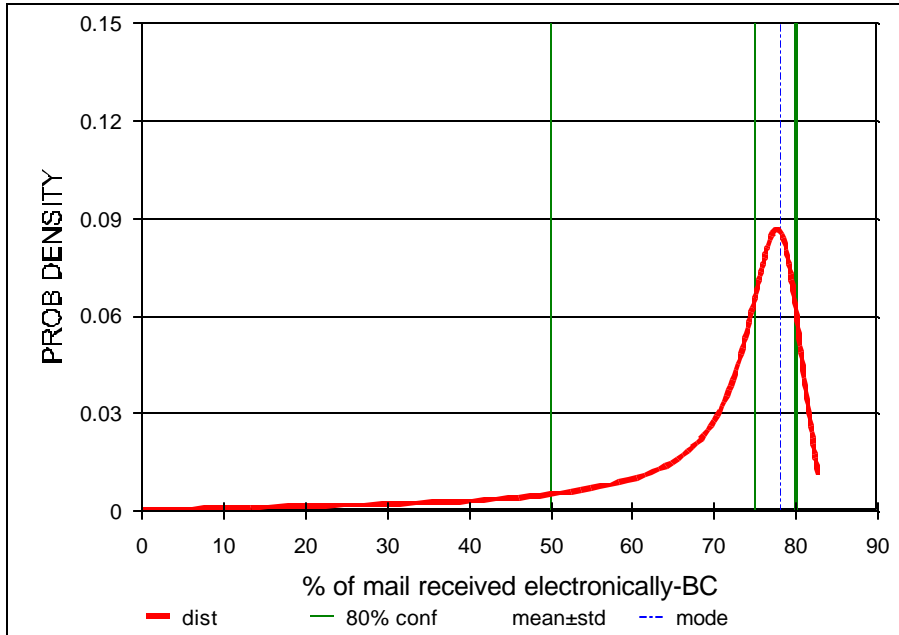


Figure 27: Percentage of Mail Received Electronically – Streamlined Option

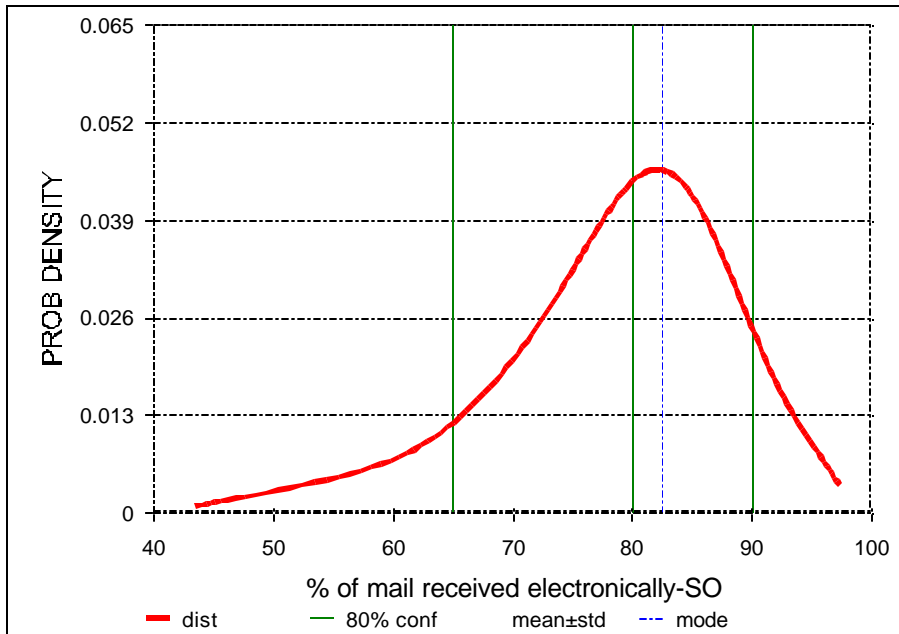


Figure 28: Percentage of Calls Handled Through IVR – Base Case

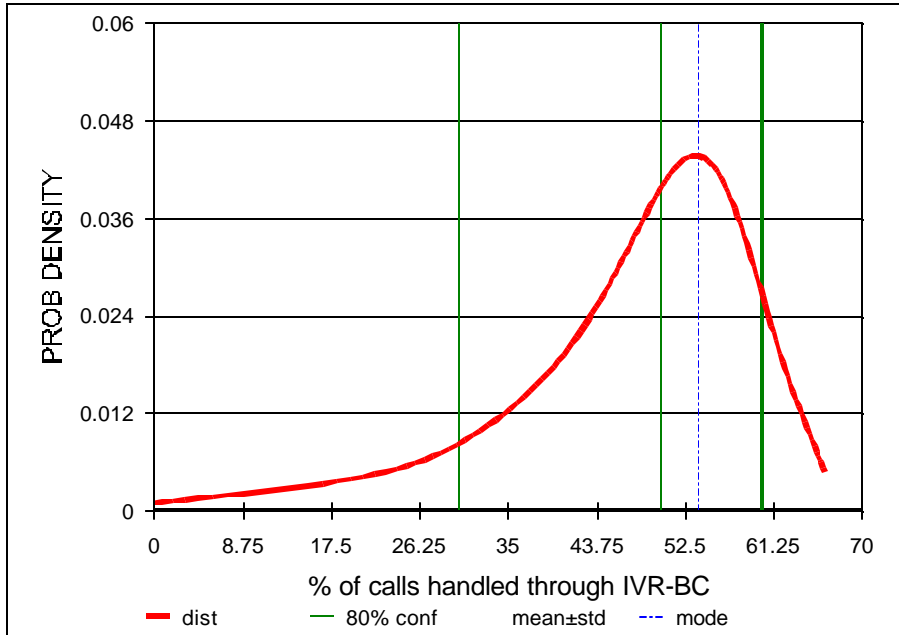
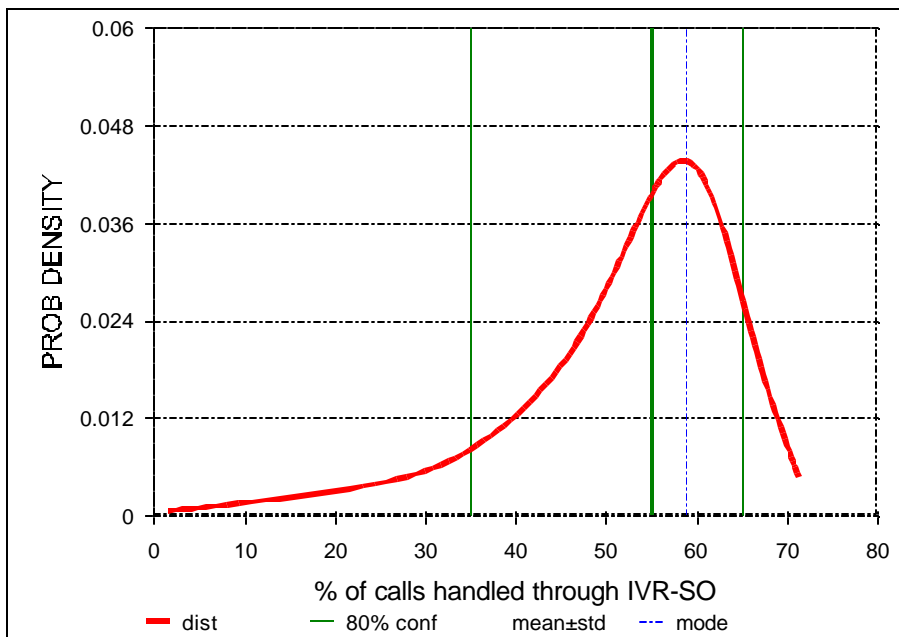
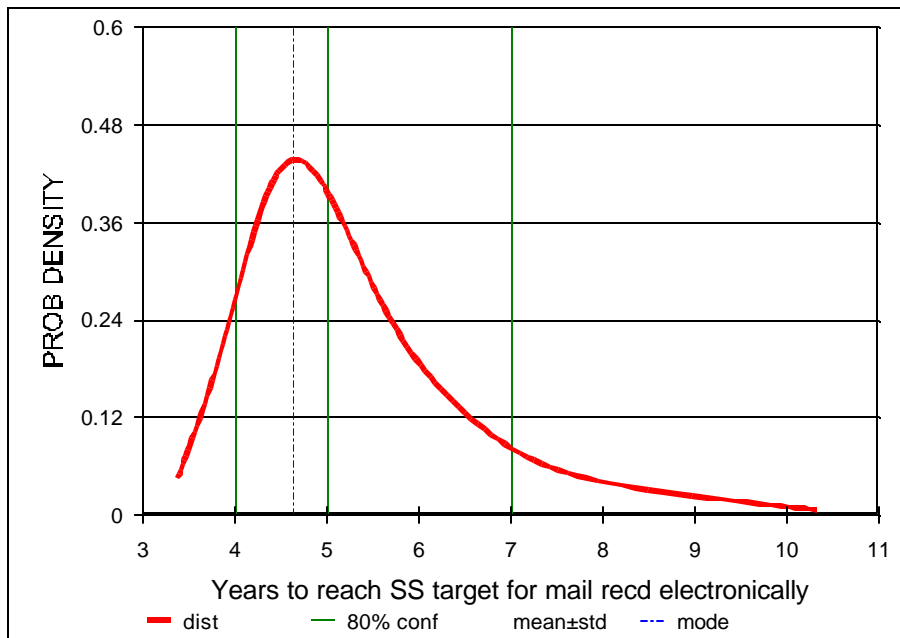


Figure 29: Percentage of Calls Handled Through IVR – Streamlined Option



RAP Variables			
Variable	Years to reach steady state electronic processing targets		
Variable Description:	Time to attain electronic processing targets		
Unit:	Years		
Initial Range			
Years			
	10% LOWER	MEDIAN	10% UPPER
Years to reach Steady State target for:			
Mail received electronically	4	5	7
Calls handled through IVR	4	5	7
Fees processed electronically	4	5	7
License cards processed electronically	4	5	7
Source: HLB, median values based on Team Centra pricing model.			
Panel Range			
	10% LOWER	MEDIAN	10% UPPER
Years to reach Steady State target for:			
Mail received electronically			
Calls handled through IVR			
Fees processed electronically			
License cards processed electronically			
Panel Comments			
<u>Comments and Rationale / Barriers, Risk Factors and Enablers:</u>			

Figure 30: Years to Reach Steady State Targets for Electronic Processing



RAP Variables			
Variable	Proportion of ASD business operations data capture with exceptions at steady state.		
Variable Description:	% of data capture with exceptions at steady state.		
Unit:	%		
Initial Range			
	10% LOWER	MEDIAN	10% UPPER
% of data capture with exceptions (traditional data capture)	8%	17%	25%
% of data capture with exceptions (electronic data capture)	5%	11%	17%
Source: HLB, Solutions Group			
Panel Range			
	10% LOWER	MEDIAN	10% UPPER
% of data capture with exceptions (traditional data capture)			
% of data capture with exceptions (electronic data capture)			
Panel Comments			
<u>Comments and Rationale / Barriers, Risk Factors and Enablers:</u>			

Figure 31: Percentage of Data Capture with Exceptions (Traditional)

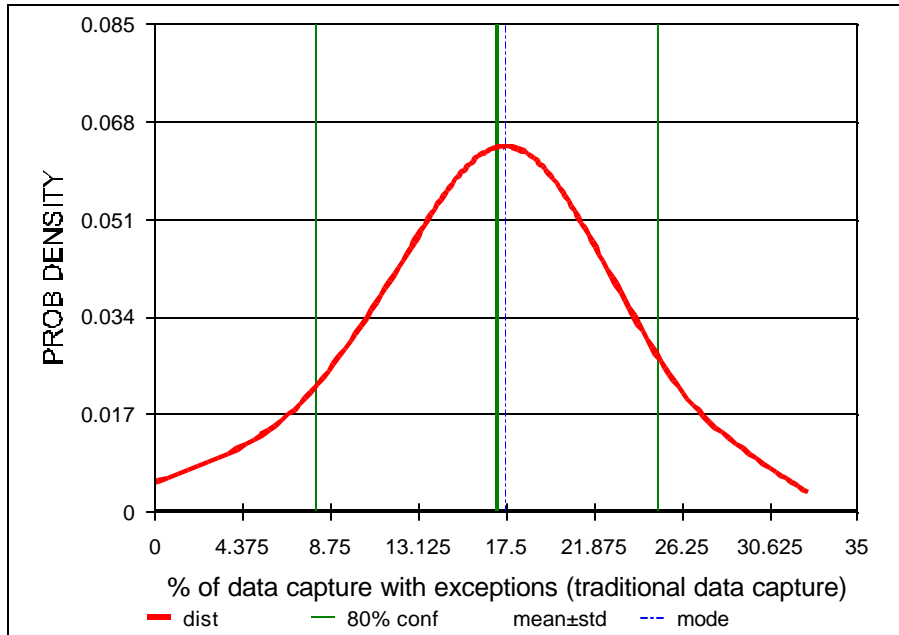
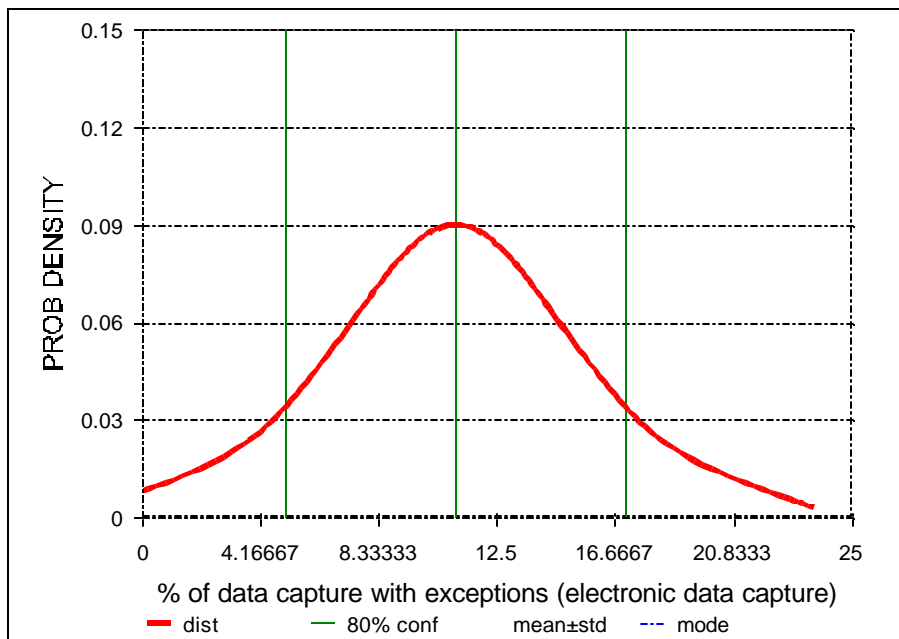


Figure 32: Percentage of Data Capture with Exceptions (Electronic)



Efficiency Gains

RAP Variables			
Variable	Reduction in FTEs from Base Case (All Sources)		
Variable Description:	Reduction in FTEs achieved by implementing Streamlined Option compared to the Base Case		
Unit:	Number/year		
Initial Range			
	10% LOWER	MEDIAN	10% UPPER
Reduction in FTEs from all sources	10	12	14
Months to Attain 90% of FTE Savings	8	10	16
Source: HLB Decision Economics Inc. and Solutions Group.			
Panel Range			
	10% LOWER	MEDIAN	10% UPPER
Reduction in FTEs from all sources			
Months to Attain 90% of FTE Savings			
<u>Panel Comments</u>			
<u>Comments and Rationale / Barriers, Risk Factors and Enablers:</u>			

RAP Variables			
Variable	Reduction in FTEs from Base Case		
Variable Description:	Reduction in FTEs achieved by implementing Streamlined Option compared to the Base Case		
Unit:	Number/year		
Initial Range			
	10% LOWER	MEDIAN	10% UPPER
Months to Attain 90% of FTE Savings	16	18	36
Reduction in FTEs from:			
Non-resident import/export processing to implement pre-clearance (Sections 6, 35-51)	0	12	16
Removing requirement for authorization to transport restricted and prohibited firearms (Sections 17-19)	0	2	3
Removing notion of producing licenses and CFO authorization of transfers (Sections 23,24,26,27)	0	2	3
Removing approvals for shooting clubs and ranges (Section 29)	0	2	3
Source: HLB Decision Economics Inc. and Solutions Group			
Panel Range			
	10% LOWER	MEDIAN	10% UPPER
Months to Attain 90% of FTE Savings			
Reduction in FTEs from:			
Non-resident import/export processing to implement pre-clearance (Sections 6, 35-51)			
Removing requirement for authorization to transport restricted and prohibited firearms (Sections 17-19)			
Removing notion of producing licenses and CFO authorization of transfers (Sections 23,24,26,27)			
Removing approvals for shooting clubs and ranges (Section 29)			
<u>Panel Comments</u>			
<u>Comments and Rationale / Barriers, Risk Factors and Enablers:</u>			

RAP Variables			
Variable	Reduction in FTEs from Base Case (continued-1)		
Variable Description:	Reduction in FTEs achieved by implementing Streamlined Option compared to the Base Case		
Unit:	Number/year		
Initial Range			
	10% LOWER	MEDIAN	10% UPPER
Reduction in FTEs from:			
Eliminating non-resident reporting on firearms export (Section 29)	0	2	3
Removing reference to purpose of possession of restricted firearms (Sections 28, 71)	0	2	3
Moving Registrar to DOJ (Sections 82, 93)	0	2	3
Removing all tabling requirements so that regulations could be made by Gov. in Council (Sections 118-119)	0	5	7
Source: HLB Decision Economics Inc. and Solutions Group.			
Panel Range			
	10% LOWER	MEDIAN	10% UPPER
Reduction in FTEs from:			
Eliminating non-resident reporting on firearms export (Section 29)			
Removing reference to purpose of possession of restricted firearms (Sections 28, 71)			
Moving Registrar to DOJ (Sections 82, 93)			
Removing all tabling requirements so that regulations could be made by Gov. in Council (Sections 118-119)			
<u>Panel Comments</u>			
<u>Comments and Rationale / Barriers, Risk Factors and Enablers:</u>			

RAP Variables			
Variable	Reduction in FTEs from Base Case (continued-2)		
Variable Description:	Reduction in FTEs achieved by implementing Streamlined Option compared to the Base Case		
Unit:	Number/year		
Initial Range			
	10% LOWER	MEDIAN	10% UPPER
Reduction in FTEs from:			
Removing requirement for prescribed purpose (Sections 11,22)	0	2	3
Requirement to submit verification only if required by Registrar (Sections 2,3)	0	8	9
Limiting fields for reporting protected firearms (Section 8)	0	4	5
Removing gun show requirement transfers are tracked and buyers/sellers must be licensed (Section 117)	0	2	4
Source: HLB Decision Economics Inc. and Solutions Group.			
Panel Range			
	10% LOWER	MEDIAN	10% UPPER
Reduction in FTEs from:			
Removing requirement for prescribed purpose (Sections 11,22)			
Requirement to submit verification only if required by Registrar (Sections 2,3)			
Limiting fields for reporting protected firearms (Section 8)			
Removing gun show requirement since transfers are tracked and buyers/sellers must be licensed (Section 117)			
<u>Panel Comments</u>			
<u>Comments and Rationale / Barriers, Risk Factors and Enablers:</u>			

Revenue Forecast Data

RAP Variables			
Variable	Volumetrics (for Revenue Forecasts)		
Variable Description:	Volumes of key transactions in steady state		
Unit:	number/year		
Initial Range			
	10% LOWER	MEDIAN	10% UPPER
Firearm 'Confirmed Declaration' Applications by Non-Residents	50,000	100,000	120,000
New License Applications (PALs)	30,000	40,000	50,000
Transfers	100,000	150,000	170,000
Source: RFP Statement of Requirements, HLB, Solutions Group			
Panel Range			
	10% LOWER	MEDIAN	10% UPPER
Firearm 'Confirmed Declaration' Applications by Non-Residents			
New License Applications (PALs)			
Transfers			
Panel Comments			
<u>Comments and Rationale / Barriers, Risk Factors and Enablers:</u>			

Figure 33: Non-Resident Confirmed Declarations

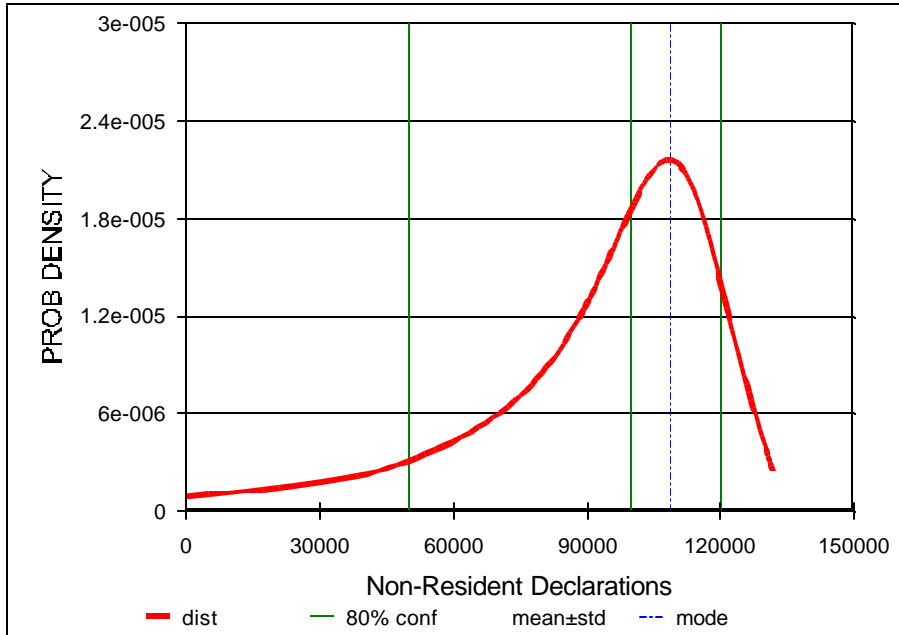


Figure 34: New Possession and Acquisition Licenses

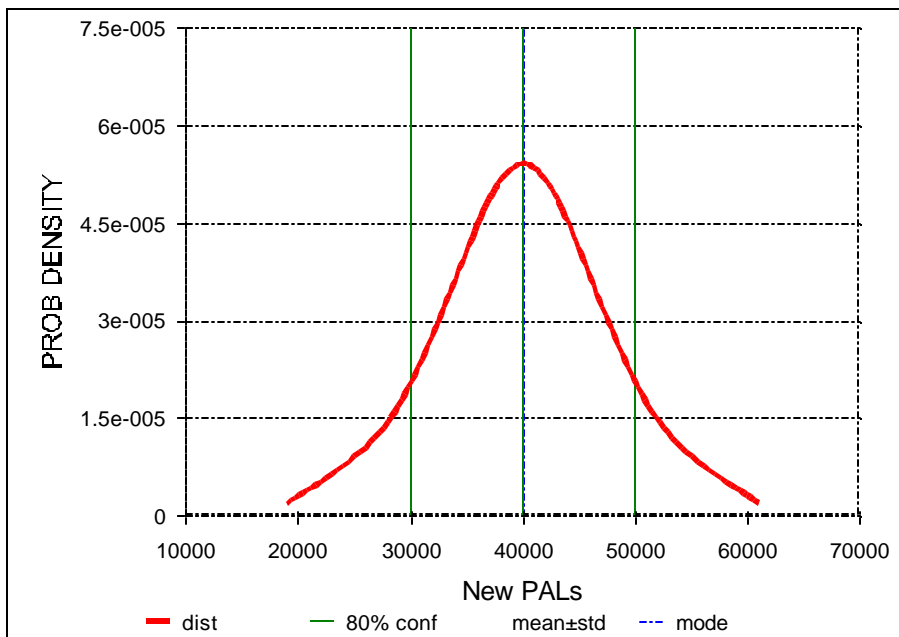
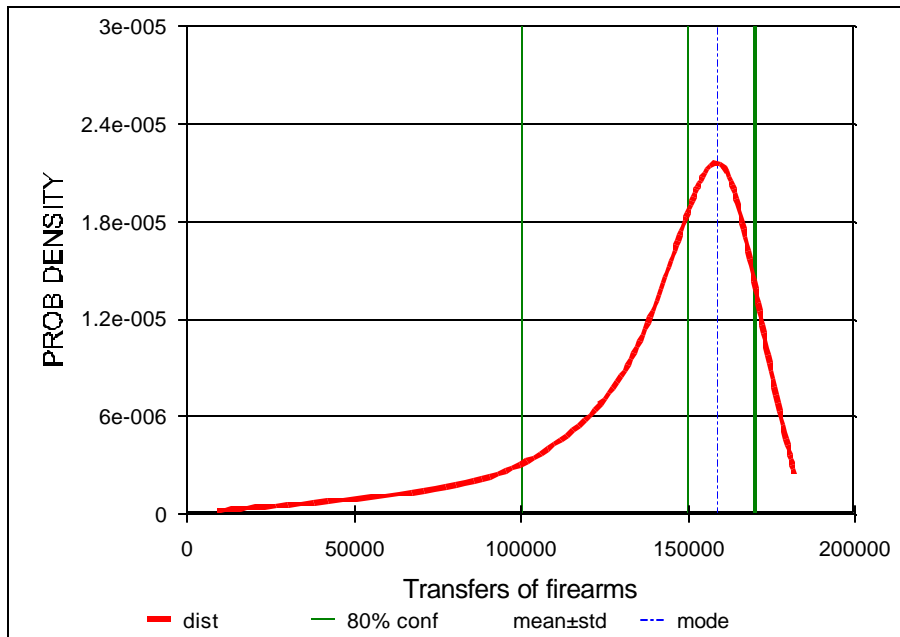


Figure 35: Transfers of Firearms



RAP Variables			
Variable	License Renewal rate		
Variable Description:	Fraction of license holders renewing at due date		
Unit:	%/year		
Initial Range			
	10% LOWER	MEDIAN	10% UPPER
% of Possession Only License (POL) holders applying for renewal First renewal cycle: Subsequent renewals:	70% 80%	75% 90%	80% 95%
% of Possession and Acquisition License (PAL) holders applying for renewal First renewal cycle: Subsequent renewals:	80% 90%	90% 95%	95% 97%
Source: HLB, Solutions Group			
Panel Range			
	10% LOWER	MEDIAN	10% UPPER
% of Possession Only License (POL) holders applying for renewal			
% of Possession and Acquisition License (PAL) holders applying for renewal			
Panel Comments			
<u>Comments and Rationale / Barriers, Risk Factors and Enablers:</u>			

Figure 36: License Renewal Rate for POLs – 1st Cycle

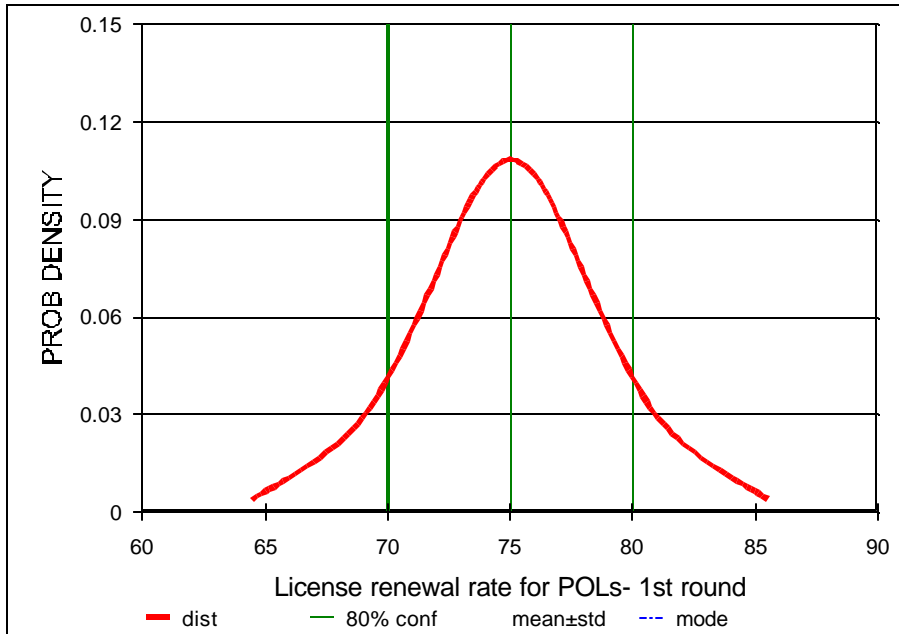


Figure 37: License Renewal Rate for POLs – Subsequent Cycles

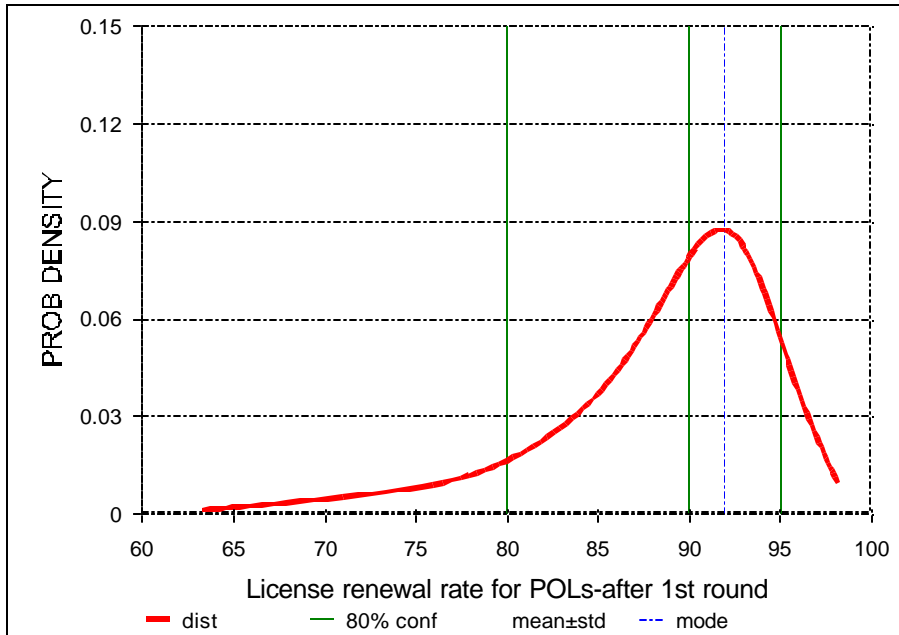


Figure 38: License Renewal Rate for PALs – 1st Cycle

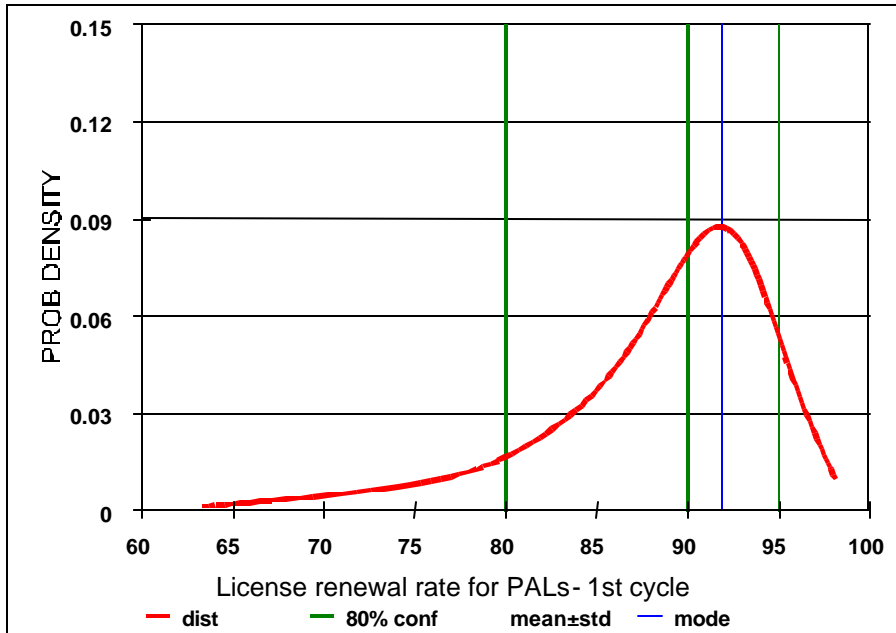
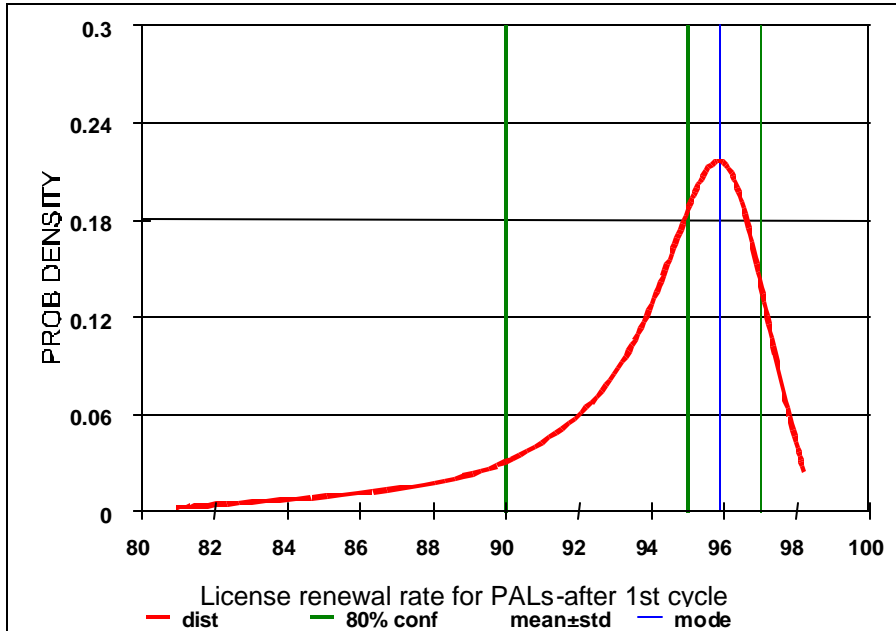


Figure 39: License Renewal Rate for PALs – Subsequent Cycle



APPENDIX B. CFP REVIEW QUESTIONS

	<u>Data Source</u>
1) When is the “load-up” period for registrations expected to be complete?	Registrar
2) What are the exit criteria for declaring the registration “load-up” complete?	Registrar
3) What are the criteria for certification and “Go Live” for the ASD solution?	Dir.ASD
4) When will the “Go Live” criteria be met?	Dir.ASD/T.Centra
5) What are the entry criteria for the “steady state” operations of the CFP?	Dir.ASD
6) Currently, when will those entry criteria be met?	Dir.ASD/T.Centra
7) What steps need to be taken to achieve the earliest date by which the convergence of these entry and exit criteria occurs?	Dir.ASD
8) What is the latest date, based on current knowledge, by which the convergence of these entry and exit criteria will likely be achieved?	Dir.ASD
9) What are the <u>operational</u> implications of the CFO and FO functions being performed solely by the RCMP?	CFC
10) What are the <u>financial</u> implications of the CFO and FO functions being performed solely by the RCMP?	CFC
11) How many CFO’s and FO’s are currently designated and funded by the CFP?	CFC
12) In “steady state”, how many CFO’s, based on what rationale, are needed?	CFC
13) In “steady state”, how many FO’s, based on what rationale, are needed?	CFC
14) What is the earliest date by which a full Activity-Based-Costing (ABC) system could be in operation?	CFO
15) What standard “transaction” costs for CFP delivery activities have been determined to date?	CFO
16) In the absence of ABC, how were these standard costs determined? Is there a template for the MOU’s, either in being or in negotiation, for service delivery by provinces, RCMP, trainers, external agencies, etc.?	CFO Legal
17) What role does standard costing play in these templates?	CFO
18) From a “big picture” perspective, what cost analysis has been done to assess cumulative and forecast costs for:	CFO
a. basic CFP business process and IT infrastructure	
b. licensing system development	
c. licensing “load-up”	
d. licensing operations (post “load-up”)	
e. registration system development	
f. registrations “load-up”	

- g. public awareness/surveys/information/promotion
- h. foregone transaction fee income

- | | |
|--|------------------|
| 19) What role, if any, should be contemplated for the audit services of CAC? | PWGSC |
| 20) What is the current model for the delivery of training to license applicants? | Registrar |
| 21) How many training venues are there? | |
| 22) What is the unit cost (per applicant) for such training? | |
| 23) Is the maintenance of such a comprehensive CFP fee schedule necessary? | Legal |
| 24) What could be an optimal fee schedule that fairly reflects costs? | CFO |
| 25) What are the current and planned CFP forms for public use (hard & soft)? | Registrar |
| 26) What other legislative/regulatory changes (beyond C10-A) that: | Legal |
| a. reduce program costs | |
| b. improve service levels | |
| c. reduce overhead burden | |
| d. eliminate ambiguity or uncertainty in the Firearms Act | |
| 27) What is the appropriate ordering (priority-ranking) of these possible changes? | Legal |
| 28) What are the operational implications of closing the CFP HQ in Edmonton? | CFC |
| 29) What are the financial implications of closing the Edmonton headquarters? | CFC |
| 30) In “steady state”, what are the operational implications of consolidating the ASD and Miramichi sites (both ways)? | CFC |
| 31) In “steady state”, what are the financial implications of such consolidation options? | CFC |
| 32) Is a copy available of the Minister’s statement in the House on the tabling of Bill C-68? | Legal |
| 33) Can a diagram of the planned architecture (functional & technical) be provided to the review team? | T.Centra |
| 34) What is the master project plan for solution implementation? | T.Centra/Dir.ASD |