3. Cost recovery model

3.1 Outputs and business processes of the activity

NICNAS is organised internally into six programs to enable achievement of the agency objective.

Chemical assessment programs

NICNAS assessments comprise three components: public health, worker health, and safety and the environment. Human health (public health and worker health and safety) assessments are conducted by staff employed by the Australian Government Department of Health, while staff employed by the Australian Government Department of the Environment perform the environmental assessments. NICNAS makes recommendations to relevant risk management agencies, where required, to ensure appropriate controls are in place to enable safe use of industrial chemicals.

The **New Chemicals program** provides information to promote the safe use of new industrial chemicals by assessing chemicals notified by introducers (importers and/or manufacturers). Each new chemical assessment identifies potential risks to worker health and safety, public health and the environment that may be associated with the manufacture, formulation, use, storage and disposal of the chemical in Australia.

The **Existing Chemicals program** conducts assessments of chemicals on the Australian Inventory of Chemical Substances (AICS) which have not previously been assessed in Australia. The assessments include in-depth Priority Existing Chemicals assessments (PECs) and accelerated and systematic assessments, using the Inventory Multi-tiered Assessment and Prioritisation (IMAP) framework.

The **Targeted Assessment program** conducts secondary notification assessments of existing chemicals that have been previously assessed by NICNAS and require re-assessment based on changes to the risks identified in the earlier assessment (e.g. through new data becoming available). It is also responsible for targeted assessment activities such as the national assessment of chemicals associated with coal seam gas extraction. This program manages the AICS.

Corporate programs

The **Regulatory Strategy program** supports the scheme by providing planning, finance, IT, committee secretariat, library support, as well as managing the NICNAS website (including Chemical Gazette and NICNAS Bulletin newsletters) and implementing targeted information strategies. It facilitates the scheme's interactions with other government agencies and key stakeholders on strategic approaches to the regulation of industrial chemicals and coordinates NICNAS's engagement in various national and international activities including the overall approach to scientific activities such as the regulation of industrial nanomaterials.

The **Registration, Outreach and Reporting program** manages the registration of all industrial chemical introducers and compliance monitoring activities. The program conducts training and information sessions for registered businesses regarding their obligations under the ICNA Act, and undertakes compliance monitoring, audits, and investigations into potential or known instances of non-compliance. This program also administers Australia's obligations relating to industrial chemicals under the Rotterdam Convention.

The **NICNAS Reforms program** manages the implementation of the reforms to NICNAS that streamline the assessment process for industrial chemicals to reduce the regulatory burden on the sector, while also ensuring Australia’s robust safety standards are maintained. Implementation of the reforms will involve:

- changes to the *ICNA Act* and the Regulations
- development of new guidance materials and information resources for stakeholders
- detailed documentation of risk assessment processes
- implementation of new standard operating procedures relating to the notification and assessment of new and existing chemicals, and

- the procurement, development, testing and delivery of a new system of information and communication technologies (ICT) to support the notification of chemicals and streamlined risk assessment processes.

3.2 Costs of the activity

NICNAS uses an Activity-Based Costing (ABC) methodology for the assignment and allocation of all direct, indirect and overhead costs to its activities at the program level and individual fee for service level. This methodology allows costs to be allocated based on their consumption at each stage of the process through to the final product or service.

Direct labour costs were attributed based on time recorded against activities in a resource allocation system (minimum of 15 minute increments for fee for service activities) or, where the data in the resource allocation system is insufficient, as identified in staff surveys. Labour costs are based on the Department of Health's Enterprise Agreement, plus allowances for on-costs such as superannuation and workers compensation.

All corporate costs (such as property, IT, finance, communications etc.) were disaggregated and spread throughout the model to provide the full cost of each activity. Corporate costs closely linked to a particular activity were allocated to that activity. For example, costs associated with the finance staff in the Regulatory Strategy Program processing NICNAS registration charges were directly allocated to the NICNAS registration activity. Corporate costs not attributable to a particular activity were aggregated and allocated on the basis of full time staff equivalents involved in each activity.

Environmental assessment services are outsourced to the Department of the Environment. Prices charged to NICNAS are set to recover that agency's costs associated with providing their services. This cost is incorporated into the direct cost of individual assessments, where appropriate, or into the total costs of the relevant activity and attributed in a manner consistent with the other costs of the activity.

NICNAS maintains separate cost centres for each of the program areas which, following the assignment of corporate costs, readily permits monitoring of cost recovery activities.

The volumes forecast in this CRIS (see section 3.3 below) are derived from analysis of historical volumes and projection of trends over recent years.

NICNAS's non-financial assets consist of property fit-out and intangible IT infrastructure and software costs. To date, related depreciation expense has been a small portion of the overall cost of operations. The NICNAS reforms include $7 million capital investment for new ICT systems ($3.5 million in 2015–16 and $3.5 million in 2016–17). The Australian Government has made an upfront investment for the capital cost. These costs will be recovered in a depreciation-like manner over the five year period 2017–18 to 2021–22. The impact of this additional cost will be offset by the expected industry regulatory savings associated with the reformed regulatory arrangements.

The table below shows the cost estimates for the 2015–16 financial year by program. The Regulatory Strategy Program is not included in this table as it is funded as an indirect cost charged to the other programs.

Program	Direct costs	Indirect costs	Capital costs
New chemicals	2.8m	1.4m	-
Existing chemicals	3.4m	1.8m	-
Compliance and enforcement	1.1m	1.0m	1.7m

Program	Direct costs	Indirect costs	Capital costs
NICNAS reforms	2.1m	0.4m	3.5m
Targeted assessment	1.4m	0.8m	-
Total	**10.9m**	**5.4m**	**5.2m**

3.3 Design of cost recovery charges

NICNAS uses a mix of fees and levies in charging for activities. The table below shows the estimates for 2015–16.

Income source	Charge per application	Number of applications	Total ($)
Registration—level A	$138	2800	$0.39m
Registration—level B	$505	1300	$0.66m
Registration—level C	$2480	1000	$2.5m
Registration—level D	$24 800	380	$9.4m
Fee for service (see Attachment A)	various	719	$3.0m
Government appropriation—interest equivalency payment	n/a	n/a	$0.34

Income source	Charge per application	Number of applications	Total ($)
Government capital appropriation—NICNAS reforms	n/a	n/a	$3.5m
NICNAS reserves—capital investment	n/a	n/a	$1.7m
Total			**$21.5m**

Where the charge can be explicitly linked to the provision of a specific service to an identified chargeable entity, a fee is charged. Where the direct relationship between the activity and the specific organisation or individual is not clear, but the group of organisations (or individuals) using the product or service or creating the need for the activity is easily definable, the activity is funded through a levy.

For example, the ABC calculation for Standard category assessment certificates includes the staff time (and level) involved in administration (including receipt of application, financial processing of payment, preparation of Gazette notice, filing), assessment (scientific risk assessment encompassing evaluating the chemical identity, the predicted hazard and the extent of exposure/release, and formulating recommendations for safe use), Department of the Environment assessment of environmental risks, and quality assurance (peer review followed by approval to issue the certificate by the Director NICNAS). Each of these business processes was costed and the fee is a sum of these costs.

A registration fee is imposed on all introducers of relevant industrial chemicals. This fee pays for the company to be included on the list of registered introducers. A registration charge (levy) is imposed on introducers of industrial chemicals with an annual value of introduced industrial chemicals in excess of $100,000, as prescribed by the ICNA Act. Registration charges are used to recover regulatory costs relating to the compliance program, existing chemicals assessments, international harmonisation activities, regulatory strategy and educational activities to support industry compliance with the scheme and public confidence that the regulation of industrial chemicals effectively achieves the objects of the ICNA Act. These costs are not related to the provision of a specific service to an introducer, but are related to the regulation of the industry as a whole.

A higher registration charge is attributable to companies that introduce a higher value of industrial chemicals. The greater value of industrial chemicals introduced generally reflects a larger volume of industrial chemicals introduced. A larger volume means greater potential exposure and therefore greater potential risk to workers, the public and the environment from exposure to the chemicals. This assumption will be monitored, and amendments to the charging structure may be made in the future where supported by evidence.

The fees for services cover most of the activities of the new chemicals program (where directly related to undertaking an assessment), some of the compliance and enforcement program expenses (specifically expenses associated with processing NICNAS registrations and prior informed consent applications), and some of the targeted assessment program activities (specifically expenses associated with processing holder of confidence applications and confidential AICS listing applications). The remaining NICNAS operational expenses are covered by the registration charge (levy). NICNAS capital investment is funded by both Government capital appropriation and NICNAS reserves. The Government capital appropriation is for the new IT system to support the reforms; the NICNAS reserve is being used to pay for the development of an online payment system to enable companies to pay their annual registration fees and charges online.

The current schedule of fees and charges is prescribed in the Regulations and communicated by publication on Federal Register of Legislation and the NICNAS website. The regulations also prescribe the circumstances under which fees and charges may be adjusted or waived. Fees are only adjusted or waived when the cost of undertaking the work activity is lower than the fee charged. For example, the

Director of NICNAS may waive the fee associated with a notifier wishing to omit or substitute a specified data item when submitting a new chemical for assessment when it is not technically possible for the notifier to conduct the specified test. Examples of this include:

1. If the chemical reacts dangerously with water then several of the physical-chemical properties tests cannot be conducted
2. If the chemical is a gas at room temperature, an acute toxicity study via the oral route cannot be carried out.

This results in a notifier paying fees that are justified based on the cost-recovered work that is required for these assessments.

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