



Office for
Nuclear Regulation

HOW WE CHARGE FOR NUCLEAR REGULATION



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Any enquiries related to this publication should be sent to us at contact@onr.gov.uk

Introduction

Established by the Energy Act 2013, the Office for Nuclear Regulation (ONR) is empowered by diverse legislation to recover the cost of its services from dutyholders.

As we strive to inspire a climate of respect, trust and confidence among our stakeholders, this booklet clearly explains how this charging system works.

ONR is funded in two ways. We recover approximately 95% of our running costs from the nuclear industry we regulate and government departments to whom we provide a service; the remaining 3% is grant funded from our sponsor body, the Department for Work and Pensions (DWP), to cover activities which are statutorily prohibited from being recovered in this way and 2% is funded from the Department for Business, Energy and Industrial Strategy (BEIS) to develop an independent UK SSAC.

The income generated from cost recovery funds the expenditure ONR incurs in fulfilling its regulatory mission. ONR does not make any profit or surplus, and nuclear site licensees are charged only for the work undertaken in regulating them.

THE INCOME GENERATED
FROM COST RECOVERY
FUNDS THE EXPENDITURE
ONR INCURS IN FULFILLING
ITS REGULATORY MISSION

We are committed to providing greater transparency around our charging regime and securing continuous improvements in response to feedback from our stakeholders.

We expect our ways of working to produce efficiencies in our charging, and will continue to engage with our dutyholders to improve our processes, reduce bureaucracy and ultimately make sure we provide the best possible value for money, both for industry and the public.

Who we are and what we do

ONR is Great Britain's independent nuclear regulatory authority.

In line with our mission to provide efficient and effective regulation of the nuclear industry, holding it to account on behalf of the public, we independently regulate nuclear safety, security and conventional health and safety across all licensed nuclear sites in the UK.

We also assess generic nuclear reactor designs for potential vendors at the request of government, regulate the safety and security of civil transport of radioactive materials, and ensure that safeguards obligations for the UK are met.

ONR's charging powers

ONR has the legal authority to recover the full economic cost of these activities, and does so on a net nil basis. This means that as well as our front-line regulatory inspection activities, we recover the costs of all other activities necessary to our regulation, such as learning and development of our staff, engagement with our international counterparts, and liaising with government and delivering advice to ministers.

ONR's activities are carefully and rigorously planned, as detailed in statutory documents which are approved by the Secretary of State and laid before Parliament – the ONR Strategy is reviewed every five years, and the ONR Corporate Plan published annually detailing what we intend to achieve in the forthcoming financial year.

We plan our activities to help us forecast the charges dutyholders are likely to face, although, inevitably we need to be flexible and adapt our programme of work to changing demand and delivery requirements throughout the year.

You can access the ONR Strategy and Corporate Plan at onr.org.uk.

ONR's charging powers

ONR is legally empowered to recover from industry and government departments the cost of providing its services. These charging powers come from five pieces of legislation:

The Nuclear Installations Act 1964, Section 24A gives ONR the power to recover expenses from particular licensees for carrying into effect any of the activities under the Act, or for nuclear research.

The Nuclear Industries Security (Fees) Regulations 2005 give ONR the power to recover fees for security activities.

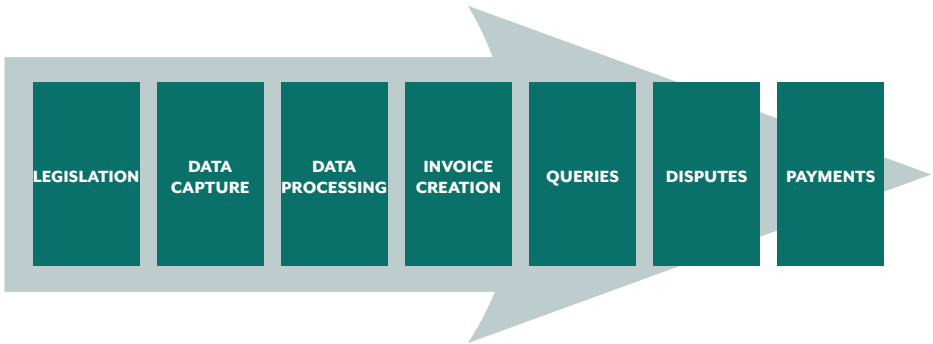
The Carriage of Dangerous Goods Regulations 2009, Regulation 27, gives ONR the power to charge for work to approve packaging used to transport radioactive material.

The Health and Safety and Nuclear Fees Regulations 2016, Regulation 16 and 17, allow ONR to charge for activities like Generic Design Assessment and pre-licensing advice, as well as enforcement of the relevant statutory provisions for activities on GB nuclear sites.

The Energy Act 2013 section 90 to 100 empowers ONR to create agreements with government organisations to provide services and information (with and without remuneration), as well as providing the Secretary of State the power to create Fees Regulations under the Act.

The end to end charging process

There are a number of elements to the ONR process for recovering costs from the nuclear industry, each with its own policies and procedures and subject to internal and external governance. Each element is described briefly below.



Legislation

All of ONR's charging powers are based in legislation which details the extent of the power conferred by the statutory instrument, what can be recovered and from whom, and any limitations on those powers such as charging periods.

Data capture

ONR uses two systems to capture the necessary data to ensure dutyholders are charged fairly, correctly, accurately and promptly. ONR's Corporate Information System (COIN) is our time recording system, used to capture activity and map this activity to cost recipients. Standard Operating Platform (SOP) is our general ledger system which captures expenditure information and tracks spend to date. SOP is an Oracle based ERP system, used throughout government via shared service provision.

Data processing

ONR uses a number of charging models to combine cost and activity data to produce invoice information. Charging models are used for our full suite of charges including safety charges, security charges, transport charges, DWP charges (ONR grant) and activity undertaken on behalf of the Department for Business, Enterprise and Industrial Strategy. The charging models draw together data from COIN, our time recording system and SOP, our General Ledger.

Direct charges, pass-through costs, as well as apportionment of overhead costs, based on time recording, are handled through the charging models.

The charging models accurately map the costs incurred to the appropriate dutyholder and reconcile the year to date data which forms the basis of the information included on the charging data breakdowns which accompany invoices. Notification of charges is sent to dutyholders with a request for confirmation of their purchase order numbers in advance of invoices being issued. ONR's end to end charging cycle is set out on page 6.

Invoice creation

ONR produces and issues invoices four days after the notification of charges has been issued. Our shared service provider raises the invoices on ONR's behalf and these are checked by ONR staff prior to issue. Invoices are issued approximately three weeks after the end of the month to which they relate.

Queries

Sometimes dutyholders may not recognise the activity generating charges and will raise a query with ONR Finance to seek clarification before providing a purchase order number. ONR has built strong relationships with our dutyholders and seeks to ensure that charges are transparent, fair and equitable. Therefore we allow a short period for queries to be raised and settled prior to the invoice being issued to ensure dutyholders and Government understand the basis of their charges.

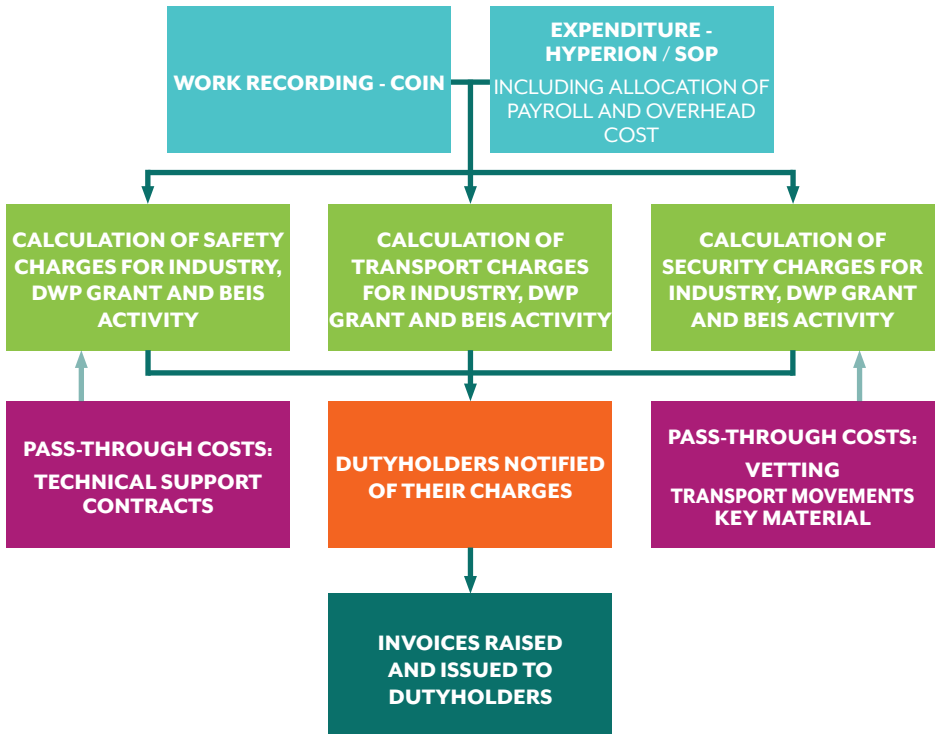
Disputes

Occasionally, where queries cannot be resolved to the satisfaction of a dutyholder, a more formal process needs to be utilised. ONR has a formal disputes procedure which provides dutyholders and government the opportunity to challenge charges they do not believe to be justified. This procedure involves detailed investigation and escalation. The procedure is set out in Chapter 7.

Payment

Invoices should be settled within ONR payment terms (30 days from date of invoice), before debt recovery procedures are instigated. As over 95% of ONR's funding is collected via cost recovery from industry, delays in payment of invoices can adversely impact ONR's cashflow and cause significant funding issues which could potentially impact the delivery of ONR's regulatory objectives.

ONR's end to end charging cycle



ONR's costs explained

ONR recovers its running costs by billing the value of these costs, monthly in arrears. Our charging powers currently preclude us from generating any working capital, so we only bill what we spend.

ONR's costs are classified into three areas.

1. Direct costs

These are regulatory staff costs directly incurred in discharging regulatory duties, including travel and subsistence costs. Dutyholders pay for the time we spend on them, with costs apportioned based on the time recorded by our staff in our time recording system.

Examples of activities that incur direct costs:

- **For licensees:** inspections, enforcement activities, assessment of safety cases, package approvals.
- **For government:** including establishment and development of the UK State System of Accounting for and Control of nuclear material and providing regulatory advice on Advanced Nuclear Technologies.
- **From DWP grant:** transport, fire safety, Ministry of Defence, safeguards.

2. Indirect costs

These are costs which are not directly attributable to a single dutyholder but are necessary for ONR to exist. These costs pay for activity which benefits dutyholders as a whole, as they enable ONR to regulate.

Examples of activities that incur indirect costs:

- ONR's corporate functions (HR, finance, IT, policy and communications)
- Divisional delivery support staff providing administration support to front-line regulatory activity

- Accommodation costs
- Legislative activity and setting standards
- Modernisation activity
- Risk mitigation activity .

In the same way as direct costs, these indirect costs are apportioned across all dutyholders based on the time recorded by our staff in ONR's time recording system.

3. Pass-through costs

These are non-staff costs which are directly attributable to a particular dutyholder/government department. They are not apportioned based on time spent and are charged directly 'at cost' to the recipient of the service. (examples include Technical Support Contracts, research and security vetting.





How ONR's charging works

ONR complies with HM Treasury rules and 'Managing Public Money' to ensure that we recover costs fairly and equitably across all dutyholders.

Costs apportioned across dutyholders are updated monthly to reflect the latest year-to-date position, both in terms of time spent and expenditure. This ensures that the charge to all dutyholders is fair, avoiding any potential under or over-charging.

ONR takes year-to-date cost information from the period-end position in the general ledger and maps this to the relevant year-to-date activity recorded by our staff in the time recording system. This produces a dutyholder specific charge, details of which appear on monthly invoices.

Costs to industry are calculated net of activity funded by the DWP grant and pass-through costs. Charges are based on direct activity recorded by our regulatory staff and their associated travel costs, with the balance of indirect costs apportioned based on this direct activity.

Under our current methodology, we have no flexibility around how and when charges can be made.

ONR is funded on a net nil basis, which means we have to recover only the value of income needed to meet our expenditure, to the penny.

PASS-THROUGH

- Non-staff costs
- Directly attributed to a particular dutyholder / OGD
- Charged ‘at cost’



DIRECT COSTS

- Site related staff costs (inc. T&S) incurred whilst discharging regulatory duties e.g. Inspection, Enforcement, etc.
- Apportioned across all dutyholders based on direct effort percentage recorded to ONR’s time recording system.



An example of how this works in practice

Total cost to be apportioned	Cost apportion split		Pass-through costs		
			Direct allocation		
Total cost £50m – £10m pass through costs = £40m Direct & Indirect costs	Dutyholder 1		+	£3.0m	+
	Dutyholder 2		+	£2.8m	+
	Dutyholder 3		+	£4.0m	+
	BEIS	S/G UK SSAC	+	£0.2m	+
		SMRs / ANTs	+	-	+
		CNS	+	-	+
	DWP grant	Fire Safety	+	-	+
		MOD	+	-	+
		Transport	+	-	+
		S/G BAU	+	-	+
				£10.0m	+

Worked example - figures are for illustration purposes only

INDIRECT COSTS

- Calculated on direct effort percentage and apportioned in same way as direct costs
- Include overhead costs such as IT, estates and support functions etc.



TOTAL COST

- Pass-through costs charged at cost
- Direct and indirect costs are apportioned to dutyholders based on direct effort percentage recorded against them

Direct costs			Indirect costs		Total charge
% of days	Cost apportionment		Cost apportionment		Cost apportionment
5%	£1.5m	+	£0.5m	=	£5.0m
10%	£3.0m	+	£1.0m	=	£6.8m
20%	£6.0m	+	£2.0m	=	£12.0m
15%	£4.5m	+	£1.5m	=	£6.2m
25%	£7.5m	+	£2.5m	=	£10.0m
5%	£1.5m	+	£0.5m	=	£2.0m
10%	£3.0m	+	£1.0m	=	£4.0m
2%	£0.6m	+	£0.2m	=	£0.8m
3%	£0.9m	+	£0.3m	=	£1.2m
5%	£1.5m	+	£0.5m	=	£2.0m
100%	£30m	+	£10m	=	£50.0m

Disputes

A specific disputes procedure has been established to support both ONR and dutyholders. This provides a clear process for industry and government to raise disputes relating to the charges applied by ONR and to provide a route for escalation if appropriate.

Policy Statement

ONR cost recovery procedures aim to recover costs fairly, equitably and promptly across all dutyholders. The ONR cost recovery disputes procedure is designed to answer queries and resolve disputes arising from ONR recovering costs for work carried out under the Energy Act 2013. This includes ONR's recovery of costs for relevant statutory provision work in the transport sector. The principle is to resolve queries and disputes promptly, transparently and fairly.

ONR recovers the full economic cost of its activities on a net nil basis i.e. recovering 100% of its cost through charges to industry and government. The duty placed on ONR to recover costs means that we cannot choose to disregard or reduce the costs associated with our activities for a dutyholder, nor can we ask some dutyholders to pay more to allow for reductions or write off of costs to support others. This is known as cross-subsidisation and is not permitted by Managing Public Money.

The key principle is to resolve queries and disputes promptly, transparently and fairly and to have a demonstrable level of independence to protect the interest of dutyholders and government.

However, the process needs to be swift to protect ONR cash flow, efficient and not overly bureaucratic, and to ensure scarce and expensive resource is not unduly tied up in investigation disputes. It has a clearly defined timescale to reach resolution and a defined end point where the decision is final.

ONR operates a two tier disputes process:

Tier One – a review of the composition, calculation, time recording records and propriety of charges by the Finance Director (delegated to the Head of Finance and Commercial Support) with the support of the Deputy Chief Inspector (DCI) of the respective regulatory division. A tier one review should confirm or correct the activity being charged for, the level of activity and the costs incurred in calculating the invoice.

Tier Two – escalation to ONR Executive Management Team (EMT) where tier one has failed to find a resolution and secure payment. EMT will consider if a compelling case has been made by the duty holder that the charge is not justifiable. If EMT deem the charge to be valid then it will make a decision over whether to pursue payment by further direct correspondence with the duty holder.

For both tier one and tier two reviews, the invoice charges not in dispute will remain subject to ONR's payment terms of 30 days from date of invoice.

What happens when a dispute is raised

If a dutyholder considers they have cause to raise a dispute, a request to dispute an invoice should be sent to:

Office for Nuclear Regulation Finance Team
Redgrave Court
Merton Road
Bootle
Merseyside
L20 7HS

E-mail: ONRCHARGE@onr.gov.uk

Disputes should be raised by the dutyholder as soon as possible after receipt of the invoice and no later than ten days after the invoice date.

Once a formal request to review charges contained on an issued invoice has been raised, ONR's debt recovery team will acknowledge receipt of a dispute and formally suspend the 30 day payment terms until such time as the dispute is resolved.

ONR will consider queries promptly and write to the dutyholder to acknowledge receipt within ten days of receipt. Tier one consideration should reach a resolution within an additional twenty days.

Once the result of the tier one review is finalised by the Finance Director and DCI, the dutyholder will be notified formally by letter. If there is no change to the charge, the 30 day payment terms and conditions of payment will be reinstated.

If the dutyholder is still not satisfied that they are being fairly and equitably charged following the outcome of the tier one investigation they can escalate to the dispute to tier two.

Notification of a requirement to escalate is required by the dutyholder no later than ten days from the date of the tier one decision.

ONR will consider tier two queries promptly and write to the dutyholder to acknowledge receipt. Tier two cases will be considered at the next EMT meeting and should be completed within 30 days. The decision of EMT will be final.

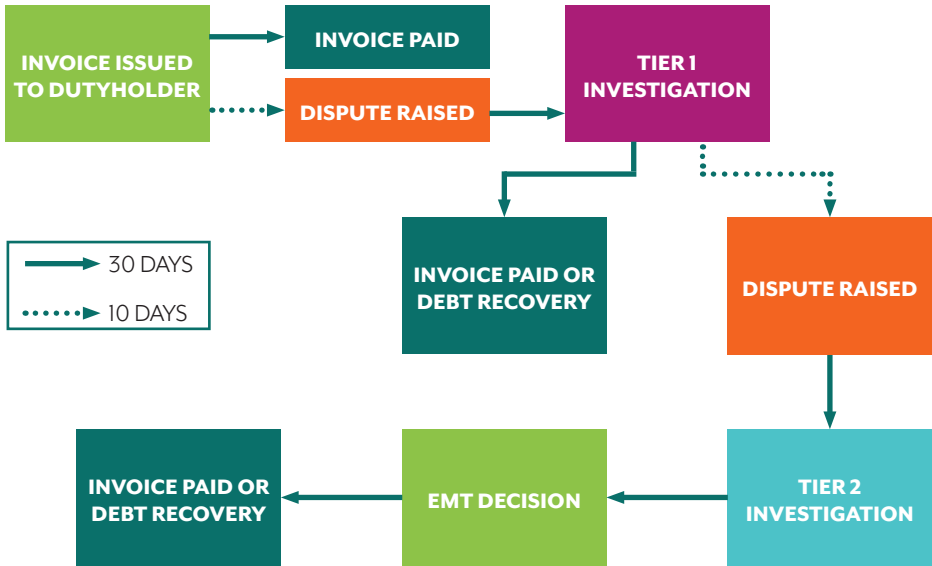
The decision of EMT will be notified formally to the dutyholder by letter. If there is no change to the charge, the 30 day payment terms and conditions of payment will be reinstated.

The following flow chart details the steps and timescales involved in the disputes process.

Part Payment of invoices

It is possible that not all of the costs included on an invoice will be in dispute and as such the dutyholder will be required to pay the undisputed value. The dutyholder should confirm to the ONR Finance Team the value of the disputed amount. The undisputed amount remains payable within thirty days from the date of the invoice.

ONR dispute process



Variation of the period in which action is to be taken

ONR is committed to meeting the timescales set out above. However, there may be occasions when the timescales are unachievable due to exceptional circumstances. Where such circumstances merit it, timescales may be varied by ONR at its discretion to ensure the issue(s) in dispute may be considered fairly and in full, in consultation with the dutyholder.

Why we do not use unit costs

ONR is funded on a net nil basis, which means we have to recover only the value of income needed to meet our expenditure, to the penny. Our objective is to ensure we recover costs accurately, fairly, equitably and promptly.

For the benefit of our dutyholders, we have considered a variety of models to enable better forecasts of our costs, and have undertaken analysis to assess the viability of a move to unit costing.

If ONR was to set a unit price for a nuclear inspector delivery day, it would be fixed for the year in the fees regulations, based on our delivery plans. Deviation from these plans would therefore result in over or under recovery of our costs.

Under recovery of as little as 5% would result in a funding deficit of as much as £5m. This would need to be supported by direct taxation through a grant, and would result in the public funding nuclear regulation, contrary to our statutory principles.

Over recovery against our plans may generate surpluses that would be returned to HM Treasury and would represent double taxation on the nuclear industry; any surplus could not be 'refunded' to dutyholders.

After extensive investigation, modelling and negotiation with HM Treasury, ONR has concluded that unit costing represents an intolerable, unacceptable and unreasonable risk to both dutyholders and ONR alike, given that the amount of work required at a dutyholder can vary significantly over the course of a year and would fail to guarantee that dutyholders receive fair and accurate charges.

Looking to the future

ONR has intended to produce its own independent set of fees regulations. Given the risks associated with unit costs outlined previously, ONR has received ministerial approval to pause activity to produce ONR-specific fees regulations.

Our current methodology for cost recovery will be retained, at least until the post-Brexit period, and will continue to use existing legislative provisions.

We have driven significant improvements to our processes to support our charging methodology based on year-to-date actual expenditure and direct-effort apportionment.

This approach has received full independent assurance that it is compliant with Managing Public Money principles and presents a far less risky and more compliant option compared to fixed unit costs for all stakeholders.

We will continue to look for ways to improve our charging methodology, to respond to dutyholder concerns within the scope of our current legislative powers and make it more transparent and predictable.

We are also working hard to improve our forecasting of activity and income from industry through a more robust interpretation of existing cost recovery provisions. This is helping to make sure that ONR recovers the right costs from the correct dutyholders.

We will continue to engage with dutyholders and seek further ways to improve transparency in our processes.

Get in touch

ONR's finance team is on hand to help with any queries in relation to charges:

- **Helen Beldon**
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- **Catherine Lloyd**
Catherine.lloyd@onr.gov.uk
0203 028 0058
- **Ann Davison**
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You can also visit www.onr.org.uk for more information.

WWW.ONR.ORG.UK