Fee for Service: A Shared Perspective

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Executive Summary

• Both the American and Canadian governments provide frameworks governing how departments develop fees for service

• The following presentation and subsequent panel discussion will help illustrate that:
  • While the legislative and policy context is different in each country;
  • There are more similarities than differences in the challenges associated with establishing a fee for service regime
Key Elements in Establishing a Fee for Service

• Who is your “client”?
  • **Internal**: interdepartmental transactions
  • **External**: service recipients (industry, individuals, etc.)

• Degree of choice in receiving the service
  • **Mandatory**: services that are required by law
  • **Optional**: services that are voluntarily requested by the public, industry, other government departments, etc.

• Degree of cost recovery
  • **Full +**: recovers 100% of costs plus markup for investments and business risk
  • **Full**: recovers 100% of costs
  • **Partial**: recovers less than 100% of total costs

• Nature of service being provided
  • **Internal**: IM/IT services, legal drafting, security clearances, translation services, financial mgmt, human resources, etc.
  • **External**: food inspections, drug approvals, visas and citizenship, access to national parks, debt collection
Key Elements: Costing and Pricing

• Costing:
  • What are the full costs of providing the service?
  • Can the incremental costs be identified?

Pricing:
• Internal: typically 100% of total costs
• External: determining user fee amounts requires several considerations
Canadian Legislative & Policy Framework

Strict regime which is further complicated by departmental culture and process
Case Studies

1. **Internal: Shared Services Canada**
   - Department created in August, 2011
   - Mandate: to deliver email, data services and telecommunications to 43 federal departments
   - Total budget for 2012-13 was approximately $1.7 billion (including revenue from internal cost-recovery services)

2. **External: Health Canada’s pharmaceutical drug approvals**
   - Fees for drugs approvals started in 1995
   - Federal authority responsible for regulating the safety, efficacy and quality of human drugs and medical devices
Internal Charges: Shared Services Canada

- **Initial growing pains:**
  - Initial budgets determined from past, fragmented operations
  - New organization had no actual, organization-specific costing history
  - Client-specific levels of service were varied and not well articulated

- **Current costing and charging challenges:**
  - Demand has outstripped available resources
  - Charging characteristics driven by spending authorities
  - No contingency planning or evergreening

- **Improvements underway:**
  - Service catalog under development
  - Interdepartmental working group is working to establish the costing and pricing
  - Costing tools have been developed and are being fine-tuned
  - Greater engagement and communication with community
External Fees: Health Canada's Drug Approvals

• **Initial drive:**
  • Pharmaceutical industry lobbied government to create the *User Fee Act* (UFA)
  • Purpose of the UFA: increase departmental accountability, ensure stakeholder involvement and increase oversight by elected officials
  • Cost recovery rate was set at 50%

• **Current challenges:**
  • The UFA imposes a financial penalty (i.e. reduction in fee for a year) on depts that do not meet their performance standards
  • In 2012-13, HC did not meet three of its performance standards and their fees were reduced by 50%
  • Reduced fee revenue led to an increase in appropriations, meaning tax payers subsidized drug approvals for large pharmaceutical companies

• **Improvements underway:**
  • HC is considering reviewing its fees to ensure that they are set appropriately to ensure the approval program is resources adequately
Future Direction

• **Charging:**
  - Finding ways to ensure departmental charges are balanced
  - Improving capacity so that departments are able to develop fee proposals

• **Internal Charges:**
  - Looking for affordable solutions that are easy to administer
  - With time, gaining efficiencies where possible
  - Ensuring charges remain consistent with Parliament’s authority

• **External Fees:**
  - Looking at components of the UFA to maintain accountability and transparency
  - Looking at the application of the UFA for issues related to materiality (e.g. buying firewood in a national park)
United States Legislative & Policy Framework

- Legislation
- Culture
- Agency Policy
- Accounting Standards
Case Studies

1. **Internal: Administrative Resource Center (ARC)**
   - Created in 1997 to provide shared service to federal agencies
   - Provides financial management, human resource, acquisition, travel and information technology services to federal agencies. Agencies choose to contract with ARC. Services are not mandatory
   - Annual revenue of $351 million. Services provided to 80 agencies

2. **External: Delinquent Debt Collection**
   - Created in 1997 to centralize at US Treasury delinquent debt collection for federal agency and some state debts over 180 days delinquent
   - Charge agencies for the cost of collection and some agencies may be able to pass the cost onto to the debtor
   - Cost to agency depends on program type – Treasury Offset Program (TOP), active debt collection, private collection agencies
   - Collect over $7B a year
   - Collect over $47 for each dollar of program cost
Internal: Administrative Resource Center

- **Early lessons learned:**
  - Where possible remove subjectivity in pricing. Move towards pricing based on consumption. Ex: accounts payable transactions, help desk calls, etc.
  - Develop service level agreements that provide details on work being performed and specific performance measures
  - Provide transparency in pricing methodology and customer bills

- **Current costing and charging challenges:**
  - Current funding mechanism is not able to provide investment dollars necessary to prepare for implementation of large agencies
  - Potential customer agencies have no idea how much they are spending on administrative service
  - Benchmarking of costs limited across the federal government
  - Budgets of existing customers are shrinking

- **Improvements underway:**
  - Interagency working groups being formed to identify new funding mechanisms
  - Benchmarking of all agencies administrative services in order to make a business case for shared services
  - Governance across all shared service lines of business
  - Focusing on providing customers with data to help them make informed decisions on how they consume our services
External: Debt Collection

- **Current costing and charging challenges:**
  - For direct costs, determining the costs for each program since fee charged has to be based on the program costs but costs are often a blend. Developed “drivers”.
  - Supporting the non-direct costs (overhead).
  - Charge to agency is based on collections and costs that do not result in a collection may be better charged another way, i.e., handling a dispute.
  - Agencies do not have budget to cover costs not part of the collection.
  - Currently charging a per item cost for TOP and a percentage for active debt collection and private collection agencies.
  - Funds can be used in current year or over two years depending on the program.
  - Cannot make a “profit” so how do you handle capital investments and “carry over” amounts due to cyclical nature of collections (TOP).
  - Fees are developed based on projected costs, historical transaction volume, and projected transactional volume. Not an exact science.
  - Agencies prefer to not have costs change every year or within a year. How do you smooth out from year to year.

- **Improvements underway:**
  - Working with key agencies to explain cost methodology.
  - COTs product implementation in FY 17 allows for costs to be different for types and age of debts, etc.
  - Cost accounting in Bureau and DMS improving due to cost accountants and analytics being employed.
  - Benchmarking studies done on state/local government use of fees.
Panel Discussion