

Costing in the Context of Fees

Presented by Michel Pariseau
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YOUR HEALTH AND SAFETY... OUR PRIORITY.



Purpose

- To discuss costing in the context of fees;
- To explain the relationship between costing and fees; and,
- To discuss the importance of costing.
- Not to provide a lesson on *how* to do costing.

NOTE: for the purposes of this presentation, the term “fee” includes, service fees, user fees, regulatory charges, levies, etc. It does not include fees by contract.

Background

What we know

- FMI has been around since 1962;
- Fees have been around for decades;
- Approximately 8,500 fees spread out over 33 federal departments;
- Historically, estimated annual revenue generated is \$2+ billion, at a cost of about \$3+ billion (although these figures have changed recently).

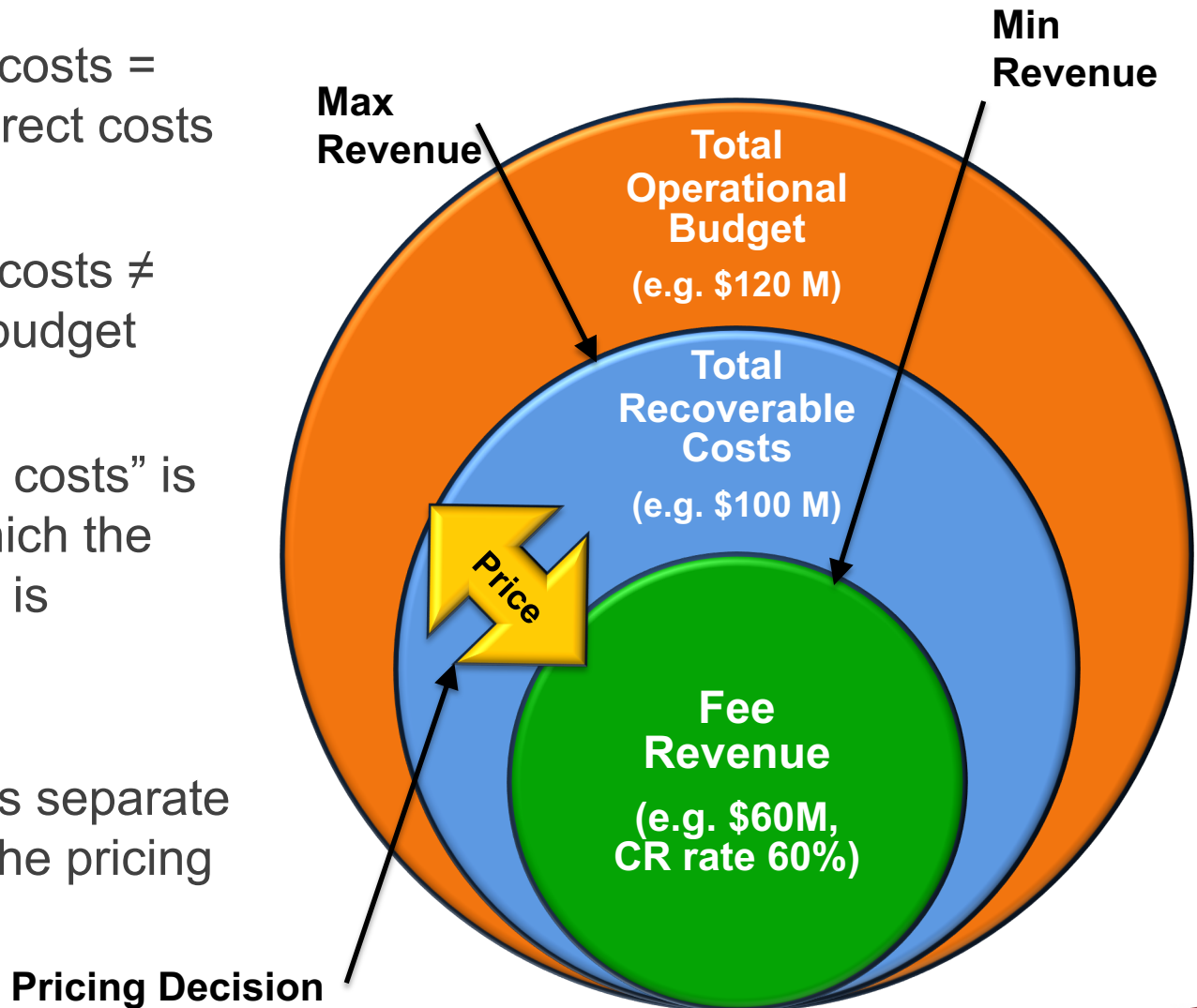
Why is costing a concern?

Because the governance around fees has changed and, as a result, so have the expectations around revenue:

- *Service Fees Act*;
- *Low-materiality Fees Regulations*;
- Directive on Charging and Special Financial Authorities.

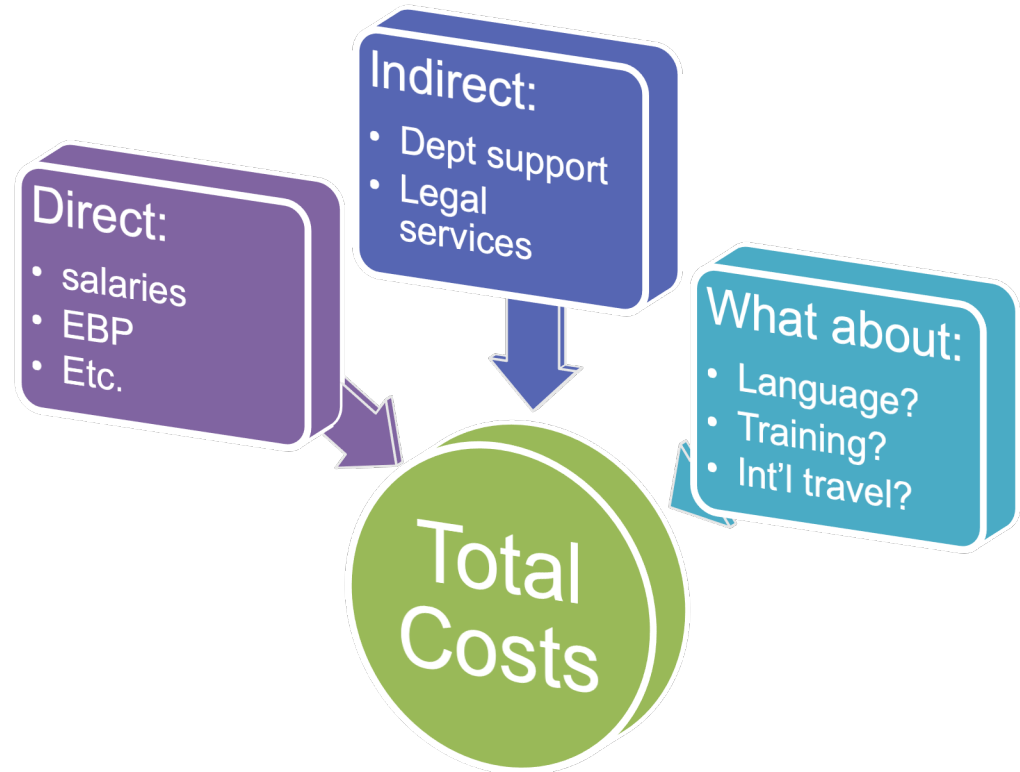
Fundamental Principles

- Total recoverable costs = Direct costs + Indirect costs
- Total recoverable costs \neq Total operational budget
- “Total recoverable costs” is the basis upon which the cost recovery rate is calculated.
- Costing exercise is separate and distinct from the pricing exercise.



Rule #1: Costing is a Fact-based Exercise

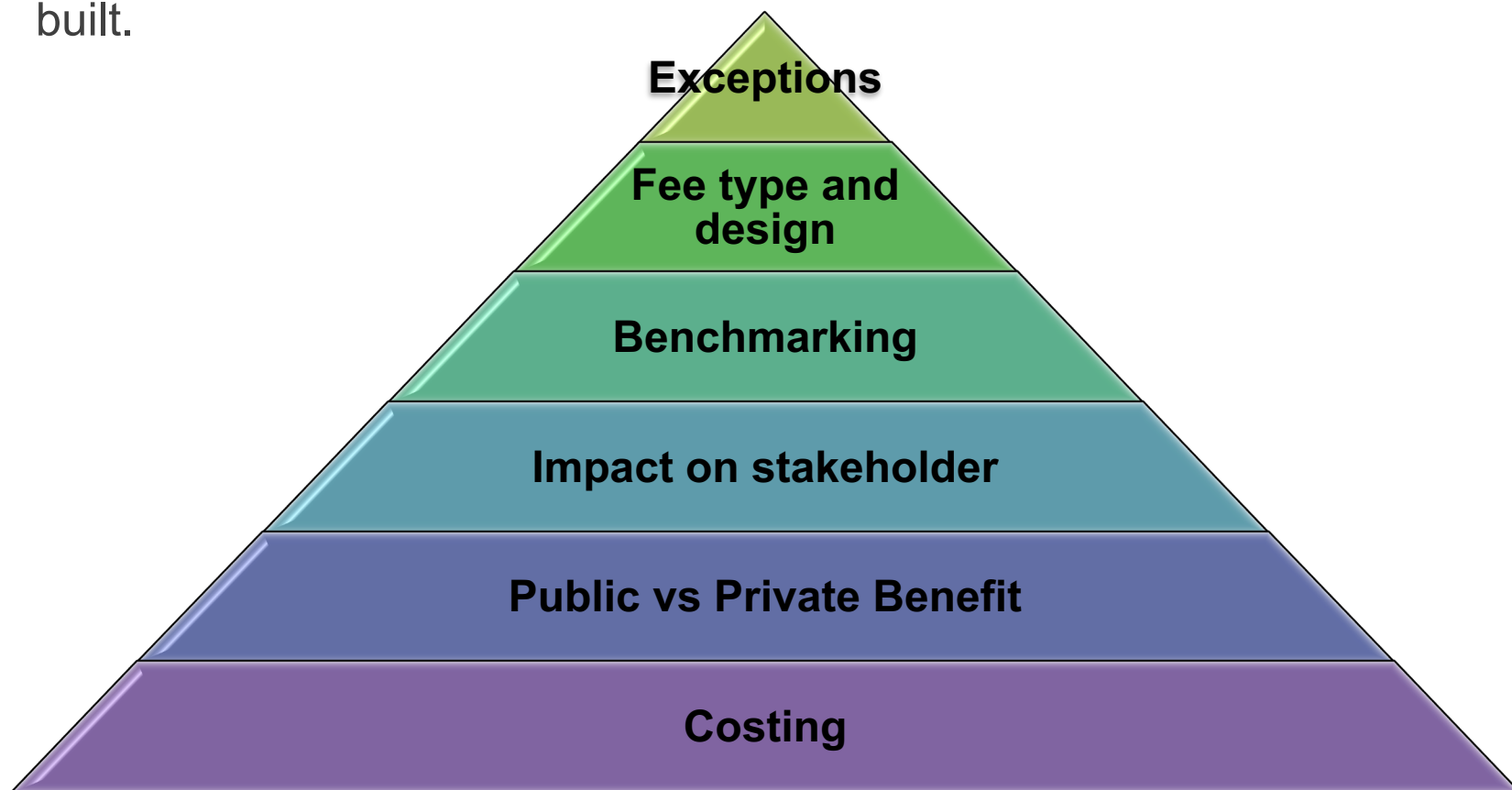
- Facts = cost inputs
- Which facts will be included?
 - And why?
- Do you have data?
 - Is it reliable?
- If no data, what's the plan?
- Measure the facts
- Document the process



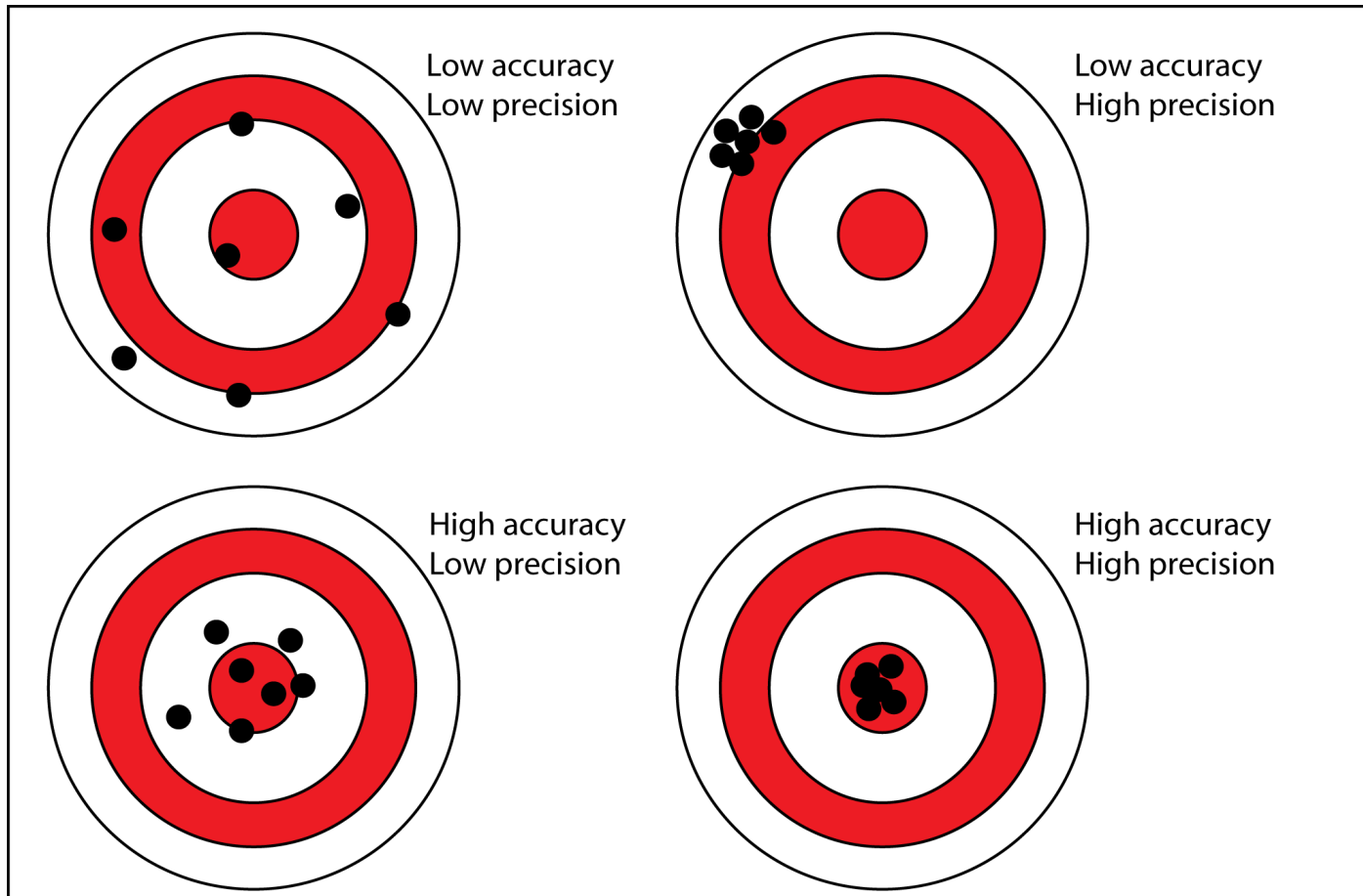
- **Consistency is key: align costing methodologies within programs, branches, departments and across federal departments, if possible.**
- **Own the method.**
- **Costing is the foundation to any fee.**

Pricing is a Decision-based Exercise

- Pricing = determination of fee amount, or fee-setting.
- All factors that go into pricing are based on decisions; except for costing, which is fact-based and the foundation upon which the pricing exercise is built.



Rule #2: Precision and Accuracy are Key



The greater the accuracy and precision in costing, the less vulnerable the fees – and the department – are to challenges.

Rule #3: Costs are not Negotiable

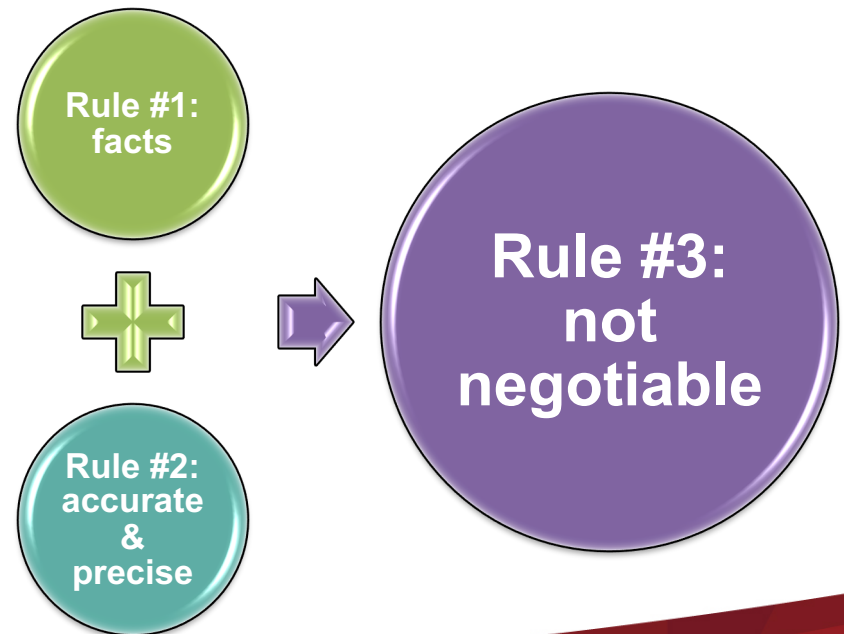
Context

- When consulting on fee proposals, stakeholders may try to negotiate the fee amounts, often by questioning costing information.

WARNING: Do not fall for this tactic!

Considerations

- Consultations \neq negotiations
- Industry and commercial stakeholders understand costing, and all of its implications, more than anyone else.
- Reminder: costing is fact-based, and those facts don't change.
- Flexibility is in respect of the proposed fee amounts, determined as a result of pricing exercise, not costs.



Key Take-away Messages

- Given the new policy and legal framework around fees and cost recovery in general, pressure will likely intensify regarding revenue.
- Departments that currently have fees may be directed to revise their fees/cost recovery regimes (many have already started);
 - Departments that don't have any fees/cost recovery regimes may be directed to develop them, where appropriate.
- The first step in developing fees/cost recovery regimes is to do the costing exercise;
 - It is incumbent upon departments to be rigorous, accurate and precise, and comprehensive when undergoing a costing exercise.
- Your department's success in establishing fees/cost recovery regimes depends on a rational, methodical and rigorous approach.

Questions?

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