

Chapter 11

Agriculture Portfolio

User Charges

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Agriculture Portfolio

User Charges

Main Points

11.1 We noted a number of good practices in the way Agriculture and Agri-Food Canada, the Canadian Grain Commission and the Canadian Food Inspection Agency have designed and managed fees they charge to users of their services. But these organizations do not yet meet all the requirements of the government's policy on user charges. Although in recent years they have made progress, they are losing momentum and user charges are not being updated as programs change. This could result in some user groups paying either more or less than their fair share.

11.2 Our audit found that the organizations often view user fees primarily as a means of generating revenue, ignoring their potential to achieve other possible benefits. For example, the Canadian Food Inspection Agency often charges the same fee for inspections whether or not food inspectors have found deficiencies, even though an inspection that has found problems entails additional time. This provides no incentive for the industry to comply with regulations and thereby minimize the time government inspectors need to spend.

11.3 The organizations we audited need to make major improvements in the way they report to the public, the industry and Parliament on their plans for user charges and on the results. Despite the fact that this is a contentious issue that has sparked a great deal of interest from Parliament, the organizations in most cases have not publicly explained why specific user charges were needed and how they would be applied. Nor have their reports provided enough information to allow readers to judge whether user charges are managed properly.

11.4 The three organizations need to improve their management of user charges in a number of areas, including costing their services, assessing the impact of fees, establishing formal appeal processes and integrating user charges into their strategic planning.

Background and other observations

11.5 In its 1997 Cost Recovery and Charging Policy, the federal government states that user charges should be implemented for "services that provide identifiable recipients with direct benefits beyond those enjoyed by the general public, unless overriding policy objectives would be compromised." A key underlying principle is that user charges provide benefits much broader than the revenue generated, such as making services more responsive to users' needs.

11.6 Organizations in the agriculture portfolio charge for many different services. For example, the Canadian Grain Commission charges the grain industry for weighing and inspecting grain destined for export. The Canadian Food Inspection Agency charges importers and exporters to inspect plants and plant products for pests or diseases. Agriculture and Agri-Food Canada charges owners of cattle that graze on community pastures for services it provides.

11.7 User charges have been a focal point of much concern in the agriculture sector. Over the past five years, revenues from user charges in certain areas have increased by as much as 300 percent. Producers and the industry have objected to the way the fees were introduced and to the cumulative impact they have had. Some have contended that the fees were simply a tax.

11.8 A moratorium on new fee increases was announced at the time the Canadian Food Inspection Agency was created, to be in effect until the year 2000. Officials of the three organizations have given many different

interpretations of not only how long the moratorium will last but whether it applies to other organizations in the portfolio. We note that the organizations we audited believe they are constrained from correcting even known inconsistencies among fees and responding to changes in their business environment. In our view, the period of the moratorium offers them an opportunity to reassess their current position, develop guiding principles and plan improvements.

11.9 The organizations face specific challenges in that they recover fees from individuals they also regulate. It can be difficult to establish the amount that users of a service should be charged for the benefits they receive when the service also benefits the general public. There is a need for broader consultation, where possible, that takes into account the interests of both industry and the public. Those who pay fees want to influence how services are provided, and the organizations must ensure that the needs of all stakeholders are taken into account.

11.10 The three organizations need to make key decisions on user charges and take action to resolve the following situations:

- Recent changes in its operations and in the grain industry have made the existing fee structure of the Canadian Grain Commission no longer appropriate.
- The Canadian Food Inspection Agency initiated fee increases but has not completed its plan for user charges. Consequently, commodity groups are paying different proportions of the Agency's costs for similar service, which represents inconsistent treatment.
- Agriculture and Agri-Food Canada has not explained adequately when, how and why user charges are implemented for each of its programs. Consequently, the reasons why some programs have user charges and other, similar programs do not remain unclear.

The responses to our recommendations from Agriculture and Agri-Food Canada, the Canadian Food Inspection Agency and the Canadian Grain Commission are included at the end of this chapter. Each of the organizations has said that it will act upon the recommendations that apply to it.

Introduction

11.11 Federal user charges in the agriculture portfolio are not new. For more than 60 years, farmers have paid grazing fees to the Prairie Farm Rehabilitation Administration for their use of community pastures. And fees have been paid to the Canadian Grain Commission for almost 90 years to inspect grain destined for export.

11.12 The major organizations in the agriculture portfolio who apply user charges are Agriculture and Agri-Food Canada (the Department), the Canadian Grain Commission and the Canadian Food Inspection Agency. User charges cover a wide range of services, from inspecting cattle slaughter operations to certifying product standards and quality, to administering loan guarantee registration. User charges for these organizations totalled \$135.6 million in 1997–98, the seventh highest in the federal government, where the total was \$3.937 billion.

11.13 The proportion of their expenditures that the organizations finance through user charges varies considerably. The Canadian Grain Commission recovers close to its full costs. The Prairie Farm Rehabilitation Administration (a branch of Agriculture and Agri-Food Canada) recovers almost all direct costs of providing pastures for grazing and breeding services for cattle. At the same time, there are minimal or no user charges for many programs in the Department’s Market and Industry Services Branch and Research Branch.

11.14 The government defines external user charges as “all non-tax revenues related to the provision of goods, regulatory and non-regulatory services, or rights and privileges, from all sources, whether generated in Canada or abroad, from persons or organizations external to the federal government.”

11.15 In April 1997, the government revised its 1989 cost recovery charging

policy to take a less prescriptive approach. The policy outlines several broad principles that departments and agencies must apply to user charges. First, they should charge for “services that provide identifiable recipients with direct benefits beyond those enjoyed by the general public.” This is designed to ensure that the general taxpayer does not pay the full cost of services that provide direct benefits to specific individuals or organizations.

11.16 The policy’s second principle emphasizes that the benefits of user charges can go beyond revenue generation to better and more client-oriented services. The policy also advances the notion that user charges can serve as a market test of demand for services and can help reduce excess demand for “free” services.

11.17 Government-wide initiatives have had an impact on user charges in the agriculture portfolio. The Program Review exercise of 1994–95 required departments and agencies to review each of their programs, with the aim of eliminating programs that were not really needed, improving service to clients and re-engineering programs to reduce overall spending. The government suggested that expenditure reductions could be accomplished through program cuts or by finding other sources of revenue. Each of the three organizations we audited has made significant expenditure reductions since Program Review, in some areas by as much as 20 percent.

11.18 Revenues from user charges have increased substantially for the Canadian Food Inspection Agency since 1994–95, while changing less significantly for the other two organizations in our audit (see Exhibit 11.1). These increases, as well as fee increases from other departments and levels of government, have been met with strong opposition from producers and industry.

11.19 The key concerns of stakeholders are the way the fees were introduced and the cumulative impact of the fees. Many

Federal user charges in the agriculture portfolio are not new.

Our audit asked the question, “How well are the organizations in the agriculture portfolio managing their external user charges?”

contend that user fees are simply another form of taxation. A few have said that user charges may distort the impartiality of regulatory activities: regulators may redesign programs to suit industry’s wishes because industry is paying the fee.

11.20 Parliamentarians have expressed similar concerns. User charges have been discussed in several hearings and reports by the agriculture committees of both the House of Commons and the Senate. Concerns about the impact of user charges have intensified with the severe pressures on incomes in the sector as a result of low commodity prices.

Focus of the audit

11.21 Our audit focussed on activities surrounding user charges over the past five years in Agriculture and Agri-Food Canada, the Canadian Food Inspection Agency and the Canadian Grain Commission. We looked only at their fees for services provided to users outside the government, and discussion in this chapter is limited to such “external user charges”.

11.22 In Agriculture and Agri-Food Canada, most issues pertaining to user charges for intellectual property in the Research Branch were distinct from issues facing the Department’s other branches and the two other organizations. The

results of our work on the Research Branch are reported in Chapter 12 of this Report.

11.23 The Canadian Food Inspection Agency began operations in April 1997, combining the inspection activities previously carried out by three organizations — Agriculture and Agri-Food Canada, Health Canada and the Department of Fisheries and Oceans. Our audit examined programs with user charges, where relevant, both before and after the Agency’s creation.

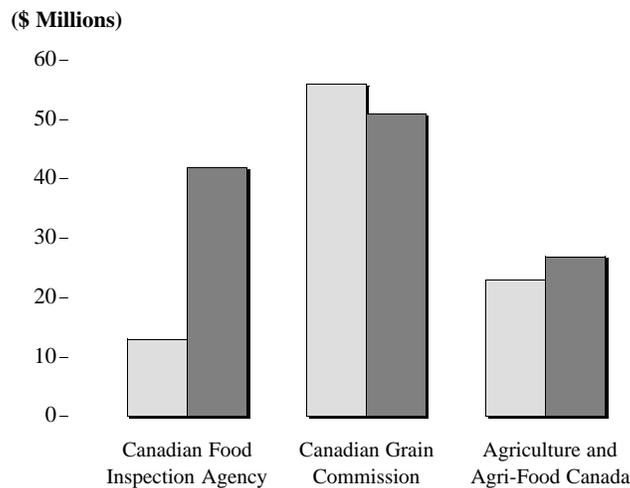
11.24 In essence, our audit asked the question, “How well are the organizations in the agriculture portfolio managing their external user charges?” The specific objectives of the audit were to determine whether the three organizations we audited:

- have properly designed and managed user charges so as to achieve the government’s objectives for user charges;
- are learning from experience through the regular review of information and experience gained in applying user charges; and
- monitor and report performance in a way that is clear and meaningful and allows Parliament to judge how well user

Exhibit 11.1

User Charge Revenues Vary in the Agriculture Portfolio

□ 1994–1995
 ■ 1997–1998



Source: Public Accounts of Canada

charges have been implemented and managed.

11.25 The government's policy provided a framework for our audit criteria on implementing user charges. We built on the policy by reviewing best practices and literature from other sources, including the Organization for Economic Co-operation and Development (OECD). The key management practices required by the government's policy are broadly consistent with the international literature on user charges.

11.26 Details of our audit objectives, scope and criteria are at the end of the chapter in **About the Audit**. Recommendations for corrective action by the three organizations are presented on pages 11–34 and 11–35. An insert on pages 11–27 to 11–32 summarizes our findings on some key elements of managing user charges, and notes some good practices that might be useful to other organizations in the portfolio or elsewhere in government.

Observations

Implementation of Government Policy Is Incomplete

11.27 Although the three organizations we audited have put user charges in place, they have yet to fully achieve the expectations set out in the government's 1997 policy on external user charges. The majority of changes to the organizations' user charges predate the 1997 policy. Our audit presents observations and recommendations in areas where their management of user charges needs improvement to meet the expectations set out in the 1997 policy. As this section of the chapter discusses, those areas include costing practices, service standards, consultations and reporting of results.

11.28 We recognize that the organizations we audited are very different from one another in the type of

services they provide and the progress they have made in implementing the government's policy on user charges. While implementing user charges is an ongoing task, each organization is at a point where it needs to make key decisions on user charges. The current status and the decisions facing each organization are summarized in the insert on pages 11–10 to 11–13.

Improvements needed in program costing

11.29 The Treasury Board Secretariat and our Office alike have often emphasized the importance of good costing systems. The appropriate charge for a service can be determined only when the full cost of providing the service is known. Proper costing can help program administrators deliver their programs more efficiently and make better-informed choices about whether and how best to undertake new services or change existing programs. We expected that the organizations would know the full costs of providing their services and would have a reasonable understanding of the different factors that could affect their costs.

11.30 Over the last five years, the three organizations we audited have shown little improvement in the way they obtain and use cost information. They can roughly estimate the direct and overhead costs of delivering their programs, but have not calculated the full costs of the various services in each program. We found a reasonable costing system in only one program — the administration of Agriculture and Agri-Food Canada's Net Income Stabilization Account.

Service standards are not widely used

11.31 Where user charges are applied, we expected that the organizations would have service standards. With few exceptions, our examination found that service standards are not used widely in programs with user charges. One — the Net Income Stabilization Account — does

The three organizations have shown little improvement in the way they obtain and use cost information.

Service standards are not widely used.

(continued on page 11–13)

Status and Decisions Facing Each Organization



Canadian Grain Commission

The Canadian Grain Commission has two major services — weighing and inspecting grain destined for export. Its primary purpose is to regulate grain handling and to establish and maintain standards for quality.

The Canadian Grain Commission has recovered the majority of its costs for decades, and close to its full costs for more than 10 years. The grain industry accepts that the regulated inspection and weighing services provided by the Commission are a private benefit to the grain industry, and that these costs are to be recovered fully. The portion of the Commission's business that is not considered to benefit solely the grain industry (mainly the Grain Research Laboratory) represents approximately 20 percent of the Commission's expenditures, half of which is recovered from the industry.

The existing fee structure was designed to recover all corporate overhead costs from the

fees charged on grain shipments exported through seaports. Since then, however, shipping patterns have changed. Notably, in recent years more grain is being shipped from the Prairie provinces directly to the United States and not through the seaports. Some staff of the Commission were redeployed to provide services at primary elevators. The Commission's costs of providing the services remained relatively constant. However, the shift in shipping patterns meant that revenues decreased and, as a result, corporate overhead costs were no longer fully recovered; the fee structure was no longer aligned with the cost base. If fees had been adjusted more quickly, the Commission might have been able to avoid part or all of its deficit for the 1998–99 fiscal year, estimated at more than \$10 million.

The Canadian Grain Commission has regularly reviewed its programs and its cost recovery about every five years. The most recent review came at a time when the

Commission was confronting the fundamental changes in the grain industry and their resulting financial pressures. A major emphasis of the Commission's recent review was to better align its user charges with its services and those who benefit from them.

The Commission's review of its programs has gone a long way toward implementing the government's policy on user charges; however, action is yet to be taken to implement the review's recommendations. The recommendations include making short-term changes to operations and regulations in order to reduce the financial pressures on the Commission, and longer-term legislative and funding changes to give it the flexibility required to meet the changing needs of the grain industry. Whether it acts on the recommendations or not, we believe the Canadian Grain Commission can make additional improvements, especially in its costing of services.

Cost recovery at the Canadian Grain Commission	(\$ millions)			
	1994–95	1995–96	1996–97	1997–98
Service fees	54.5	45.4	41.7	50.1
Other	2.1	1.4	1.3	1.2
Total	56.6	46.8	43.0	51.3



Canadian Food Inspection Agency

The Canadian Food Inspection Agency delivers inspection programs for food safety and animal and plant health. These programs are supported by laboratory and analytical services, and facilitate access for Canadian products to markets in other countries. Inspections are conducted across the country, at slaughter and processing facilities, warehouses, ports of entry and farms. Staff of the Agency also conduct inspections in other countries for enterprises that wish to import animals, plants or goods into Canada.

The major user charge initiative under the Canadian Food Inspection Agency began before the government-wide Program Review of 1994–95, while the majority of the services the Agency now provides were still under the Food Production and Inspection Branch of Agriculture and Agri-Food Canada. Referred to as the "Business Alignment Plan", the initiative set out to implement a comprehensive set of user charges consistently across commodity lines.

Targets were set to recover a percentage of costs for each functional activity, such as import or export inspection, based on an initial assessment of the proportion of private benefit received by users of the service. For example, the cost recovery target for inspection of imported fresh fruits was set at 50 percent, on the assumption that the inspection service provides the importers with the opportunity to sell their product in Canada while also protecting Canadians from the entry of potentially harmful pests and diseases.

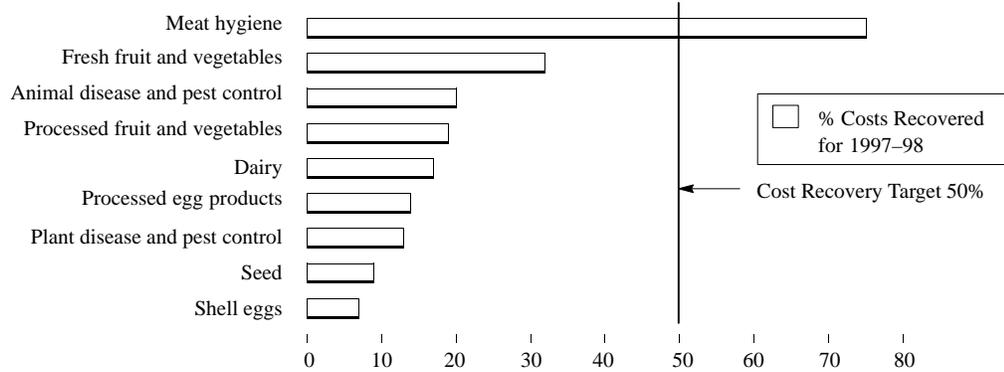
The Agency has partially completed its initiative. Fees are in place, but the percentage of costs recovered is not consistent across commodity lines for similar services even though the cost recovery target is the same.

This means that different commodity groups pay a different proportion of the costs for similar services. If there are reasons for the differences, such as the competitive nature of

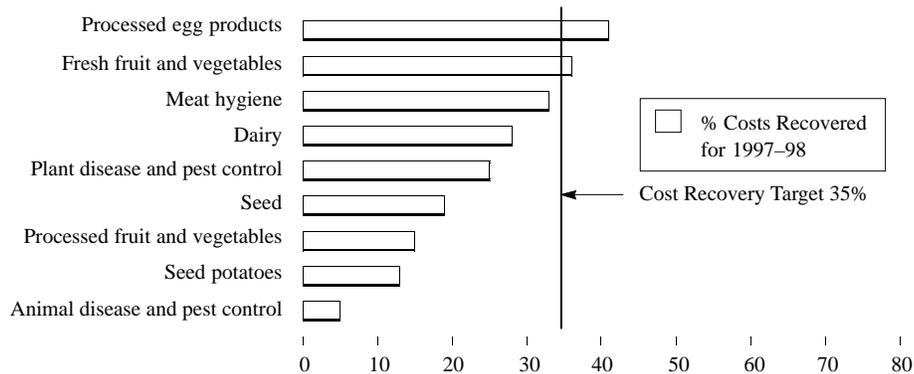
the industry, these have not been explained to the public. However, Agency officials acknowledged that the differences do indeed represent inconsistencies.

Cost Recovery Rates Vary Significantly Across Commodity Groups

Functional Area – Imports



Functional Area – Exports



Note: Commodity groups not shown above have no user charges for these functional areas.

Source: Canadian Food Inspection Agency

The Department's Food Production and Inspection Branch had very little time to implement its fee structure, as the funding voted by Parliament had assumed that user charges would be in place and would generate the planned revenue. This fiscal pressure continued after the Agency's creation, since it was expected to make the delivery of inspection services less costly to the federal government. Revenue from user charges was needed immediately, and identifying areas to reduce or

avoid costs had secondary priority. At a higher level, however, the Agency's creation was itself designed as a form of cost reduction.

During its consultations with industry groups on user charges, the Food Production and Inspection Branch had been open about its immediate need to generate revenue and about the principles on which user charges would be based. The Agency subsequently set revenue targets for each commodity group. After

presenting its initial proposals for fee structures, the Agency generally accepted counterproposals from industry as long as this did not jeopardize the overall revenue target. Accepting these additional proposals was partially responsible for increasing the number of individual fees to more than 1,600. The Agency recognizes that it is costly to administer this many fees and the associated regulations, and it hopes to streamline them in the future.

While the Agency pursued revenue generation vigorously, it also responded to industry's demands for new or more efficient ways of delivering services and it sought opportunities to avoid and reduce costs. Livestock grading is a prime example of cost avoidance that resulted in net savings to the government and industry.

The Canadian Food Inspection Agency manages one of the government's most complex sets of user charges. Previously, the Agency had established targets for recovering a percentage of inspection costs in functional areas such as import, export and domestic inspection. But it has yet to meet those targets for all commodities. Much of the Agency's focus

in its first two years was to make the necessary organizational and program changes to bring together staff and programs from four different departments. Senior managers believe that these changes are largely in place, and they are now free to renew their concentration on user charges.

Cost recovery at the Canadian Food Inspection Agency	(\$ millions)			
	1994-95	1995-96	1996-97	1997-98
Animal health	1.0	3.1	4.5	4.7
Fresh fruit and vegetables	2.6	2.5	3.9	4.8
Livestock and poultry grading	3.0	3.7	1.9	1.3
Plant health	1.1	2.4	3.1	3.5
Seeds	1.5	1.6	2.5	2.5
Meat hygiene	3.7	13.5	17.0	16.7
Other (dairy, feed, processed products, etc.)	.4	.5	1.2	2.3
Fish inspection*	.8	.9	2.5	6.1
Total	14.1	28.2	36.6	41.9

* Prior to 1 April 1997, fish inspection was carried out by the Department of Fisheries and Oceans.



Agriculture and Agri-Food Canada

For the most part, each branch of Agriculture and Agri-Food Canada that we audited (Policy Branch, Market and Industry Services Branch and Prairie Farm Rehabilitation Administration) manages its own user charges. Each branch evolved separately and has a distinct history and line of business.

The Prairie Farm Rehabilitation Administration has been involved in cost recovery since 1939 (see Chapter 24 of our 1997 Report). User charges associated with its Community Pastures program are well developed. They compare with market rates and recover more than 80 percent of the program's direct costs. The remainder of the costs are attributed to the "public good" component — maintaining the pastures in an environmentally sustainable manner. The Prairie Farm Rehabilitation Administration is working toward recovering a greater percentage of the costs of irrigation services it provides in southwest Saskatchewan.

Costing is one area where the Prairie Farm Rehabilitation Administration still needs to improve, as it does not yet collect and allocate

costs and overhead for each of its current and prospective services and programs.

The Net Income Stabilization Account administered by the Policy Branch represents the Department's greatest progress toward fully implementing the government's policy on user charges. It has developed a solid costing methodology (activity-based costing) that it can use to cost out possible changes to the program. The Net Income Stabilization Account has also shown evidence of good consultation with stakeholders, and has integrated service standards and measures of client satisfaction into its management culture. In 1995 the Net Income Stabilization Account announced to its national advisory committee that it intended to move toward full cost recovery.

The Market and Industry Services Branch has only one user charge, in connection with the *Farm Improvement and Marketing Cooperatives Loans Act*. This is a loan guarantee program that provides producers and their co-operatives with access through financial institutions to intermediate term credit at

reasonable rates. The recent fee increase in 1999 was designed to recover the full costs of administration and loan defaults under the program.

It is not clear why certain programs recover full costs, others recover partial costs and still others recover nothing. For example, the Net Income Stabilization Account program recovers approximately 70 percent of its administration costs, while the Agriculture Income Disaster Assistance program does not. If program considerations suggest that something less than full costs should be recovered, those considerations need to be made clear to parliamentarians and stakeholders. Currently there is no set of guiding principles to ensure that user charges are implemented in a consistent way throughout the Department.

In other aspects of managing user charges, Agriculture and Agri-Food Canada uses reasonable consultation practices and has simplified fee collection, but needs to look for opportunities to reduce the length of time it takes to introduce or amend fees.

Cost recovery at Agriculture and Agri-Food Canada	(\$ millions)			
	1994-95	1995-96	1996-97	1997-98
Farm Improvement and Marketing				
Cooperatives Loans	2.8	1.9	2.4	2.6
Net Income Stabilization Account	5.5	5.4	7.6	8.2
Prairie Farm Rehabilitation Administration	11.8	12.7	13.0	13.0
Research Branch	1.5	2.5	3.1	3.4
Total	21.6	22.5	26.1	27.2

(continued from page 11-9)

routinely measure the services it provides against predetermined standards. The Canadian Grain Commission has developed service standards but has not reported whether they have been met. The Canadian Food Inspection Agency drafted service standards but has implemented them in only two main areas: the feeds program applies standards and compares performance against them, while fish inspection has adopted standards but does not compare performance against them.

11.32 Clients want to know the level of service they will receive for the fees they pay, and they want to know that they will receive full value for their money. In a competitive market, the customer can choose the supplier who offers the best price, quality and service. In a regulated environment, where there may be only one supplier, the customer has no such choice. In those cases, communicating service standards and reporting performance against them serve as a form of accountability to the public and users of the service that helps to compensate for the lack of choice of suppliers.

Are the impacts of user charges well understood?

11.33 Clients and stakeholders have had much to say about the impact of user charges on their businesses and livelihood. Although some of their comments may be

simply a reaction to having to pay for something that used to be “free”, a study performed by Agriculture and Agri-Food Canada does suggest that on certain industries the impact has been greater (see Exhibit 11.2).

11.34 In accordance with the government’s policy, we expected that the designers of user charges would use the information gained from impact assessments, including the potential impact on competitiveness. The federal government’s Business Impact Test is a tool that can assist in these assessments. We found that the organizations in our audit do not use such tools on a regular basis.

11.35 Most fees are established and enforced through regulations. In accordance with the government’s regulatory policy, we expected that the intended benefits of new fees or fee changes would be compared with the expected cost of implementing them. However, the assessments did not routinely identify or include benefits, especially indirect or societal benefits. Where such non-monetary benefits have been anticipated, they have not been well documented or communicated to stakeholders or parliamentarians. These benefits and costs — including the costs of implementing and administering the fees — need to be assessed.

11.36 The impact assessments of proposed regulatory amendments that we

Impact assessments were imprecise and lacked quantification.

reviewed were imprecise and lacked quantification. Further, we had difficulty finding evidence in the assessments to support their frequent contention that the fees would have little or no effect on competitiveness because they were such a small percentage of the costs of the products inspected. The impact assessments contained little information that would help the reader understand the fees' expected impacts.

11.37 While individually each fee may seem insignificant, in total they can amount to a significant portion of net income in some industry sectors. The revised government policy states that departments and agencies must “work

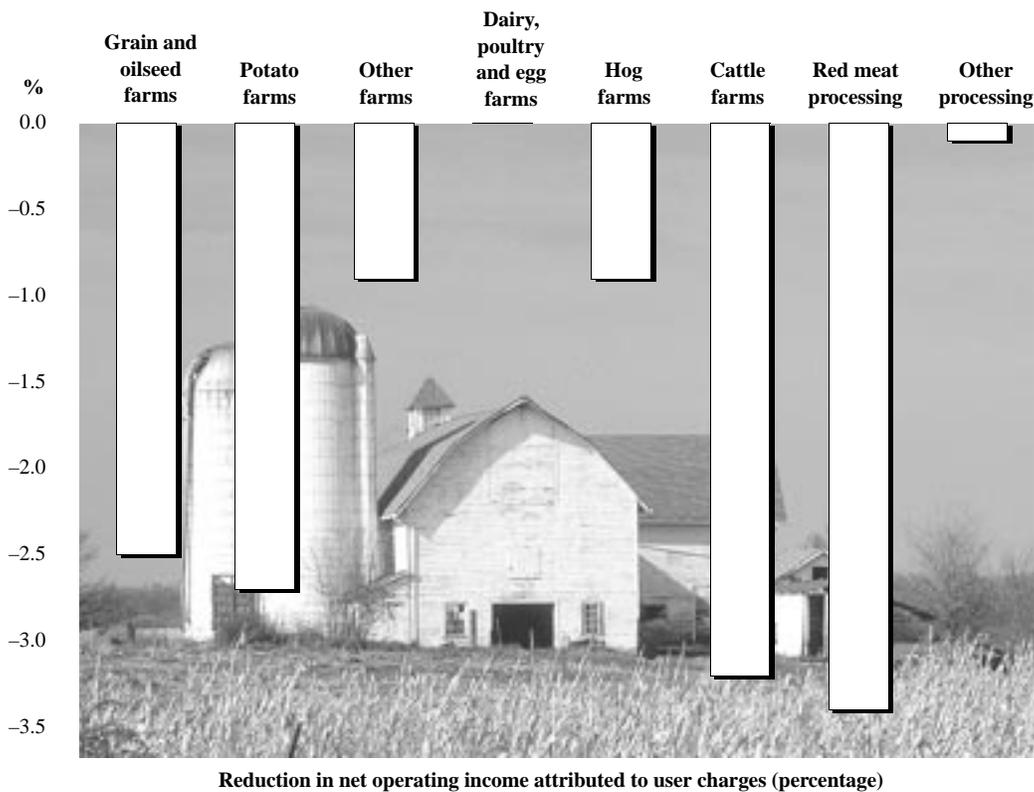
with clients to assess the cumulative impact of multiple fees from all federal sources, and assess proposed fees in that context.” Agriculture and Agri-Food Canada has analyzed the cumulative impact of the user charges in its portfolio (see Exhibit 11.3).

Exploring alternatives before establishing user charges

11.38 There may be alternatives to imposing user charges, and these need to be explored before the charges are put in place. Clients do not want revenue from user charges to pay for inefficiencies in the way programs are delivered. We expected that the organizations would analyze and consider options for reducing

Exhibit 11.2

Cumulative Effect of Federal User Charges Varies by Sector



Source: Impact of Selected Federal Cost Recovery Initiatives on the Agri-Food Sector, Agriculture and Agri-Food Canada

or avoiding costs, recognizing that subsequent consultations with users might identify additional options, and that they would be able to demonstrate that activities are delivered efficiently. Avoiding costs means “getting out of the business” or taking measures to avoid cost increases that would otherwise be incurred. Reducing costs requires that

service levels be lowered or else delivered more efficiently. An example of cost avoidance as an alternative to additional user fees is described in the case study on page 11–23, *Cost Recovery: Benefits Achieved Beyond Revenue Generation*.

11.39 Assessing alternatives includes determining which alternative best meets

Exhibit 11.3

A Significant Advance in Understanding Cumulative Fee Impacts

In the past, very little work was done to determine the combined impact on individuals and companies of the various user fees they pay. Parliamentary committees, stakeholders and the Treasury Board Secretariat have called on federal organizations to study the cumulative impact of federal user fees on specific sectors.

Some observers argue that concern about fee impacts on industry is misplaced — that as long as the fee is appropriate and industry is benefiting from the government service, then user fees are a legitimate cost no different from other costs of doing business. In our view, however, analysis of fee impacts is important because it helps decision makers to make informed decisions about user fee policy — regulators must ensure that the combined impact of user fees does not jeopardize program objectives.

In 1998, Agriculture and Agri-Food Canada was the first department to undertake a cumulative impact study of federal fees. The study has been of considerable interest to the agriculture sector, and was the subject of a hearing by the House of Commons Standing Committee on Agriculture. The study examined the impact of fees on the agriculture and agri-food sector, using economic modelling to identify how fees are passed on to customers and suppliers. The study concluded that impacts vary among different industries within the sector, reducing net operating income anywhere from virtually zero to 3.4 percent.

Lessons were learned for future studies

The experience gained from conducting the study highlighted a number of lessons for similar future studies:

- Several aspects of the project design proved particularly effective. Other fee-charging federal organizations and industry stakeholders were extensively involved in decisions on the project design. Macro-level economic analysis was supplemented by a micro-level analysis of potential impacts on illustrative farms and food-processing companies, which helped identify the differential effect of fees on different users.
- The analytical methodology was based on reasonable economic principles adapted from recent studies by the Department and by the Organization for Economic Co-operation and Development. The methodology, however, was not explained well in the report, nor was the analysis documented adequately. This made it impractical for us to verify the calculations, and could hamper future studies that attempt to build on the approach.
- A sensitivity analysis would have shown how sensitive the findings were to changes in assumptions and design parameters and thereby helped to build a better understanding of the reliability of the study’s results.
- Obtaining good data from other federal departments and clarifying data definitions was a time-consuming process. Standard data and definitions across government would greatly facilitate future cumulative studies.

More needs to be known about fee impacts

The 1998 Agriculture and Agri-Food Canada study significantly advanced knowledge about user fee impacts. However, some important questions were not addressed, given that the study scope was already ambitious. No policy analysis was conducted of what changes, if any, were warranted in user fee policy in light of the study’s results. Future studies in the agriculture and agri-food and other sectors need to examine whether user charges are a significant factor in international competitiveness, and need to consider refining the analytical tools used to capture secondary fee impacts and changes in industry behaviour.

There is also an important opportunity to convert the study methodology into a tool that would assist in the impact analysis of individual proposed fees. Until the study, impact analyses did not examine how fees are passed from the fee payer on to customers and suppliers.

The framework for consultations has improved over the past five years.

the objectives of the organization, the program and the needs of all stakeholders. Good costing systems are needed to assess alternatives properly.

11.40 We found that the organizations in our audit have in place or are considering a number of new and creative ways to deliver mandatory services. On a larger scale, the Canadian Food Inspection Agency’s creation was itself a major cost reduction initiative, designed to reduce government spending by \$44 million without increasing user charge revenues. However, we found little evidence to suggest that the organizations analyze options such as cost avoidance in sufficient depth before user charges are applied.

Consultation process has improved

11.41 We expected that the organizations would implement the government’s policy that departments must undertake “meaningful and effective” consultation with clients throughout the fee-setting process. “Meaningful and effective” means that clients believe their concerns have been given a fair hearing and that they understand the rationale for the fees.

11.42 In the absence of appropriate consultation, there is a risk that opposition to a proposed fee could derail a user charge initiative and result in lost revenue to the Crown. The organization also risks charging an inappropriate amount or charging the wrong party. A further risk is that the organization will miss valuable advice from clients on how it can improve the service.

11.43 Clients often mount strong opposition if they believe fees are being imposed unilaterally. They are more accepting when the fees provide an agreed-upon level of service that clients identify as a private benefit to them.

11.44 We found that the framework for consultations has improved over the past

five years. Agriculture and Agri-Food Canada and the other organizations have made an effort to ensure that consultations are properly structured. Large and small producers and industries are better represented in recent years, although smaller producers find it costly to take time away from their business for consultations.

11.45 Clients who pay the fees — the private beneficiaries of the service — have been represented in consultations by their national associations. However, apart from government officials protecting the interests of the public, there has been little representation of the beneficiaries who do not pay fees. In the consultations held during its recent review, the Canadian Grain Commission was successful in engaging some of the broader beneficiaries (producers) beyond those who pay the fees (grain handling companies). The Canadian Food Inspection Agency has attempted to engage consumer groups in consultations on food issues, but with limited success. When representation of the public good is relatively low, the results of consultations may be perceived to favour industry.

11.46 Nevertheless, we found that consultations were generally open and that feedback was provided to the consultation groups on a timely basis. The government organizations involved have changed fee structures or amended fees in response to stakeholder concerns, as well as altering the way they deliver services.

11.47 At the same time, however, a number of stakeholders who participated in consultations with the Canadian Food Inspection Agency told us that in their view, the Agency had used the meetings not so much to consult as to announce its planned fee increases.

11.48 While their consultation processes have improved, the three organizations could make them more effective by using them as a regular, ongoing means of sharing information

about program performance and future objectives. Client satisfaction can be improved with proper consultation and reporting of results against service standards.

Developing alternative fee structures

11.49 We expected that organizations would consider alternatives to setting a uniform fee for all transactions. There is an inherent trade-off in choosing between a uniform fee with simple administration and a more complex fee that costs more to administer but better meets the clients' needs and the program objectives.

11.50 The organizations in our audit did attempt, usually during the consultation process, to ensure that their fees were structured to meet users' needs. Examples from the Canadian Food Inspection Agency include lowering fees for smaller enterprises and basing charges on the length of time it takes to deliver the service.

11.51 While the organizations have responded to their clients' needs, they have not adequately considered the costs of doing so. The Canadian Food Inspection Agency now charges more than 1,600 fees. Besides the cost of delivering the services, there are additional costs to maintain regulations and administer invoices and fee collection, as well as the hidden costs to both staff and the clients of the Agency in keeping track of the fees and filling out the proper forms. The Agency has not estimated these costs, but it needs to consider them in choosing one fee structure over another.

11.52 One area where the organizations have been able to keep costs low is the collection of fees. Some programs have been designed to accomplish this, while others have improved their collection processes.

Changing fees is a lengthy process

11.53 We expected that changes to fees would be implemented in a timely

manner, but we found that the process of implementing new fees and fee amendments is very slow. It is not uncommon for regulatory changes to take more than two years. Indeed, recent changes to the fee under the *Farm Improvement and Marketing Cooperatives Loans Act* program took almost four years from the initial proposal until the regulation was in place (see the case study on page 11–18, *The Slow Pace of Change Has a Price*).

11.54 Fees are normally established following the regulatory process, which includes publication in the *Canada Gazette*. The statutory framework governing user fees includes the *Constitution Act*, which provides that legislation for any tax or charge must originate in the House of Commons, various other Acts that confer authority to establish and amend fees in relation to specific activity, and section 19 of the *Financial Administration Act*, which permits the Governor in Council to set fees or to authorize ministers to set fees by order. This regulatory process involves various steps that, while protecting the public from the indiscriminate and arbitrary application of fees, can often be lengthy and burdensome.

11.55 **Streamlining is possible but would require better disclosure.** Some streamlining is possible — the *Canadian Food Inspection Agency Act* allows the Minister of Agriculture and Agri-Food to set fees after consultation and publication of the proposed fee in the *Canada Gazette*. The Agency has used this provision to a limited extent for technical changes but has not yet used it to change fees, as most are related to other legislation. The Agency expects that recently tabled amendments to the Acts it administers will resolve this.

11.56 Any streamlining would need to be balanced, so that parliamentarians and external stakeholders would have sufficient opportunity — through impact

The process of implementing new fees and fee amendments is very slow.

analysis and better reporting — to scrutinize user fees adequately.

11.57 Delays in implementing fee changes can have a significant financial impact on the organization as well as its clients, in the form of possible underpayment or overpayment of fees in the meantime (depending on whether the

changes proposed were to raise or lower the fee).

11.58 Delays can actually work against the interests of users who pay fees. For example, in 1997 the Canadian Grain Commission initiated a reduction of the grain receipt service fee. From design to implementation, the change took

The Slow Pace of Change Has a Price

Administrators of the *Farm Improvement and Marketing Cooperatives Loans Act* (FIMCLA) program recently introduced several regulatory changes, including an increase in user charges and expanded criteria for program eligibility. These changes were almost four years in the making.

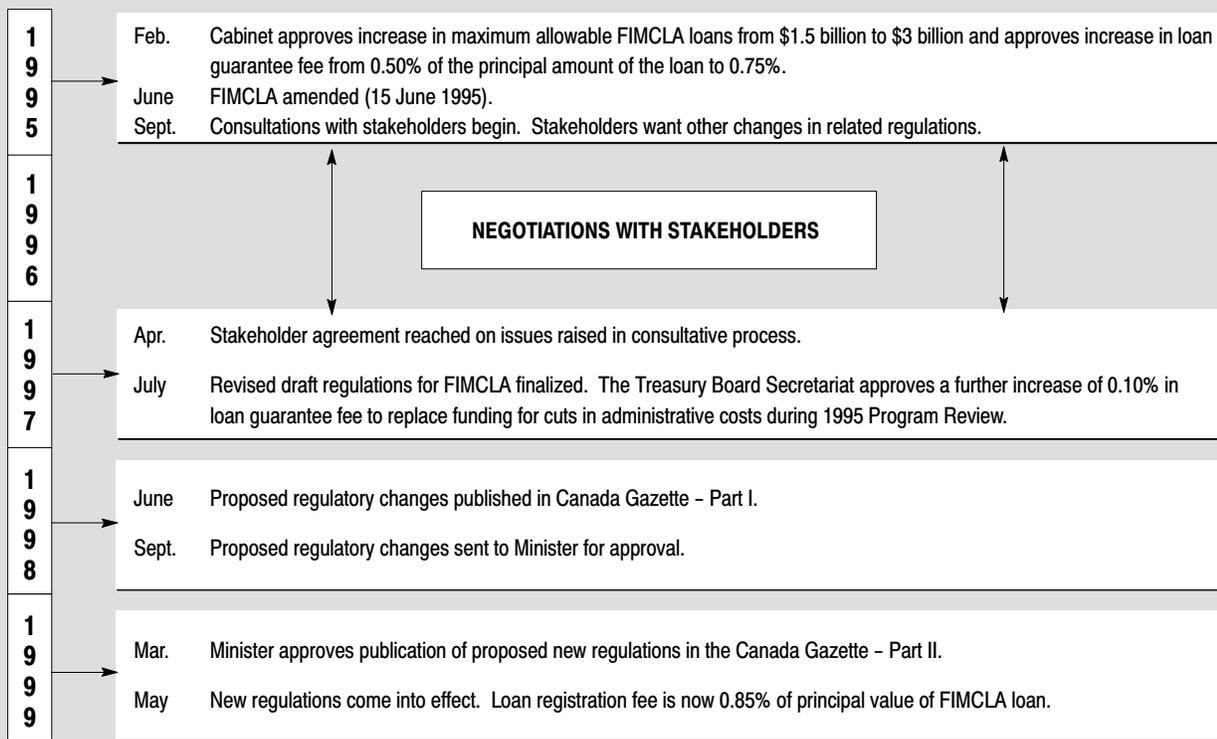
The chronology below illustrates the long road to regulatory change for this latest initiative.

The regulatory process was not solely responsible for the slow progress in making

these changes. Three other factors created further delays:

- The consultation process was unusually long. During this time, additional requests for amendments were proposed by stakeholders.
- From the inception of the process to its conclusion, three different managers were responsible for the FIMCLA program.
- The impact of low commodity prices worsened in 1998, and was an external factor that reasonably could not have been planned for or anticipated.

This case demonstrates that regulatory change does take time and that other factors can further slow the process. Officials need to anticipate developments and plan well ahead in order to ensure that their programs (and any related user charges) continue to achieve their intended objectives and remain responsive to users' needs. In this case, stakeholders had to wait two years to gain access to program changes they had agreed to back in April 1997. As well, approximately \$3.5 million in additional registration fees were lost to the Crown from April 1997 to May 1999 as a result of these delays.



14 months — 4 months longer than the Commission had anticipated. When fees are being reduced with the agreement of all stakeholders, a more streamlined process would benefit everyone.

11.59 Fee structures inhibit responsiveness. As a delay in a fee change becomes extended, there is a risk that revenues will no longer offset expenses as intended, thereby increasing financial risk to the organization. This risk is more significant for the Canadian Grain Commission than many government entities that charge user fees, as it relies almost entirely on fees for its funding. In addition, the Commission has little control over the time it takes to change fees; this is dictated by the regulatory process. A streamlined regulatory process is needed, or else a more dynamic way of adjusting fees in response to changes in costs.

User charges are not well integrated into strategic planning

11.60 We expected that the organizations would have a comprehensive and consistently applied

strategy for user charges, with clear, achievable objectives that promote the efficient allocation of resources.

Moreover, the Treasury Board expected organizations to include a strategy for cost recovery in their 1998–99 business plans.

11.61 A user charge strategy is intended to identify activities where the organization could introduce user charges, and areas where overriding policy objectives would take precedence.

11.62 Of the organizations we examined, only the Canadian Grain Commission has communicated a user charge strategy to parliamentarians and stakeholders as part of its 1998–99 review of programs (see case study on this page, *Integrating User Charges Into an Organization’s Strategic Planning*).

11.63 Beyond having a user charge strategy, an organization needs to integrate user charges into its key decisions at the program and organizational levels and make it part of its management culture. User charges are a management tool — one of many used to achieve an organization’s objectives. Our

Integrating User Charges Into an Organization’s Strategic Planning

In 1998, the Canadian Grain Commission began a comprehensive review of its programs. The objective was to confirm the Commission’s responsibilities and to update programs to ensure that its services would remain effective, economical and efficient. The review resulted in a report recommending changes to the way services are provided and funded, including user charges.

The process followed by the review shows how an organization can integrate user charges into its strategic planning:

- It was comprehensive: each service offered by the Canadian Grain Commission was reviewed. It examined in depth a number of critical questions, including whether or not to retain a program outside the Commission’s core mandate, and the potential savings and

impacts if the program were to be terminated; how to deliver retained programs more efficiently or at lower cost; the appropriate approach to recover the cost of the programs, and the revenue target for each; the priorities for allocating resources; whether there were new programs or services with revenue-generating potential that would fit with the Commission’s core mandate; and whether changes to the *Canada Grain Act* were needed.

- It considered fundamental changes such as cost reduction, cost avoidance and alternative fee structures.
- It used staff from other sections of the organization to reduce bias. (A review team was established for each group of services, headed by senior staff from outside that group of services.)

- Consultations were extensive and well managed. A stakeholder advisory board was established that included representation from all stakeholders. Cross-country consultations were also held.

- Senior management buy-in was perceived as sincere. Both staff and stakeholders told us that senior management supported the review process.

The success of the review may not be known for some time. The Commission has received authority to implement fee changes in its optional services, but in its regulated services this must wait until the end of the moratorium on user charges. However, the review process itself serves as an example of a good management practice.

Without a user charge strategy, user charges may be applied inconsistently among programs.

examination found that the organizations present little information on user charges in their business plans, beyond amounts shown as forecast revenue.

Planning of user charges could be improved at the program level

11.64 To ensure that their strategic plans are reflected in their programs, organizations normally use planning frameworks that produce a strategic plan, a business plan and individual program plans. We found little evidence that the organizations in our audit consider user charges in any planning at the program level except to plan specific fee initiatives. If a strategy for user charges is not linked clearly from the strategic plan to individual program plans, user charges might be omitted from the design of new programs or applied inconsistently among existing programs. This can result in inefficiency or in failure to achieve the strategic objectives.

11.65 Organizations have included user charges in their planning in response to particular circumstances, but they need to do it on a regular, ongoing basis. For example, the Canadian Food Inspection Agency has not updated its user charge plan regularly, although a comprehensive plan was used when the cost recovery initiative was introduced in 1994.

11.66 Horizontal issues such as user charges need to be addressed in a similar way throughout the organization. We noted that, in the past two years, Agriculture and Agri-Food Canada has done a lot of work to establish a Performance Framework that sets out how the Department plans to meet its objectives. The Framework addresses several cross-cutting issues, such as integrating environmental considerations into decision making, but does not mention user charges and the efficient delivery of programs. The Framework or some other vehicle could be used to

ensure that the Department's objectives for user charges are achieved consistently.

11.67 Planning for user charges at the program level usually concentrates on specific fee initiatives. Not considering user fees in annual planning at the program level means that opportunities can be missed to implement new fees or reduce existing fees.

Guiding principles for user charges can help

11.68 An important part of developing a user charge strategy is articulating the principles that support it and that will guide its implementation. Each of the organizations has various managers responsible for designing or modifying programs. In order to ensure that the strategy for user charges is delivered consistently throughout their organization, managers need guidance on how to interpret the government's policy and apply it to their program's particular circumstances.

11.69 User groups also benefit from guiding principles, which can serve as "rules of the game". They provide important information to stakeholders, giving them a framework to judge whether existing or proposed user charges are fair and appropriate. Clearly articulated and publicly disclosed principles can encourage the acceptance of user charges among user groups and deflect attempts by certain user groups to avoid them.

11.70 The Canadian Food Inspection Agency's "General Principles for Cost Sharing" were established in February 1994, while the inspection services were still part of the Food Production and Inspection Branch of Agriculture and Agri-Food Canada. Some of the broad principles, similar to the more recent government policy on user charges, stipulated that:

- the private individual or enterprise who used a service or received an identifiable economic benefit from the

Branch was expected to pay the government's costs of providing that service;

- fees should not be viewed as a source of general government revenue;
- consistency across commodities, programs and functions should be an objective;
- fees charged should not exceed the cost of providing the service;
- the development and implementation of fees should be a transparent and open process; and
- fees should not affect the quality, safety or reliability of agri-food products, and should not interfere with international trading requirements.

11.71 The Food Production and Inspection Branch had also established guides or targets for determining the relative proportion of private benefit and public good in each functional area, which the Canadian Food Inspection Agency continues to support. It was assumed that there was an element of private benefit in all the services provided by the Branch unless it determined otherwise. For the private benefit portion, targets (percentages to be recovered) were set for functions such as import and export inspections, registration of establishments, labelling, and overtime.

11.72 Together, these principles and targets represented a positive step and helped gain faster acceptance of new fees and fee increases from 1994 to 1998. However, the principles have not been updated since the creation of the Canadian Food Inspection Agency. Groups from each of the three originating departments brought their own practices and experience to the Agency; it is important that the Agency adopt the best of these in managing its user charges and services.

11.73 We found that Agriculture and Agri-Food Canada lacks guiding

principles (see case study on page 11–22, Similar Programs – Dissimilar User Charges). The Canadian Grain Commission has had guiding principles for its user charges since 1994.

Determining private benefit and public good can be difficult

11.74 One of the most difficult aspects of implementing user charges for a service is determining what proportion of the benefit is received respectively by the users and by the general public. The decision can significantly affect the size of the fee that users will pay.

11.75 We expected that each of the organizations we audited would have established criteria on which to base the allocation of private benefit and would have clearly communicated those criteria to stakeholders. Determining the relative proportion of public good to private benefit is a highly judgmental process, and it is important that the people who pay the fees understand and accept the way the charges are formulated.

11.76 As we have noted, the Canadian Food Inspection Agency used a “rule of thumb” to determine the amount of private benefit in the services it provides. With few exceptions, it set cost recovery targets ranging from a low of 10 percent for some activities to almost full cost recovery for services it judged to provide an entirely private benefit.

11.77 As noted in our 1996 Report Chapter 9, Animal and Plant Health: Inspection and Regulations, the Department (and later the Agency) was committed to developing criteria for use in estimating the private benefit associated with each functional area of service; the Agency has not yet done this. Likewise, Agriculture and Agri-Food Canada and the Canadian Grain Commission have not developed or explained how they identify and value the public and private benefits of a service.

Similar Programs – Dissimilar User Charges

How would guiding principles help to clarify important decisions about user charges and promote consistency in an organization?

Consider two programs operated by the Marketing and Industry Services Branch of Agriculture and Agri-Food Canada — the *Farm Improvement and Marketing Cooperatives Loans Act* (FIMCLA) program and the Cash Advances program. Both programs share many

similarities and both confer private benefits on program participants. Yet the user charges for the two programs are at opposite ends of the spectrum. The Department has no user charge principles or other publicly available information that explains the rationale for these differences.

The inconsistent treatment of user charges in these two programs may have very good reasons, such as overriding policy

considerations. However, it is important that the Department be clear about how it determines when user charges should apply, and then disclose, where appropriate, the nature of policy considerations or other factors that played a role in determining the amount to be charged. A set of clear guiding principles would help users understand such differences and would also help ensure consistency across the Department.

	<i>Farm Improvement and Marketing Cooperatives Loans Act Program</i>	Cash Advances Program
Nature of program	Loan guarantee	Loan guarantee
Maximum federal liability	95% of amount guaranteed	85% to 99% of amount advanced, depending on default history of producer organization
Program objective	Increase the availability of medium-term loans for improving and developing farms and for processing, distributing or marketing of farm products by co-operative associations	Make short-term cash advances available to producers of storable crops at harvest time, allowing them to hold the product until later in the year when market prices may improve
Private benefits	<ul style="list-style-type: none"> • Increased returns to producers (long-term) • Enhanced availability of medium-term credit • Reduced interest rate 	<ul style="list-style-type: none"> • Increased returns to producers (in current crop year) • Interest-free loan up to \$50,000 • Reduced interest rate for advances above \$50,000
Average loan	\$22,000	\$20,000
Main program delivery agent	Commercial lending institutions	Producer organizations
Main federal costs	<ul style="list-style-type: none"> • Program administration • Defaults 	<ul style="list-style-type: none"> • Program administration • Defaults • Interest on advance of first \$50,000
Delivery agents have user charges?	YES	YES
Federal user charges permitted by enabling legislation?	YES	YES
Federal user charges as a % of full costs	100%	NIL – no federal user charges

User charges can provide more than just revenue

11.78 Non-monetary benefits can be achieved if fees are designed to capture them. The organizations are achieving them on a limited basis, but their practices could be expanded (see case study on this page, Cost Recovery: Benefits Achieved Beyond Revenue Generation). As noted previously, food inspectors often charge the same amount for inspections that have found deficiencies as for those that have not, even though finding problems entails additional inspection time. This provides no incentive for the industry to comply with regulations and thereby minimize the amount of time government inspectors need to spend.

11.79 We found evidence that the design of some user charges has worked against the desired behaviour. For example, fish processors require an export certificate in order to export their product. If there is a problem with the product, its packaging or labelling, and no export certificate is issued, a fee is not charged. In order to receive the certificate, the processor must correct the problem and request another inspection. It is possible that inspectors could inspect the same product three or more times but charge a fee only when they issue the certificate. If the product continues to fail the inspection and no certificate is issued, the processor is not charged for any of the inspections.

11.80 In summary, the Canadian Food Inspection Agency has considerable

Cost Recovery: Benefits Achieved Beyond Revenue Generation

The Treasury Board policy emphasizes that user charges can bring benefits beyond the revenue they generate. The case of livestock grading services demonstrates the broader benefits that are possible.

User charges for federal livestock grading services were introduced in 1985. Even though fees were low at \$0.20 per beef carcass and \$0.09 per hog carcass, the demand for grading services declined significantly. This demonstrated one of the benefits of cost recovery — users who must pay for a service decide quickly how much service they really need.

In 1994, the beef industry and the hog industry were notified that because the government viewed grading to be a 100 percent private benefit to industry, user charges for grading services would increase annually to reach full cost recovery by 2000. This was based on the judgment that grading is an assessment of the quality of the product and not of food safety. In the face of full cost recovery, with charges estimated to be about \$1.40 to \$1.44 per beef carcass and

approximately \$0.30 per hog, the beef industry decided to form the Canadian Beef Grading Agency (CBGA), a private non-profit corporation. The beef industry was convinced that it could maintain standards of accuracy and integrity at a much lower cost. The hog industry decided that it no longer needed federal grading standards because hog grading was used only as a mechanism of settlement between producers and packers.

Federal beef-grading regulations remain in force. The role of the Canadian Food Inspection Agency in beef grading is now limited to a national audit role, as part of its ongoing accreditation of the Canadian Beef Grading Agency. The Canadian Food Inspection Agency also assigns a federal designation to graders, based on training provided by the CBGA.

Benefits Achieved

The Canadian Beef Grading Agency has been able to lower grading fees three times in the three years it has been in operation. It has been able to do this by significantly reducing the number of graders it needs to carry out its

services and by reducing corporate overhead. For example, one large plant that had nine graders or grader/inspectors before the CBGA began now has only two graders working full time and one part time. The average fee it charges to industry for beef grading has been reduced to less than \$1 per carcass.

Because grading was not linked to its core services for food safety, the Canadian Food Inspection Agency was able to devolve the grading function and thus avoid the associated costs. Between 1995 and 1997, it was able to reduce all but one of its staff assigned to beef and hog grading — a total of 87 full-time equivalents.

Benefits Need to Be Identified Systematically

There is a widespread view that user charges are no more than a way to generate revenue — simply a tax by another name. Clearly, there are cases where broader benefits have been achieved. The audited organizations need to evaluate the extent of these various benefits across their programs and to identify and publicize user charge success stories.

The organizations have not developed measures of program efficiency.

opportunity for using its fees to help achieve its program objective of fostering industry compliance and, at the same time, to better reflect the costs of providing the service.

Little review of performance

11.81 We expected that the organizations would measure their performance to determine, among other things, whether they were delivering programs efficiently. The Prairie Farm Rehabilitation Administration uses direct feedback from clients in a limited way to measure its performance in individual projects. Except for the Net Income Stabilization Account, which reports budget levels, business objectives and results to its national advisory committee, none of the other fee-charging programs we examined have developed measures of program efficiency. As a result, they are not in a position to demonstrate to clients that the programs are being delivered efficiently and that fee levels do not reflect the costs of inefficiency.

11.82 Possible measures of efficiency could include:

- benchmarking against comparable organizations;
- comparison with similar activities within the organization;
- comparison with past performance; and
- in-depth reviews of specific programs.

11.83 Program delivery needs to be monitored. Another reason to review program performance is to make sure that user fees are being applied as they were designed. In one service of the Agency, product label registration, we found that regulations were interpreted in a way that maximized fee revenue even though this was not consistent with the intent of the fee's original design or the amount of work entailed in providing the service.

11.84 Agriculture and Agri-Food Canada, through its Review Branch, has the capacity to conduct this kind of review, but it has not used this capacity to review the performance of its user fees. The Canadian Food Inspection Agency recently formed an audit and review directorate and will have the capacity to perform such reviews in future years.

11.85 Have benefits been achieved?

Review of programs with fees is also needed to determine whether charging users has achieved the intended benefits. Communicating that information to stakeholders and parliamentarians, especially where non-monetary benefits can be identified, can provide some assurance that the fees are more than just a revenue source.

Dispute resolution processes are not well known

11.86 We expected that the organizations would have established dispute resolution processes to deal with complaints and disagreements over user charges. Such a process is required under the government's policy and is important to clients, since it is often their only recourse if they are dissatisfied with a mandatory (regulatory) service.

11.87 The Canadian Food Inspection Agency has established a process for appeals and has published the process. However, most of the Agency's clients we interviewed said they did not know that an appeal process existed.

11.88 The Canadian Grain Commission and Agriculture and Agri-Food Canada have not established formal processes to handle complaints about user charges. However, the Canadian Grain Commission does have a toll-free complaints line and an appeal process for disputes over grading. Both the Commission and the Prairie Farm Rehabilitation Administration use informal contact and regular meetings

with stakeholders to address their concerns.

11.89 A properly designed and established appeal and dispute resolution process will demonstrate to clients that user charges are applied fairly. If clients feel that departments or agencies have not given them a fair hearing in the fee-setting process, the government's policy explicitly identifies the President of the Treasury Board as a "point of contact".

What opportunities are there to learn from experience?

11.90 Managers of programs with user charges need to learn from experience and adjust fees and programs in response to changes in conditions and user needs. A business in the private sector that does not learn from experience jeopardizes its future. In the public sector, a program can continue to exist even though it does not provide services efficiently or effectively.

11.91 Along with reviewing performance, another means of learning from experience is talking with stakeholders. Consultation on specific user charges needs to be a regular, ongoing aspect of sharing information about program performance and future objectives. The Food Production and Inspection Branch and then the Canadian Food Inspection Agency held annual meetings (until this year) with stakeholders to discuss fee and program changes. While these meetings were a step in the right direction, we believe they could have been used to better advantage. Such meetings are a forum where stakeholders can suggest ways to improve the programs. They also give the organization an opportunity to show stakeholders the value they have received for their money and to discuss the organization's future goals — and, more particularly, user fees.

Reports on plans and on performance fail to inform adequately

11.92 Parliamentarians and stakeholders have shown a strong interest in user charges and they deserve timely and complete information. The three organizations we audited have communicated with users of their services about specific fees. However, planning documents such as the departmental Report on Plans and Priorities and other planning documents in the public domain contain little information on user charges and do little more than carry forward the previous year's experience. There is no apparent link between that past experience and the way the organization plans to achieve its objectives in the future. As noted elsewhere, there is no clear statement of principles and future plans for user charges. This will make it difficult for readers of the subsequent Performance Report to judge whether the actual performance has been satisfactory. If this information is considered to be too detailed for summary-level planning documents, user charge plans could be made available to the public and parliamentarians.

11.93 The Treasury Board Secretariat requests departments and agencies to submit an annual summary of planned and actual receipts from external user charges as well as a listing of their user charge initiatives. We looked at the Treasury Board Secretariat's Web site to see what information it provides on user charges in the organizations we audited. We found the information presented to be confusing and not very informative (see Exhibit 11.4).

11.94 The report of the Independent Review Panel on the Modernization of Comptrollership, published by the Treasury Board Secretariat in 1997, highlighted the need to bring together financial and non-financial information (both historical and prospective) and to establish the links between them as a key

Parliamentarians and stakeholders have shown a strong interest in user charges and deserve timely and complete information.

to fostering a better understanding of past performance — and, more important, to support planning for the future.

11.95 We expected that the organizations would provide Parliament and stakeholders with a regular report on the financial results and performance of user charges in relation to their stated objectives. As requested by the Treasury Board Secretariat, the organizations did provide some financial information and a list of their user charges. In addition, the Canadian Grain Commission and the Canadian Food Inspection Agency provided summary financial information in their annual reports. However, none of the organizations supplied enough information for parliamentarians and stakeholders to judge whether user charges had been managed properly and the services delivered efficiently.

11.96 Organizations need to report against the goals established in the previous year and provide information that will answer the following questions:

- How do revenues collected from user charges compare with forecast revenues?
- Have the services related to user charges been delivered efficiently?
- To what extent have user charges helped the organization meet its objectives?
- Have user charges achieved non-monetary benefits?
- Can readers locate detailed information on how specific fees and charges were established (costs, unit pricing, consultations, legal authorities, etc.)?

(continued on page 11–32)

Exhibit 11.4

Information on User Charges Has Limited Usefulness

On its Web site, the Treasury Board Secretariat publishes a list of external user charges in the federal government along with year-over-year comparisons of associated revenues. Based on information supplied by departments and published on a temporary basis until a new government-wide accounting system is implemented (Financial Information Strategy, planned for the year 2001), this list provides more transparency than existed previously. However, the usefulness of the information reported by Agriculture and Agri-Food Canada, the Canadian Grain Commission and the Canadian Food Inspection Agency is limited.

Information on user charges for the 1997–98 fiscal year was not posted until 15 months after the end of the year. This meant that until June 1999 the latest information on the Web site was for the 1996–97 fiscal year. This does not provide information to users in a timely manner.

There are also problems with the data display that make it very difficult for the reader to interpret the information. For example, the list of user charges for Agriculture and Agri-Food Canada shows three separate entries for rentals, with no explanation of what is included under each. “Rental of Crown-owned Housing and Other Rentals” appears twice, along with another entry called simply “rentals”. As well, fee categories are not consistent year over year, making it difficult to understand how fee levels have changed. For example, the Canadian Food Inspection Agency reports revenue from “Import, Export Fees, Ship Inspection, Quarantine, Proceeds from Sales” at \$9.2 million in 1994–95 but zero in 1995–96 and 1996–97. In fact, revenue was received in the latter two years, but was entered on the list under a different category. There are also problems with the accuracy of the data. This is evident from the amounts shown for the 1997–98 fiscal year, which overstate Canadian Grain Commission user charges by approximately \$6 million due to the erroneous inclusion of parliamentary appropriations.

This Treasury Board Secretariat document notes, “Additional user charge information can be found in the **Public Accounts of Canada** and in the new **Departmental Performance Reports**.” However, the additional information contained in those sources is also limited and difficult to compare, as the categories used by the three agriculture organizations differ.

Key Elements and Good Practices for Managing User Charges

Credible Costing Capability Needed

What we expected. Organizations need to be able to credibly identify their full costs of delivering services. They need costing information to set amounts for fees and to identify and eliminate excessive costs and/or inefficiencies in program design and delivery. The Treasury Board Secretariat expects departments and agencies to follow appropriate costing practices.

Why costing systems are important. Without good costing systems, it is difficult to know whether user charges are set at inappropriate levels. Costing systems also allow an organization to compare a program's user charges with its costs and across programs, helping to ensure fairness. In addition, they allow an organization to demonstrate that users are not paying for excessive overhead costs.

Without costing information, it is difficult to identify possible efficiencies through benchmarking; to evaluate the merits of alternative service delivery options; and to identify the root causes of favourable or unfavourable performance results.

What we found. None of the organizations we audited had produced

costing information that fully met our expectations. For the most part, they use the best information they have available but it lacks the rigour and sophistication of information produced by modern costing systems. For example, the Canadian Grain Commission recently completed a thorough costing study of its services that was a reasonable effort, given the cost information it had available. However, the costs it measured were captured at a point in time only; it does not have any ongoing costing systems. As a result, the costs it identified were not precise and may not be representative. Moreover, the Commission cannot compare the operating costs at different locations over time.

Good practice — Net Income Stabilization Account. The Net Income Stabilization Account (NISA) has developed the capability to perform activity-based costing, an improvement over traditional cost accounting. It identifies the cost drivers for each activity performed by an organization. This is a sophisticated management tool that, when properly designed and implemented, provides an organization with reliable and credible costing information.

Officials made a commitment to develop an activity-based costing capability for several reasons:

- to better understand their costs and, using that information, to improve efficiencies and reduce the costs of program delivery;
- to advise program participants of the impact that proposed enhancements to the program could have on NISA's cost structure. This information helped participants assess the cost/benefit trade-offs involved in building more features into the program; and
- to help NISA set fees for services it performs that are outside its core mission.

NISA has used its activity-based costing capability in all of these areas. However, it has yet to use it to its full potential in strategic planning and improving operational efficiency.

Conclusion. All of the organizations we audited need to significantly strengthen their costing capability. Currently only one program can produce activity-based costing information. The others still have a long developmental period ahead before they can meet reasonable expectations by users and government for costing information.

Failing Grade on Implementing Service Standards

What we expected. Treasury Board policy states, "Fees should be set on the basis of clear, and preferably agreed, service standards and performance measures unless it can be demonstrated that it is not practical or reasonable." As one of the government's principles of service quality, clients can expect to receive service that "is regularly reviewed and measured against published service standards" and the results of these reviews are to be communicated to clients. Our 1996 Report Chapter 14 on service quality described the government's expectations and the

progress some organizations had made in implementing service standards.

Why service standards are important. Properly established service standards provide an objective test of an organization's ability to meet customer service requirements. Regularly measuring and reporting actual performance against standards helps management identify problem areas and assess performance trends over time. Where services involve user charges, service standards help demonstrate to users the value they receive for the fees they pay.

What we found. With few exceptions, the organizations we audited were not using service standards and/or measures of client satisfaction as management tools to assess the extent to which their services were meeting customer expectations. The Canadian Grain Commission has developed service standards, while the Canadian Food Inspection Agency has drafted service standards for most program areas. However, neither regularly measures performance or reports results. Service standards are not an integral part of their management culture.

Good practice – Net Income

Stabilization Account. The service standards of the Net Income Stabilization Account are prominently featured in its annual Producer Handbook. Performance is easily measured against four of its five standards, and they are all readily understandable to producers. Below are NISA's published service standards.

NISA Service Standards

- We will process your application and send you a Deposit Withdrawal Options Notice within 60 days of receiving your properly completed application.
- We will finalize your withdrawal request within 30 days of receiving request.

- We will respond to your telephone inquiries within 24 hours and to your faxed or written inquiries within 15 days of receiving them.
- We will provide you with an Annual Account Statement by February 28 of each year.
- We will provide you with accurate and understandable information concerning your account and the NISA program.

NISA supplements its service standards with annual client surveys and focus group sessions to try to improve service and validate whether existing standards are still appropriate. NISA administrators report actual performance against standards and the results of client surveys at least semi-annually to the NISA National Committee (an advisory group of

producer clients and federal and provincial officials).

It may be that NISA's operations lend themselves to establishing service standards more easily than others we examined.

Nevertheless, NISA administrators have shown that the Treasury Board's policy objective can be achieved.

Conclusion. Establishing meaningful service standards and finding ways to measure them is a challenging task, but it can be done. Organizations in the Agriculture and Agri-Food portfolio need to make more determined efforts to develop and use appropriate service standards.

Impact Assessments Provide Little Information

What we expected. Government policies for user charges and regulations require that before an organization imposes a new user fee, it analyze the potential impact on outside parties. We expected that impact assessments would include examining:

- how individual users were likely to be affected;
- whether the fee would be borne by the user or passed on to its suppliers or clients;
- whether impacts on different types of users would vary significantly;
- whether the fee would put users at a significant disadvantage in relation to their international competitors; and
- how demand for the service would be affected.

We also expected that assessments of cumulative impacts would be completed.

Why impact assessments are important. Assessments ensure that decision makers consider impacts before imposing user charges, and help alert stakeholders to potentially significant changes.

What we found. The impact assessments included in public notices of new regulations were usually imprecise and lacked quantification. Typical was the Canadian Food Inspection Agency's impact assessment of new Plant Protection fees, which noted simply, "When the fees are prorated to the amount of material imported or exported, the increase in the cost per item is expected to be small, hence the price of consumer goods should not significantly increase." In the case of one new fee proposed by Agriculture and Agri-Food Canada, the impact assessment did note that an expected \$4 million in new revenue would result, but did not indicate how much more a typical borrower would be paying. Some assessments provided some information on fees in other jurisdictions, but others did not.

Good practice – Agriculture and Agri-Food Canada. A recent study by Agriculture and Agri-Food Canada shed light on the cumulative impact that various federal fees have had on the agriculture and agri-food sector. While the study did have some drawbacks in its design, one of the study's most significant achievements was the development of analytical tools that could be adapted to conduct an impact assessment of any proposed fee. The assessment would be used to estimate the impact of the proposed fee on user profitability and to show how the proposed fee would be passed on to consumers, agricultural producers or other groups.

Conclusion. Impact assessments for individual fee proposals provided only minimal information with which to understand the expected impact. This is particularly significant because one of the main criticisms levelled by industry is that fees have a major effect on profitability, and disadvantage them in relation to competitors in other jurisdictions.

Some Success in Cost Reduction and/or Cost Avoidance

What we expected. Before cost recovery initiatives are introduced, we expected that organizations would, as the Treasury Board Secretariat requires, determine whether there are better and cheaper ways to deliver the

service without compromising program objectives.

Why considering cost avoidance and/or cost reduction is important. Organizations need to ensure that they have considered

alternatives to new or increased user charges in order to alleviate stakeholders' concerns that they have placed more emphasis on revenue generation than on redesigning services or reducing costs.

In order to evaluate alternatives, organizations must examine services they provide to determine if they are:

- required in order for the organization to fulfil its mandate;
- meeting users' needs;
- being provided in the most efficient manner;
- encouraging appropriate use of federal resources by users;
- being charged to the appropriate individual/group of individuals; and
- recovering an appropriate proportion of direct, indirect and overhead costs.

What we found. The Canadian Grain Commission has re-examined all of the services it offers to identify opportunities for

cost reduction, cost avoidance and/or improved efficiency, as well as re-examining existing user charges. The other organizations in the portfolio have conducted less extensive examinations of their services in an attempt to address these questions. Some success stories have emerged as a result of these efforts.

Good practice – Canadian Grain Commission. In 1998, the Commission, working with its stakeholders, achieved a significant improvement in operations. In response to concerns about the costs of one of its services (inward weighing), the Commission took advantage of improvements in technology and stakeholder input to completely revamp the service it had previously provided. A new Grain Receival Service was developed that took into account both the Commission's statutory responsibilities and its clients' need for reduced

costs. The changes resulted in a dramatic reduction in unit costs, from \$14.75 per rail car to \$5.90, representing a 60 percent reduction.

Good practice – Canadian Food Inspection Agency. The Canadian Food Inspection Agency has reviewed a number of its programs. One success story relates to livestock grading: as an alternative to increased user charges, industry decided to operate its own, less costly, grading service.

Conclusion. The cost of delivering programs that meet client needs may often be reduced when organizations and stakeholders work constructively together. The alternative to reducing/avoiding costs — new or increased user charges — can spur parties to achieve benefits that would not otherwise have been realized.

More Attention Needed to Determining Private Benefit and Public Good

What we expected. It is government policy to implement user charges for services that provide identifiable recipients with direct benefits beyond those received by the general public. Departments are expected to work with stakeholders to identify these private beneficiaries. They must also determine what proportion of the benefit flows to the private beneficiaries and what proportion flows to the general public.

Why distinguishing private benefit from public good is important. Determining the appropriate allocation between private benefit and public good is essential to a perception of fairness in the fee-setting process. Since many government services provide both private and public benefits, the organizations need to state clearly to stakeholders the basis on which they have set fees.

Stakeholders have long been concerned about the lack of clearly stated principles and/or guidance to help ensure an appropriate and consistent approach to allocating private and public benefit. The guidance provided by the

Treasury Board Secretariat has been limited to a list of issues to consider. Even with detailed guidance, however, the determination of public good and private benefit will remain a highly judgmental and difficult area for departments to manage well.

What we found. None of the organizations we examined have clearly communicated to stakeholders a set of principles to explain how allocations between private benefit and public good are made.

In response to our 1996 audit of Animal and Plant Health, the Canadian Food Inspection Agency made a commitment to "develop a set of criteria that will guide the estimation of the level of private good associated with each functional area of service". This work has yet to be completed. The Agency has concluded that there are private benefits from each of the services it provides, and has established a minimum private benefit level of 10 percent. However, the Agency has not attempted to develop more specific guidelines.

Agriculture and Agri-Food Canada has not developed any principles to explain how private versus public benefits are identified and valued. Such principles would be useful, since there are examples of services offered by the Department that convey at least some private benefits, but where user charges vary from nil (Cash Advances program) to partial recovery (Net Income Stabilization Account) to full cost recovery (*Farm Improvement and Marketing Cooperatives Loans Act* program).

Most of the Canadian Grain Commission's work achieves full cost recovery. However, the costs of operating its Grain Research Laboratory (\$10 million annually) are shared equally between users and the government. The basis for this 50/50 allocation of public/private good, which dates back many years, is not readily apparent.

Conclusion. Stakeholders have consistently asked organizations to develop clear and understandable guidelines as to how private benefit will be distinguished from public good. While this is a difficult task, it is one that needs to be undertaken.

The Consultation Process Has Improved

What we expected. “Effective and meaningful consultation” is the standard against which stakeholder consultations are measured. We expected that to make consultations on user charges effective and meaningful, organizations would:

- make reasonable efforts to notify all stakeholders of new or amended charges before they are introduced;
- give affected parties a reasonable opportunity to provide input into the design, delivery and pricing of services;
- tell stakeholders why services are delivered as they are, how charges are determined, and how costs are controlled; and
- provide stakeholders with feedback on what was done about concerns they expressed and suggestions they made during the consultation process.

Why an effective consultation process is important. Consultation is a tool that promotes openness and transparency, builds general acceptance for proposed changes in program delivery and helps to ensure that good decisions are made. “User pay, user say” has become an important consideration in implementing user charges, and the

consultation process should provide users with the opportunity to have their say.

Consultation in a regulatory environment entails particular challenges. Many regulated services provide benefits that extend beyond those who pay directly for the services; often, these regulated services also exist to protect the general public. The stakeholder community thus includes more than just the “user”. A typical example is food inspection, where the user may be a processor of foods. The general public also benefits from food inspection even though it does not pay user charges directly. In such cases, it is important that consultations reflect the notion of “user pay, user and beneficiaries say”.

What we found. Stakeholders we contacted generally reported that consultations have improved. The organizations are developing stronger relationships with stakeholders and have a better understanding of the kinds of information stakeholders want. With this improved consultation, users have a better sense that their concerns are respected in program design.

Good practice – Canadian Food Inspection Agency. The Canadian Food Inspection Agency developed a set of principles that has resulted in a uniform

approach to consultation across its many different program lines. The principles also clearly laid out a fundamental tenet of the Agency — that food safety would not be compromised. This fostered a more open process and also provided stakeholders with a framework to plan and prepare for consultations.

Good practice – Canadian Grain Commission. The Canadian Grain Commission has been charging user fees since 1912. Over the years, it has established a productive working relationship with its stakeholders. It made determined efforts to ensure that all players in the grain industry were appropriately represented in the consultations during the recent comprehensive review of its programs. As well, the Commission has been careful to balance representation among stakeholder groups, who at times may have different or even competing priorities.

Conclusion. Over the last several years, consultations have improved. Organizations could make further improvements by making certain that, to the greatest extent practical, stakeholders representing all parties, including users and beneficiaries, are included in the consultative process.

Success in Keeping Collection Costs Low

What we expected. We expected organizations to develop efficient mechanisms for collecting user charges in order to minimize both administrative costs and losses to the Crown from uncollectable amounts.

Importance of efficient collection mechanisms. Since fee collection as such contributes little to the achievement of program objectives, its costs need to be minimized.

What we found. We found several examples of well-designed fee collection processes and none that indicated any need for major improvement.

Good practice – Farm Improvement and Marketing Cooperatives Loans Act.

The *Farm Improvement and Marketing Cooperatives Loans Act* (FIMCLA) program has been designed so that the bulk of program administration and loan approval is handled by commercial lending institutions. If those institutions do not follow proper procedures, the loan guarantee by the government may be invalidated — a risk to the lenders that helps to ensure that they approve only qualified borrowers under the FIMCLA program.

In order to be eligible for a FIMCLA guarantee, a borrower must pay the government an up-front, one-time registration fee of 0.85 percent of the principal value of the loan. The lending institution collects this fee and remits it to FIMCLA officials. Until they

receive the fee, the loan is not registered and the guarantee does not apply. Consequently, fee collection is timely and the government has no collectability problems to deal with.

The government’s costs of administering the program are thus limited to those of interpreting regulations, processing applications and managing any defaulted loans. Approximately \$500 million a year in FIMCLA-guaranteed loans and a considerably higher amount in previously issued loans are managed for approximately \$1 million in annual administration costs. Only a minuscule portion of these administration costs is dedicated to the collection of registration (guarantee) fees.

Good practice – Canadian Food Inspection Agency. The Canadian Food Inspection Agency recently centralized its collection activities in one location. Previously, collections were managed in regional offices throughout the country, with

varying levels of efficiency and expertise. Now clients across the country have a single point of contact for information about billings and/or the status of their accounts. With staff in one centre who are trained and dedicated to this activity, the Agency expects that

service will improve and administrative costs will be reduced.

Conclusion. The organizations that we audited had developed effective processes and procedures to keep the costs of collecting user charges low.

Means of Demonstrating Efficiency Are Limited

What we expected. Government policy requires that organizations explain how costs are being controlled in services subject to user fees. Hence, we expected that the organizations would communicate to users persuasive evidence that they are controlling costs and operating efficiently.

Why demonstrating efficiency is important. Users should feel confident that they are not bearing the costs of an inefficient service, especially where services are mandatory.

What we found. We found that with few exceptions, organizations did not use systematic approaches to demonstrating efficiency, for example:

- benchmarking efficiency against other comparable organizations or industry norms;
- showing how costs and efficiency (e.g. unit costs) have changed over time;
- comparing efficiency of similar activities within the organization; and

- reporting the results of in-depth efficiency or resource reviews that identify whether there is a potential for significant efficiency gains.

Not all of these approaches are applicable to every situation (for example, tracking efficiency over time generally requires program costing systems such as activity-based costing; benchmarking against other organizations can be done only if there are similar organizations that will release cost and efficiency information, etc.). As well, the extent to which an organization pursues more systematic measurement of efficiency can depend on the extent to which users and managers have other means to judge efficiency. For example, if users are mostly satisfied from firsthand observation that an operation is efficient, then more systematic efficiency measurement may not be warranted.

Good practice – Prairie Farm Rehabilitation Administration. The Prairie Farm Rehabilitation Administration of Agriculture and Agri-Food Canada charges fees for irrigation services that it provides in

southwest Saskatchewan. In 1996, it proposed fee increases for the first time since 1989. To justify this, it described how it had tried to avoid fee increases in recent years by reducing the vehicle fleet, contracting out services and downsizing staff. It quantified the total impact of these changes, showing that expenditures had dropped from an annual average of \$1 million to \$770,000 by 1995–96.

Good practice – Canadian Food Inspection Agency. The Canadian Food Inspection Agency (CFIA) has undertaken several studies of service efficiency in its meat hygiene program — its largest program. These studies included an ergonomics study, a Regional Overtime System and Industry Efficiency Review, and a study titled Service Evaluation and Future Needs Assessment: The Red Meat Industry.

Conclusion. Programs should pay greater attention to systematically demonstrating to users their efforts at cost control and operational efficiency.

Existing Appeal Mechanisms Are Weak

What we expected. We expected to find that a formal process for reviewing client complaints had been established that was objective, independent and unbiased. Treasury Board policy requires that such a dispute resolution process be established.

Why effective appeal mechanisms are important. The opportunity to appeal is often the only recourse for a stakeholder to register complaints or express dissatisfaction about fees for services. Having a means of appeal is particularly important in the case of user charges for regulated and/or mandatory

services where government is the sole service provider. An appeal mechanism:

- keeps government accountable for its actions;
- helps to ensure that departments and organizations take into account concerns of stakeholders; and
- helps to ensure that departments and organizations cost services accurately and look for efficiencies in service delivery.

An appeal mechanism should deal with issues such as:

- the level of service provided for the user charge;

- the user fee process, including consultation, accountability and decision making;
- the general structure of user charges; and
- how the regulation is being interpreted for specific user charges.

An appeal mechanism exists to deal with how the policy of user fees is implemented rather than with the government's actual user charge policy. A balance may need to be found between legitimate complaints of a structural, procedural nature and those more specifically related to dissatisfaction with the user charge policy itself.

<p>What we found. Neither Agriculture and Agri-Food Canada nor the Canadian Grain Commission has developed a formal appeal process for resolving user fee/service disputes.</p>	<p>ombudsmen and provide a link between the Commission, grain companies and producers; and</p> <ul style="list-style-type: none"> • a toll-free complaints line. 	<p>communicated the availability of an appeals mechanism to its stakeholders, in some cases we found that the stakeholders were not aware of its existence.</p>
<p>The Commission does have several informal avenues for stakeholders to bring complaints/concerns to its attention, including:</p> <ul style="list-style-type: none"> • the Assistant Commissioners, who act as 	<p>The Canadian Food Inspection Agency has established a process to respond to client appeals related to service fees and programs. Clients may make formal, verbal and written appeals to the Agency. While the Agency has</p>	<p>Conclusion. Appeal mechanisms and avenues for dispute resolution for user charges need to be formalized and better communicated to stakeholders and clients.</p>

(continued from page 11–26)

Moratorium on New Fees

11.97 In a November 1996 presentation to the House of Commons Standing Committee on Agriculture and Agri-Food, the government made a commitment to introduce no new user fees or increases to existing fees before the year 2000 (beyond those already announced). The intent was to reassure Parliament that the proposed Canadian Food Inspection Agency would achieve efficiencies through cost reduction and cost avoidance rather than imposing additional fees.

11.98 Since the announcement of this fee moratorium, there have been calls to increase its scope and duration. Incomes in the agriculture sector have been under severe pressure in the form of low commodity prices, and the federal and provincial governments have developed income disaster assistance programs. There have also been calls for a moratorium on user charges across the government.

11.99 During the course of our examination, officials from the organizations expressed different views about what organizations the moratorium applied to and how long it would last.

Impacts of the moratorium

11.100 The moratorium has had not only the intended effect of freezing fee increases but also the unintended effect of freezing activity in the management of user charges. The pace of implementing

the government’s policy on user charges has slowed, and officials point to the moratorium as the primary reason. For example, consultation by the Canadian Food Inspection Agency has declined; and there is less emphasis on improving management tools such as costing at Agriculture and Agri-Food Canada and the Canadian Food Inspection Agency.

11.101 Since Program Review in 1995, Agriculture and Agri-Food Canada and the Canadian Food Inspection Agency have gained experience with user fees and increased their knowledge. They have made an investment in developing better consultations and communicating with clients. There is a risk that this capability will be set back as the moratorium continues.

11.102 In the meantime, programs continue to be adjusted to meet the changing needs of their users. Examples can be seen on a major scale in the program redesign at the Canadian Grain Commission and the continued introduction of the Food Safety Enhancement Program (which applies Hazard Analysis and Critical Control Point principles) in the meat hygiene program of the Canadian Food Inspection Agency.

11.103 During the moratorium, however, fees cannot reflect these program changes. This creates the possibility that some clients may pay more than their fair share. The divergence of program costs from fee revenues can also increase financial risk to the organizations, and the risk is

The moratorium has had the unintended effect of freezing activity in the management of user charges.

especially high for those that rely heavily on fee revenues.

11.104 The moratorium has also raised uncertainty among clients and stakeholders about the status of previously announced plans. There were no clear public statements to dispel the uncertainty and allow stakeholders to plan accordingly. One stakeholder told us, “Nobody knows what the future holds for user fees — the industry needs time to plan.”

What action is possible?

11.105 The period of the moratorium is an opportunity for organizations to evaluate whether user fees are being applied properly; to develop measures of program efficiency; to develop better management tools for user charges, including costing systems; and to plan for the future.

11.106 Program managers could also collect information on the performance of user charges and the impacts of the moratorium; and officials could develop options for future policy on user charges. If the government does not intend to continue its implementation of new fees or to increase existing fees, one option is to permit fee adjustments in order to eliminate inconsistencies and allow fees to reflect changes in services.

Conclusion and Recommendations

11.107 During the last five years, the application of user charges has increased significantly in some of the organizations we audited. In many cases, officials viewed time restrictions and an immediate need for revenue as leaving little opportunity to design user charges in a way that would also provide non-monetary benefits. There was also little time to look for opportunities to avoid or reduce costs. The organizations

were met with strong opposition from the groups that were obliged to pay the increased fees.

11.108 Each of the three organizations has made progress in designing and managing user fees to achieve the government’s objectives for user charges. The structure used for consultations has improved significantly over the past five years, and in some areas good practices have been developed. But there are still opportunities to improve their management of user charges in a number of areas, including costing of services, assessing the impact of fees, establishing formal appeal processes and integrating user charges into strategic planning.

11.109 An opportunity exists to strengthen the accountability relationship between those who provide the service and those who use and pay for the service. The organizations can improve services and adjust fees based on what they learn in applying user charges. This can be accomplished by linking better costing practices, efficiency of program delivery, and improved reporting to users on results. The three organizations have not monitored and reported their user fees in a clear and meaningful manner.

11.110 Although in recent years they have made progress, they are losing momentum and user charges are not being updated as programs change. This could result in some user groups paying either more or less than their fair share. There is also a risk that the capability to manage user fees that has been developed over the past few years will be set back.

11.111 Many officials see the moratorium as a sign of a broader government reluctance to continue with the implementation of user charges. As a temporary measure, the moratorium can give the three organizations time to reassess their current position, develop guiding principles, and plan improvements for the future of user charges in their organizations.

Each organization has opportunities to improve the management of user charges in a number of areas.

	Recommendations	Agriculture and Agri-Food Canada	Canadian Food Inspection Agency	Canadian Grain Commission
1.	The organizations should take steps to improve their costing capability in order to improve their management of user charges and to enhance public confidence in the administration of user charges. (11.29 to 11.30)	●	●	●
2.	The organizations should introduce meaningful service standards (including measures of client satisfaction) that are monitored and reported on a regular basis. (11.31 to 11.32)	◐	●	●
3.	The organizations should improve public information on the likely impacts of proposed fees, including administrative and other costs and monetary and non-monetary benefits. (11.33 to 11.36)	●	●	●
4.	Agriculture and Agri-Food Canada should adapt the analytical approach used in its cumulative impact study into tools for estimating the impacts of individual proposed fees. (11.37, Exhibit 11.3)	●	N/A	N/A
5.	The organizations should decide what further study of cumulative user charge impacts is warranted and plan accordingly. (Exhibit 11.3)	●	●	●
6.	Agriculture and Agri-Food Canada should further document the cumulative impact study approach and lessons learned, and share it with other interested parties. (Exhibit 11.3)	●	N/A	N/A
7.	The consultative process for new or amended user charges should be broadened to include all significant beneficiaries of the related services, regardless of whether or not they are the ones invoiced for the services. (11.41 to 11.48)	◐	●	◐
8.	The organizations should, with the help of central agencies, identify ways to increase the responsiveness of fee structures to changes in the business environment and in costs, along with commensurate improvements in tools for public and parliamentary scrutiny. (11.53 to 11.59)	●	●	●
9.	Guiding principles in line with government policy should be developed that allow a person to identify situations in which user charges will be applied; to understand how private and public benefits have been differentiated; to understand how the amount of the charge has been determined; and to see that the principles have been applied consistently and equitably across the organization. (11.60 to 11.73)	●	◐	◐

10.	Each organization should ensure that significant user charge issues are properly considered in its ongoing strategic planning process, and reflected in its strategic plan. (11.60 to 11.63)	●	●	N/A
11.	Although the timing may vary depending on the nature and significance of the area, the organizations should review each of their programs, with and without user charges, to identify fee inconsistencies, opportunities to achieve benefits beyond revenue generation, opportunities to simplify the fee structure, and fees at odds with program objectives or the organization's user charge strategy and principles. This should identify what changes are needed in user charges, and how these changes will be achieved. (11.81 to 11.85)	●	●	●
12.	Better means should be developed to demonstrate systematically to users that costs are controlled and operations are efficient. (11.81 to 11.82)	●	●	●
13.	The organizations should regularly review (with stakeholders) and assess their management of ongoing user charge initiatives to ensure that the services being provided continue to meet the needs of beneficiaries and that they are delivered economically and efficiently. (11.83 to 11.84)	●	●	◐
14.	The organizations should evaluate the extent to which user charges have achieved revenue and other benefits, and should identify and publicize user charges that achieve positive, measurable outcomes for taxpayers. (11.85)	●	●	●
15.	Appeal and dispute resolution mechanisms should be formalized and widely communicated. (11.86 to 11.89)	●	●	●
16.	Where user charges are material, the organizations should make significant improvements to the quality of user charge information that is made public, so that parliamentarians and the public understand the organization's user charge strategy, principles, plans and performance. (11.92 to 11.96)	●	●	◐
17.	The scope and duration of the present fee moratorium should be clarified. (11.97 to 11.104)	●	●	●



Applies



Applies to a lesser degree (some action already taken, or applies only to certain areas/programs)

N/A Not applicable

Agriculture and Agri-Food Canada's response: *The Department appreciates the Auditor General's recognition of its notable successes and innovations over the years in administering what is a complex and often sensitive file. We are always interested in making improvements and appreciate the valuable contribution of the Auditor General towards this goal.*

Agriculture and Agri-Food Canada is developing a management framework compatible with portfolio requirements that will enable it to better articulate the first principles that will guide the future application of user fees when the current moratorium is lifted. These first principles will respect the spirit of the Treasury Board policy and the needs of our clients. The Department recognizes the value of improving costing mechanisms, assessing the impact of individual fees and establishing appeal processes in the management of user charges. We seek ways to improve performance in these areas when undertaking reviews of programs and changes to fees. At the same time, the Department is looking for ways to improve the requirements and management of the regulatory process and will seek guidance from the Treasury Board Secretariat in this area.

Balancing good management theory and client acceptance of user fees has always been a challenge. We are proud of our efforts to strike that delicate balance in close co-operation with and constant feedback from our clients, and in the context of other factors which impact our working environment. Foremost among these other factors are instructions from Parliament and the need to balance impacts on the sector.

Canadian Grain Commission's response: *The Canadian Grain Commission (CGC) appreciates the recognition of its successes by the Office of the Auditor General. We find that the chapter provides useful suggestions for improvement, and we intend to act on them. This*

notwithstanding, the following should be noted:

- *The CGC conducts an annual review of all user fees. In recent years, the CGC has performed a comprehensive review of the costs associated with each service.*
- *The CGC has recently reviewed its current position on user fees, restated its guiding principles and proposed improvements that are in keeping with the 1997 Cost Recovery and Charging Policy of the federal government.*
- *Since 1991, the CGC has taken vigorous action, including streamlining, reorganizing and downsizing, to reduce costs and minimize the impacts of fees on the users of its services.*

Within the parameters established by Parliament, the Commission is committed to working with its grain producer and industry clients to implement the government's cost recovery policy and to provide excellent service for the fees it collects.

Canadian Food Inspection Agency's response: *The Canadian Food Inspection Agency (CFIA) has long contributed to the development and implementation of the government's cost-recovery policies and practices. Experience has shown that user charges have many benefits beyond that of revenue generation. The CFIA agrees with the observations and recommendations contained in the audit by the Office of the Auditor General. These will assist the CFIA to continue to maintain a fair and equitable system of user charges for those inspection services that provide an important economic benefit to the Canadian agri-food and fish industries.*

The CFIA is exploring options for cost-recovery practices in the year 2000. Should the present cost-recovery moratorium be lifted, the CFIA will follow the Auditor General's recommendations to address the gaps in the current cost-recovery policy. Increased revenue

generation may well be secondary to more important objectives such as the equitable and uniform application of service fees across all commodity programs. Should the moratorium continue, the CFIA will focus its activities on possibly simplifying fees, reporting on performance, and making minor fee modifications to address changes to CFIA cost structures, such as those resulting from restored collective bargaining.

Client consultations will continue to be one of the CFIA's most important cost-recovery activities, as they provide insight into the economic climate and reinforce the need to balance policy objectives with broader government-wide objectives. An effective, well-designed cost-recovery program is one that generates revenues in support of program objectives, thereby contributing to the overall well-being of the Canadian agri-food and fish industries.



About the Audit

Objectives

The objectives of the audit were to determine whether the three organizations we audited:

- have properly designed and managed user charges so as to achieve the government's objectives for user charges;
- are learning from experience through the regular review of information and experience gained from applying user charges; and
- monitor and report performance in a way that is clear and meaningful and allows Parliament to judge how well user charges have been implemented and managed.

Scope and Approach

The audit examined external user charge initiatives in the Agriculture and Agri-Food portfolio, excluding Crown corporations and the Canadian Pari-Mutuel Agency Revolving Fund. Our examination included Agriculture and Agri-Food Canada, the Canadian Food Inspection Agency and the Canadian Grain Commission. Within Agriculture and Agri-Food Canada, we concentrated our work on the Market and Industry Services Branch (*Farm Improvement Marketing Cooperatives Loans Act*), the Policy Branch (Net Income Stabilization Account), the Prairie Farm Rehabilitation Administration, and the Research Branch.

The Office of the Auditor General has examined user charges as part of past audits in the agriculture portfolio. In Chapter 9 of our 1996 Report, Animal and Plant Health, we noted that amounts being recovered were significantly less than the full costs of delivering the service. There was also a lack of criteria for determining private versus public benefit. In Chapter 13 of our 1994 Report, Federal Management of the Food Safety System, we noted that costs of food inspection were not being recovered in accordance with the government's policy that was then in place, and that there were inconsistencies in cost recovery practices among and within departments involved.

Using the government's policy, the Organization for Economic Co-operation and Development and other sources of information as a guide, the audit examined how well the various organizations have implemented and managed user charges.

In addition to interviews with staff of the three organizations, we examined and analyzed organizational files, data and documentation. We conducted interviews with a number of industry groups as well as individual producers who are affected by user charges. We also observed services for which fees are charged by inspection staff at various locations, including meat slaughter and processing plants, import and export certification, and grain elevators in Vancouver and Thunder Bay.

The quantitative information in this chapter that was drawn from government and non-government sources or departmental databases has been checked for reasonableness but has not been audited.

Criteria

For our first audit objective, we expected that:

- the three organizations would have a comprehensive user charge strategy with clear objectives, and that this would be applied consistently in all areas where user charges may apply across the portfolio;
- appropriate consideration would be given to options for reducing and/or avoiding costs, and that the organizations would be able to demonstrate that activities are delivered efficiently;*
- user charges would be implemented in a timely manner, following due process, in accordance with all relevant legislative authorities;
- user charges would be implemented “for services that provide identifiable recipients with direct benefits unless overriding policy objectives would be compromised”;
- a reasonable analysis of cost drivers and the full cost of providing the service would be performed;*
- the level of the fee would be established taking into account not only the full cost of providing the service but also other factors, such as optimal pricing from an economic standpoint, the proportion of private benefit received by the user and the achievement of program objectives;
- clear and preferably agreed-upon service standards would be established where user charges are applied;*
- meaningful and effective consultations would be held with stakeholders when fees were established or revised;*
- the formulation of user charges would include information gained from impact assessments that have taken into account the cumulative impact of user charges and the impact of fees on competitiveness;
- the formulation of user charges would include an assessment of the merits of alternative fee structures (for example, flat fees versus fees based on the extent of use); and
- fees would be collected in a timely and diligent manner and that records pertaining to outstanding amounts would be properly maintained.

For our second audit objective, we expected that:

- a process would be in place for the periodic review of user charges, determining whether fees need to be adjusted where cost structures have changed, where the mix of public and private benefits have changed, or where service levels have been modified. This would include an analysis of results achieved against expectations;
- the information gained from the periodic review and from consultations would be considered for potential changes to the services provided, and would be incorporated in the strategy and objectives of the three organizations; and
- program changes would be made in response to the exhibited need for services and feedback from users, so that only those services that are needed are provided, and are provided in a manner that best meets the needs of the users.

* *Criteria drawn from Treasury Board policy and other Treasury Board documents*

For our third audit objective, we expected that there would be:

- a long-term plan for user charges clearly communicating to Parliament and other stakeholders the future direction of user charges and how these link with achieving the objectives of the three organizations; and
- fair and reliable reporting of financial and performance results achieved by user charges relative to their stated objectives provided to Parliament and stakeholders on a regular basis.*

* *Criteria drawn from Treasury Board policy and other Treasury Board documents*

Audit Team

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