

A decorative graphic on the right side of the page features three blue spheres of varying sizes. Two thin blue lines originate from the top left and extend diagonally towards the spheres. The largest sphere is at the bottom right, a medium-sized one is at the top right, and a small one is in the middle right.

SERVICE DELIVERY COSTING “HOW-TO” GUIDE

For Federal-Provincial/Territorial and Municipal
Administrations

This guide provides a common understanding of service
delivery costing terminology and methodology for F-P/T-M
Administrations.

**Public Sector Service Delivery Council Costing
Framework Working Group**

12 February 2016

DRAFT

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Context

The Public Sector Service Delivery Council (PSSDC) has expressed interest in advancing costing work and sharing best practices. A workshop on pricing and costing strategies was held in Winnipeg on May 28, 2013.

At the March 2015 meeting of the Joint Councils, Service Canada and ServiceOntario contributed their best practices and approaches to costing their respective service delivery processes and activities and were asked to reach out to other jurisdictions to develop a Costing Guide. The Guide would inform an approach to costing across and within jurisdictions, particularly related to channel migration and cost-per-transaction in a digital environment.

A new Costing Framework Working Group was established in July 2015 with a mandate *to develop a common understanding of service delivery costing terminology and methodology and to build a Costing Framework that includes common principles and definitions, as well as a Costing Guide as the main deliverable.*

In addition to the review of Service Canada and ServiceOntario's costing approaches, the working group also had the opportunity to share the approaches of the Direction du coût de revient, du financement et du soutien à la gestion from the Quebec Ministère du Travail, de l'Emploi et de la Solidarité sociale, as well as the Immigration, Refugees and Citizenship Canada – Passport approach.

The following Costing Guide takes into consideration these various approaches by outlining the common steps identified and providing “how-to” descriptive details.

Objectives

The key objective of this Costing Guide is to provide a series of tools to jurisdictions that have the potential to:

- Inform decision-making through the costing of service delivery;
- Evaluate efficiency and effectiveness of program delivery by channel;
- Determine service delivery costs, including those specific to channels;
- Create and analyze scenarios related to moving services from one channel to another;
- Favour standardization of costing practices;
- Ensure comparability of results over time, between areas of activity of a department or agency and between other Canada-wide departments or agencies;
- Ensure a high degree of precision and reliability concerning costing;
- Establish clear costing management rules;
- Propose key factors to have precise and reliable knowledge of the use of human resources with the goal of determining the costing of services.

How to calculate the costing

There are different ways to calculate the costing of the services rendered by a department or an agency. The choice of the method to be used depends on the context in which the organization operates, its costing needs and the resources available to deploy costing and update it periodically.

This guide proposes some costing methodologies used in Canada. Contrary to financial accounting, costing is not the object of standards established by a regulatory body. This is why it is necessary to define the major principles used in the methodologies. However, we should note that recommended practices can be found, such as those of the [International Cost Estimating and Analysis Association \(ICEAA\)](#).

Also, the [Treasury Board Secretariat of Canada - Guide to Costing](#) provides a seven-step approach to costing that Federal Departments should follow:

1. The first step and the most important one is to define the **Cost purpose**: What is the purpose for which the cost information will be used?
2. Then we need to define the **Cost object**: What is being targeted for costing (e.g. an activity, output, service, or immediate outcome)?
3. And the **Cost base**: Which costs are relevant to the cost purpose and object(s)?
4. We also need to classify our cost - **Cost classification**: Which costs can be identified directly with the cost object(s) and purpose, and which costs are less direct (such as the cost of supporting activities)?
5. The **Cost assignment** step is to determine what are the appropriate methodologies for assigning the costs to the cost object(s)? The methods chosen should be reasonable and cost-effective in light of the purpose of the cost information.
6. With all the info assembled, it's time to **Calculate, validate, and confirm**: Apply the costing methodologies, validate the calculations and assumptions, and confirm that the results respond to the cost purpose defined in Step 1.
7. Finally, most organizations will need some kind of **Sign-off**

It should be noted that some principles are essential, regardless of the costing methodology used. These principles are:

- 1- Before starting any costing exercise, it is critical for all parties to have a clear and precise understanding of the purpose for which the information is needed. Understanding exactly what decision the information will support is the essential first step.**
- 2- The data used in the costing model are reliable and contribute to the quality of the results.**

A costing is established using data from a number of sources, i.e., the organizational effort inventory, accounting system and management information systems. In order for the costing results to be accurate and reliable, these data must themselves be reliable. They must also be available within a timeframe that makes it possible to meet the established deadlines for filing the results.

a) Organizational effort inventory

- It is important that a time tracking tool be used to allocate staff effort among the tasks assigned to staff members. It must be possible to match these tasks with the detailed activities set out in the organizational effort inventory.
- Every administrative unit must complete the organizational effort inventory according to the instructions provided and within the required timeframes.
- Managers must approve the effort inventory for their administrative unit. They must ensure that all of the effort corresponding to the staff members who were under the administrative unit's responsibility during the period covered by the inventory is properly allocated among the detailed activities.
- Any change to the effort allocation between the detailed activities (at the request of the manager, the manager's superiors or the directorate responsible for costing) must be approved by the manager responsible for the administrative unit.

b) Accounting system

Costing-related work exploits the full potential of the accounting system and expenditure accounting processes.

c) Management information systems

Costing-related work uses the appropriate information systems to obtain management statistics that meet the needs of the work.

3- Appropriate expertise and job aids are essential for establishing a costing.

Establishing a costing requires a thorough knowledge of the model, especially its components and the steps in the calculation, and of all the services offered by the organization. In order to ensure the work is successful, it is therefore important to:

- establish a culture of knowledge sharing and transfer, and to promote this culture to all staff members working to establish a costing;
- foster skill development, taking into account the distinctive features of the accounting environment and financial tools within the organization, and costing-related professional development in order to encourage innovation and work optimization.

The expertise of staff members working to establish a costing must be supported by appropriate job aids. These job aids should:

- facilitate the stakeholders' work;
- help strike a balance between a high information quality level and the investment needed to reach that level.

Determining the costing methodology

This section establishes the guiding principles of a costing methodology based on the nature of the activities performed in the organization. It thus allows a better understanding of the composition of the organization's costs in order to satisfy its needs for management information and accountability.

To know the nature of the effort of the organization's resources, the effort inventory approach has been chosen. For this approach to provide precise and reliable information, certain principles have been

defined and are presented in this section. It should be noted these principles can also apply to the effort inventories of other costing models.

1 - The organization's costing model determines the full cost of services.

The organization needs a comprehensive picture of the costs of the services it provides in order to determine and understand the composition of its costs with a view to measuring its performance, supporting its fee-setting strategies, and making sound funding-related choices and better management decisions. Therefore,

- the costing model it uses makes it possible to determine the total cost of a service. This total cost is equivalent to the full cost, which means that all operating expenditures of the organization are taken into account. The full cost includes the cost of aggregated activities for:
 - service delivery,
 - service delivery support,
 - administration,
 - unit management;
- the monies paid directly to citizens or businesses under programs administered by the organization (last-resort financial assistance, parental insurance benefits, etc.) are excluded from the calculation of the full cost, since these are transfer payments;
- expenditures capitalized during the fiscal year are excluded from the full cost calculation. However, the resulting depreciation cost is included.

2 - The costing model recommended in this section of the Guide is the activity-based costing model.

The costing calculation must make it possible to determine the fair share of total expenses corresponding to each service. Activity-based costing makes it possible to reconcile all of the costs and the related services. It is based on three components:

- resources;
- activities (classified by activity type);
- services (performed according to one or more service delivery channel(s)).

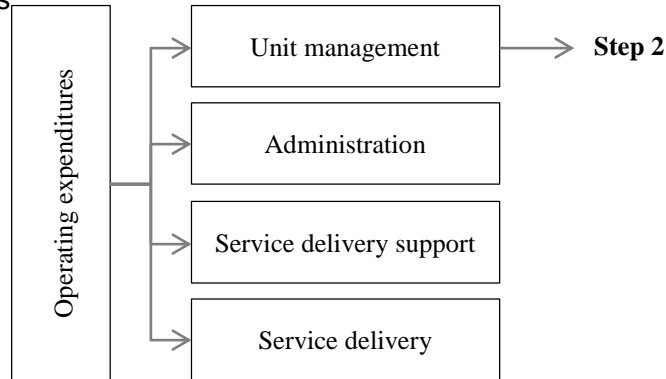


3 - The costing model used is uniform.

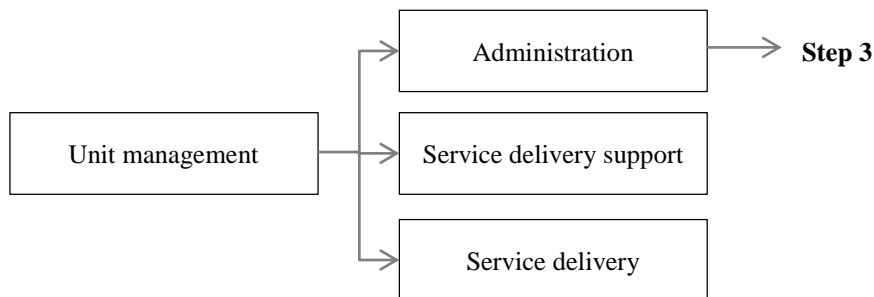
The methods used must be similar in order for costing-related results to be comparable from one fiscal year to another and one area of activity to another. The costing model used by the organization is therefore uniform.

Costing models are not subject to standards set by a regulatory body. As a result, the main steps in the activity-based costing model used by the organization need to be established in order to ensure that the methodology used is uniform and that the results obtained are comparable. Therefore, after financial analysis:

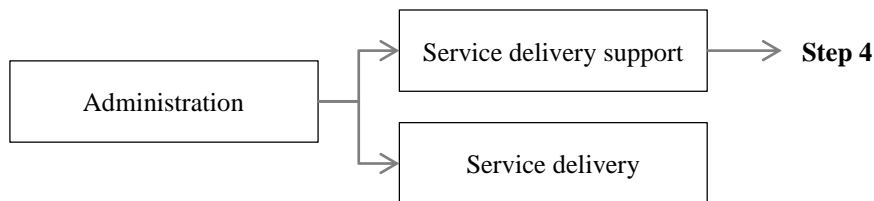
Step 1: The organization's operating expenditures are transferred to aggregated activities of all activity types



Step 2: The costs of the aggregated unit management activities are transferred and added to those of the aggregated service delivery, service delivery support and administration activities of the administrative units affected by those unit management activities.



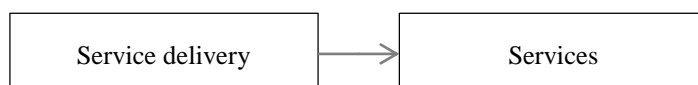
Step 3: The accumulated costs in connection with the aggregated administration activities are transferred and added to those of the aggregated service delivery and service delivery support activities of the entire organization.



Step 4: The accumulated costs in connection with the aggregated service delivery support activities are transferred and added to those of the aggregated service delivery activities.



Step 5: The accumulated costs in connection with the aggregated service delivery activities are transferred to the services (a service corresponds to one or more full or partial aggregated activities).



4 - The unit cost is determined based on the full cost and the corresponding service volume.

The organization calculates a unit cost for certain services for reporting and management information transmission purposes. In order to ensure this calculation is accurate:

- the numerator is determined based on the full cost calculated for a group of aggregated activities or a service;
- the denominator is determined based on the service volume corresponding to that group of aggregated activities or that service. The units used to determine the volume of services provided must be similar.

5 - The organizational effort inventory is uniform.

Given that the activity-based costing model is based, in particular, on detailed activities and the effort expended on them, and that the organization spends a great deal on compensation and benefits, the information gathered in connection with detailed activities and effort must be accurate, reliable and uniform.

The effort identified during the organizational inventory is used, in particular, in determining the organizational costing, which, in turn, is used for the annual management report, among other things, to support negotiations with partners in establishing fee-setting strategies and in billing certain clients of the organization to which services are provided.

It is important to ensure consistency in the information provided both internally and externally. Therefore,

- a single directorate designated by the authorities oversees the organizational effort inventory;
- all effort-related data is entered in a single database, which as a result becomes the official source of the organization's effort regarding cost;

- the database is made accessible to administrative units that request access as part of their respective work, in accordance with the organization's rules on the protection of personal information and information security.

Certain parameters must be followed in order to ensure uniformity in the organizational effort inventory:

- The ministerial effort inventory must be completed at least once per year, at the end of the year, as follows:
 - The organizational effort inventory covers the organization's fiscal year, typically from April 1 of each year until the following March 31, however, if the formation of the full cost of a service requires the use of the calendar year as a reference period and the direction of costs, pricing and information management determines it cannot be done any other way, the organizational effort inventory must cover the whole of that calendar year period.
 - If necessary (e.g., administrative reorganization of the organization, request from a client of the organization), an inventory may be made during the year and may cover a different period of a year.
 - The organizational effort inventory may include a period when effort and the allocation thereof among the detailed activities are estimated based on principles and methods suggested by the directorate responsible for costing.
 - Each staff member's total effort, which will have to be allocated among the detailed activities during the organizational effort inventory, comes from the same information source.

6 - Staff member effort is allocated between the related detailed activities.

The organization has reporting obligations. It is therefore important for it to know how staff members use their time. Therefore,

- detailed activities are determined in such a way as to:
 - know their cost or the effort expended on them,
 - know the cost of a service,
 - know the effort for billing purposes;
- in order for a detailed activity to be considered in the organizational effort inventory, it must represent a significant portion of a staff member's annual effort, unless the effort relating to such an activity has to be inventoried regardless of magnitude in order to meet a specific need;
- the list of detailed activities for each staff member is determined at the beginning of the period covered by the inventory and reviewed at the end of that period.

Grouping of activities by activity type

Grouping activities based on common traits makes it possible to determine the general manner in which costs and effort are channeled toward services in order to calculate their full cost. The following examples compare the models used by Employment and Social Development Canada (ESDC) and the Ministère du Travail, de l'Emploi et de la Solidarité sociale du Québec (MTESS). This table is used as a general example for comparison purposes and is not generally the methodology used for the models.

Executive Management	Organizational Administration	Policy and Program Design	Functional Direction and Delivery Design	Service Delivery Operations
ESDC				
<p>All senior level decision-making within the organization and the elements directly supporting this functional component.</p> <p>An exclusive responsibility of this area is organizational direction-setting in the form of strategic vision, mission and mandate.</p> <p>This grouping includes area such as the Minister's Offices, the Deputy Minister's Office, the Chief Executive Officer's Office, Chief Financial Officer Office, Chief Information Officer Office, Chief Human Resources Officer Office, as well as the Corporate Secretariat.</p>	<p>All areas that support the organization's operations – enabling the organization to focus on its mandate by ensuring the effective and efficient running of the organization's day-to-day needs.</p> <p>It is common practice within an organization to identify information technology (IT) as an organizational administration cost. In considering how best to treat IT, it was determined there are differences between systems maintenance and client solution management. As client solution management is really about finding modern cost efficient ways to deliver products or services, that portion of the Innovation and IT has been identified as being part of</p> <p>Functional Direction and Delivery Design.</p> <p>The areas covered under this grouping includes Finance, Procurement,</p>	<p>All areas that provide policy or program design leadership within the portfolio, either in response to Government direction, or by acting on policy analysis / emerging global trends to advance the overall department mandate. While certain policy areas concentrate on the macro, ensuring an integrated and horizontal policy agenda, others focus on individual subject matter.</p>	<p>All elements associated with defining how a policy or program is to be implemented including articulation of outcomes and collection of data for performance management purposes. Activities related to the design of delivery mechanisms are also a key feature of this area – for example, development of cross-channel initiatives or client contact centre models, etc.</p>	<p>All elements associated with the actual delivery of programs, benefits or services, including those areas that assist in-person services as well as call centres and ensure accuracy of delivery (regional business expertise units and integrity services). With regard to business expertise, there is no policy, program or delivery design; rather, the focus is on enhancing operational performance through planning and reporting, training, quality and strategic analysis.</p>

Executive Management	Organizational Administration	Policy and Program Design	Functional Direction and Delivery Design	Service Delivery Operations
	Material management, Management of the accommodation plan, HR services, IM/IT program support and system maintenance), Internal Audit Services, Communication services, Legal services, Internal Integrity and Security and centralized training capacity.			
MTESS (Québec)				
Administration Activities associated with the human, material, financial and informational resources management, organizational communications and strategic directions of the Department.				
		Service delivery support Activities that consist of providing support for service delivery activities. These activities may consist, in particular, of: <ul style="list-style-type: none"> o offering direct operational support; o planning and providing the training necessary for service delivery; o developing, improving, maintaining, upgrading, administering and monitoring tools and systems serving to perform service delivery activities; o planning, developing and monitoring the service offering. These activities add value to the service or are part of the delivery process. Although they may be necessary in the short term for delivery of a service, they are not performed during the first contact with the individual, the business or the partner.		
				Service delivery Activities that involve providing support for service delivery activities. These activities are required in the short term for the provision of the service and are carried out upon initial contact with the citizen,

Executive Management	Organizational Administration	Policy and Program Design	Functional Direction and Delivery Design	Service Delivery Operations
				business or partner. Service delivery activities are associated with a service delivery channel.
<p style="text-align: center;">Unit management</p> <p>Activities related to the planning, organization, direction, supervision or monitoring of the collective activities of an administrative unit or group of administrative units. This includes the management, management support and secretarial tasks of the administrative unit or group of administrative units.</p>				

Determining the level of effort required

The objective of this section is to know how to obtain the level of effort needed, either by inventory, or by modelling. The following table provides an overview of the criteria that can influence the choice of one method to the detriment of another. The criteria seek to enable the organization to become aware of the environment in which it is operating and thus make the right choice. The response given by the organization for each of the criteria should guide it to the right methodology.

Two methods are proposed. The first is to conduct a periodic inventory of the distribution of staff effort among the different related activities. The second is to model the effort, particularly according to the historical data, volumetric data, etc. It should be noted that a hybrid methodology can also be used, if this is relevant. [Schedule A](#) provides more details on the use of an activity-based planning model.

The criteria must be evaluated according to the organizational context. The evaluation can be based on weighting of each criterion, based on its importance for the organization. Thus, the reflection must address all the criteria.

The advantages of a methodology versus the costs it generates

For the organization:

- What are the advantages of each method?
- What are the disadvantages of each method?
- What are the deployment costs of each method?
- What are the costs of keeping each method up to date?
- What are the costs of producing or obtaining the information necessary for each method?

The traits of the activities for which the effort must be obtained

- Is there a large number of activities? In the absence of a daily or weekly time tracking tool, an effort inventory may be difficult when there is a high volume of activities. However, if a tool is in place, an effort inventory may be appropriate (example: call centre using a work schedule tool for daily planning of utilization of its representatives).
- Are the activities recurring or operational? It may be difficult to model the effort of an ad hoc activity performed once.

Availability of inventory tools

- Is there a time tracking tool in which each staff member can periodically indicate how his/her time was spent?
- Is there a tool that can inventory the effort of all staff? If yes, is it possible to deploy this tool throughout the organization?
- If no tool exists that can inventory the effort, is it feasible to use tables built from office automation software? It must then be considered that manual processing of the information is necessary and that effort will be required to collect the information.
- Do the tools and methodologies used to track time or inventory effort provide reliable information?

Availability of volumetric information

- Is the information necessary for effort modelling available?
- Are the volumetric information and the methodology for collecting it reliable?
- What is the period covered by the available historical data? Is it sufficient to model the effort?

The variety of programs under the organization's responsibility

- Must the organization manage a wide variety of programs?
- Must the organization deal with many stakeholders in the program or programs under its responsibility?
- What is the organization's level of involvement in the programs? Does it subcontract? Is it responsible for proposing the program's policies?

Funding of the services rendered

- Is there or is there not an obligation to bill a client for certain services or activities? If yes, on what basis is the billing done?
- In case of effort-based billing, what method is required by the client to obtain information on effort?
- Is there specific funding associated with certain services or activities? If yes, on what basis is the funding provided?
- In case of effort-based funding, what are the requirements for obtaining effort?
- Is there overall funding related to a single program or group of services? If yes, does the effort to deploy a method exceed the advantages derived from it, in view of the overall funding context?

The organizational structure

- Is the organization's administrative structure stable within the same fiscal year?
- Can the use of volumetric data and metrics be impacted by the degree of variability of the organizational structure?
- Can the use of the effort inventory be impacted by the degree of variability of the organizational structure?

In a context in which numerous administrative reorganizations may occur within the same fiscal year, it is appropriate to evaluate the two methodologies properly and determine the impacts of the organizational structure on these methodologies.

The availability of resources for deployment of the methodology

- What effort is necessary to deploy the methodology?
- What effort is asked of the collaborators to use a methodology?
- What effort is necessary to update the information produced by a methodology?
- What effort is necessary to make timely information available?

Adherence of the authorities to the chosen method

- Do the senior government executives adhere to the chosen methodology?
- Do the managers adhere to the chosen methodology? Are they willing to cooperate in a timely manner?
- Will the senior government executives and the managers be good ambassadors to the employees for the chosen methodology?
- Are the senior government executives and the managers able to endorse the results provided by the chosen methodology?

Conclusion

The deployment of costing in a department or agency requires thorough reflection. First, it is necessary to know the purpose of why costing is being done and the projected use of the results. Then, the context in which the organization operates must be studied. The context will have a considerable impact on the methodological choices to be made.

There is no perfect costing model and no single methodology. Thus, an organization wishing to deploy costing may use certain principles and methodologies discussed in this Guide, while adding its own colour.

All or part of the content presented in this Guide is taken from methodologies currently in place in Canadian government organizations. In particular, we find:

- the Ministerial policy on costing of the Ministère du Travail, de l'Emploi et de la Solidarité sociale du Québec;
- the Treasury Board of Canada Secretariat Guide to Costing;
- the costing approach of Employment and Social Development Canada;
- the costing approach of Immigration, Refugees and Citizenship Canada (Passport); and
- ServiceOntario's costing approach.

SCHEDULE A - Use of an Activity-Based Planning (ABP) model to estimate operational effort allocation

INTRODUCTION

In an ideal world, one would know exactly the amount of effort spent by direct resources on each product completed/service delivered. However, since the tools to achieve this reliably are seldom in place, annual surveys are conducted to ask each manager where resources were utilized in order to assign these costs based on their proper relative efforts.

But, another option exists within the manufacturing and service delivery industries: Activity-Based Management (ABM).

THE ACTIVITY-BASED MANAGEMENT (ABM) APPROACH

Activity-Based Management (ABM) is a continuous improvement tool that provides information to facilitate strategic and management decisions by gaining insight about the cost structure of each business activity, by access channel, by product or service.

Some components of Activity-Based Management (ABM)

Each component uses different model types and objectives:

1 - Activity-Based Budgeting (ABB)

- Enhances the budget allocation process by identifying a dollar value for each Full Time Equivalent (FTE).

2 - Activity-Based Planning (ABP)

- Ensures a level of productivity by predicting human resource requirements and capacity based on forecasted demand and productivity.
- Achieved by developing an ABP model for each service delivery channel or manufacturing environment.

An Activity-Based Planning (ABP) model is a simplified representation of reality:

Repetitive activities, often at the heart of service delivery and manufacturing industries, can easily be modeled, and their Unit Level of Effort (ULE) and occurrence estimated based on statistical analysis of historical data and Time and Motion studies. The results are called Activity-Based Planning (ABP) models.

- These models can be modified and re-used with minimal effort.
- Model validity can be verified with the use of scenarios or by inputting actual volumes produced and comparing the model results to resources actually utilized.

This technique is mostly applicable to **direct production activities**.

- Based on historical data and statistical evidence
- Broken down by major activity, each with its occurrence and level of effort
- Using amalgamations instead of each possibility/situation, mainly by using weighted averages
- These models should be reviewed and updated regularly, depending on their sensitivity and materiality, with the collaboration of representatives from the Production environment, in order to adjust activity occurrences, Unit Levels of Efforts, and account for new activities.

Each major activity has to be defined:

- Driver
- Occurrence
- Unit Levels of Efforts (ULE) (pure time per unit)
- by who (Group and level)

Modelization Example: Passport office (Partial fictitious list of Operational activities)

Activity	Gr-Lvl	Driver	Driver number	Occurrence	Qty = Driver x %	ULE in minutes	FTEs (calculated)
<i>Pre-Screening</i>	CR--05	Total issues	27,774	126%	34,995	1.50	0.76
Client Questions - Inquiries (no applications)	CR--05	Total issues	27,774	4%	1,111	3.40	0.05
<i>Returns</i>	CR--05	Total issues	27,774	26%	7,221	3.90	0.41
<i>Examinations</i>							
Examination at the counter (full file)	PM--01	Adult issues	15,769	25%	3,942	6.29	0.36
Data Entry at the counter (full file)	PM--01	Adult issues	15,769	25%	3,942	4.09	0.23
Supplementary services	PM--01	Supplementary services	2	100%	2	6.90	0.00
CIC Portal Verifications (citizenship)	PM--01	Total issues	27,774	6%	1,772	1.12	0.03
Examination of Child application (regular)	PM--01	Child issues	12,003	84%	10,083	6.63	0.96
Data Entry of Child application (regular)	PM--01	Child issues	12,003	84%	10,083	4.10	0.60
Examination of Child application (complex)	PM--01	Child issues	12,003	16%	1,921	23.94	0.66
Data Entry of Child application (complex)	PM--01	Child issues	12,003	16%	1,921	5.67	0.16
<i>Passport Printing</i>							
Issue Blank PPTs	PM--03	Total Prints	5,934	100%	5,934	0.85	0.07
Print PPT, Read and Scan	CR--03	Total Prints	5,934	100%	5,934	2.36	0.20
QC	CR--03	Total Prints	5,934	100%	5,934	1.02	0.09
Print Obs Labels	CR--03	Obs Labels	-	100%	-	4.09	-
Supplementary Services	CR--03	Supplementary services	2	100%	2	16.81	0.00
Pick-up at counter (Hub)	CR--05	Local Print	5,934	100%	5,934	2.00	0.17
Pick-up at counter (Spoke)	CR--05	Prints from affiliated...	-	100%	-	2.18	-
<i>Data Verification</i>	CR--03	Total issues	27,774	110%	30,551	1.90	0.84
Sub-Total - Variable Activities							xxx

To establish FTE requirements, key parameters must be defined, based on industry standards, and adjusted for each Program/Channel reality.

Standards Example:

Productivity	
Business days / year	250
Productive days / year	210
Productive hours / day	5.5
Productive minutes / day	330
Productive minutes / year	69,300

(Productive days = Business days minus average of sick, vacation and training days.)

How to calculate FTEs:

Divide (ULE X Driver Quantity) by number of productive minutes per year for each activity

Passport Example:

$$(ULE \times Driver \text{ Quantity}) / 69,300$$

Activity-Based Planning (ABP) for cost allocation:

Percentage efforts from ABP are allocated directly to Operational activities, which in turn are allocated to their respective service (or product). Other tools are available to differentiate the relative effort between similar but not equal services.

Actual volumes produced (delivered) are entered into the ABP model once the period is completed, and relative FTE requirements per activity serve as the basis for effort allocation:

Other ABP benefits and uses:

In addition to replacing the effort survey for Operational activities, to achieve proper cost allocation by channel, product and service, APB models provide a better understanding of the organization's activities, in order to:

- Estimate resource requirements: FTEs for forecast volume
- Define productive capacity
- Support and facilitate budgeting process
- Design optimal work environment
- Perform ad-hoc financial analysis and costing
- Assess impact of changes in product/service delivery process and identify process improvement opportunities

ABP challenges:

- Building it
 - ✓ Obtaining reliable data to construct the model is not always easy
 - ✓ Constitutes a time investment for the client
- Getting it to be accepted and respected
 - ✓ Client has to feel that the model appropriately reflects their reality
 - ✓ Not easy having a tool that dictate resources requirements over “gut feeling”
 - ✓ Results provided by the model are not always welcomed
 - ✓ Need for diplomacy and cooperation (ex: Overcapacity)

3 - Activity-Based Costing (ABC)

- Assigns costs through operational and support activities to products, services and access channels.

Also note that other **support activities** may not require effort surveys or ABP models, as there are often better and more appropriate cost drivers for these expenses.

Examples of other expenses that use specific drivers:

- HR experts are ideally assigned to each section based on the number of Full Time Equivalents (FTEs) they support
- Accounts Payable efforts can be better allocated based on each supported section's expenditure budget
- Many organizations support specific groups, and their cost can be assigned directly, based on knowledge of this
- Others can't be assigned based on the level of activity, and are “Business Sustaining Costs” which do not respond to any cost driver. These include such units as corporate Costing within Finance, or Strategic Policy, that support the entire organization.

ABP

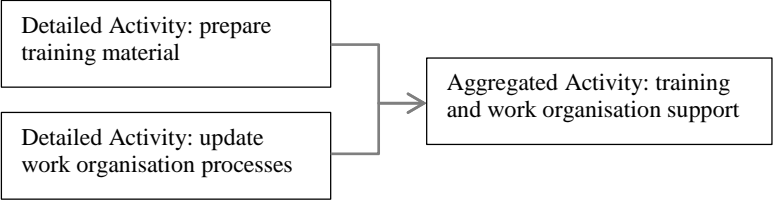
ABC

Standard vs Renewal - Different figures are used									
	Gr-Lvl	Driver	Driver #	Occurrence	Qty Driver # x %	ULE in minutes or capacity	FTE required	Salary rate	ULE %
Activity 1	CR--05	Total volume	75,000	115%	86,250	4.00	4.98	1.20	29.9%
Activity 2	CR--05	Adult volume	60,000	100%	60,000	4.50	3.90	1.20	23.4%
Activity 3	PM--01	Child volume	14,500	100%	14,500	5.00	1.05	1.22	6.4%
Activity 4	CR--05	Urgent	300	100%	300	5.50	0.02	1.20	0.1%
Activity 5	CR--05	Express	3,400	50%	1,700	6.00	0.15	1.20	0.9%
Activity 6	PM--01	Child volume	14,500	25%	3,625	6.50	0.34	1.22	2.1%
Activity 7	PM--01	SupServ	500	100%	500	7.00	0.05	1.22	0.3%
Activity 8	PM--01	Prints	12,500	100%	12,500	7.50	1.35	1.22	8.2%
Activity 9	CR--03	Total volume	75,000	20%	15,000	8.00	1.73	1.00	8.7%
Activity 10	CR--03	Adult volume	60,000	100%	60,000	4.50	3.90	1.00	19.5%
Activity 11	PM--01	Child volume	14,500	10%	1,450	5.00	0.10	1.22	0.6%
Total							17.57		100.0%

Lexicon

The following table seeks to promote a common understanding of the different terms used by governments and organizations in the costing field.

Lexicon	
Activity	Generic term referring to one or more completed task(s) leading to the delivery of products or services. In the activity-based costing model, the activity acts as an intermediate element, since it involves the use of resources that contribute to the delivery of products or services. If the term “activity” requires clarification in this document, the activities are then “detailed” or “aggregated” activities.
Activity Based Costing (ABC)	Costing system that makes it possible, in particular, to assign a fair share of all the costs to a product or service. It involves, first, connecting resources (inputs) to the activities that used them and then, second, connecting the costs of the activities to services (outputs) that correspond to the request for these activities.
Activity type	<p>Group of activities aggregated based on common traits that makes it possible to determine the general manner in which costs and effort are channeled toward services in order to calculate their full cost. There are four activity types:</p> <ul style="list-style-type: none"> • Service delivery: activities during which a service is provided to a citizen, business or partner. These activities are required in the short term for the provision of the service and are carried out upon initial contact with the citizen, business or partner. Service delivery activities are associated with a service delivery channel. • Service delivery support: activities that involve providing support for service delivery activities. In particular, these activities may entail: <ul style="list-style-type: none"> ○ offering direct operational support; ○ planning and delivering the required service delivery training; ○ developing, improving, maintaining, advancing and managing tools and systems used in carrying out service delivery activities and in monitoring them; ○ planning and developing the service offering and monitoring it. <p>These activities add value to the service and are part of the service delivery process. Although they may be required in the short term in order to provide a service.</p> • Unit management: activities related to the planning, organization, direction, supervision or monitoring of the collective activities of an administrative unit or group of administrative units. This includes the management, management support and secretarial tasks of the administrative unit or group of administrative units. • Administration: activities associated with the human, material, financial and informational resources management, organizational communications and strategic directions of the organization. <p>Other activity types can be determined if this is required due to the nature of the aggregated activities.</p>
Aggregated activity	Group of detailed activities established based on common traits (see Detailed activity). The aggregated activity reduces the number of elements to be processed in the activity-based costing model. Every aggregated activity is associated with an activity type.
Allocation	Method allowing for the distribution of costs among a set of target elements (activities, services, etc.) using available data (service volumes, effort, etc.), thereby establishing a

Lexicon	
	causal link.
Capital-related costs	The costs associated with working capital and capital goods (i.e., <u>depreciation</u> and <u>opportunity cost</u>); where identified, these costs are often categorized separately from <u>indirect costs</u> .
Channel	<p>Way in which the request for a service reaches the client. Main service delivery channels:</p> <ul style="list-style-type: none"> • <u>Central</u>: request made through a partner; • <u>Counter/In-person</u>: request made through a service office; • <u>Email</u>: request made via email; • <u>Postal</u>: request made by mail or fax; • <u>Telephone</u>: request made over the phone; • <u>Web</u>: request made by viewing and using online service delivery.
Cost behaviour	The way that costs change in response to different variables. Cost behaviour is the key to determining causal relationships. It is based on the premise that costs do not all necessarily change correspondingly to variables. For example, the cost of stamps will vary with the number of mailings, but the cost of the mailroom's staff and their accommodation may be unaffected by this variable.
Cost driver	The factor or variable that has the greatest effect on the level of activity.
Depreciation	The portion of the cost or value of an asset that is assigned to expenses by an entity. Depreciation recognises that assets generally have a limited life and that the declining life span of an asset is an expense to an entity.
Detailed activity	<p>Task or group of tasks of the same nature performed by one or more staff member(s) leading to the achievement of a common objective. Detailed activities make it possible to determine how staff members are using their time. Every detailed activity must be associated with an aggregated activity.</p>  <pre> graph LR A["Detailed Activity: prepare training material"] --> D["Aggregated Activity: training and work organisation support"] B["Detailed Activity: update work organisation processes"] --> D </pre>
Direct costs	The costs, which can be directly and unequivocally attributed to the program delivery ("operations"). They usually include <u>direct staffing</u> costs (Full Time Equivalents), e.g., front-line service agents, and " <u>other</u> " <u>direct</u> costs, e.g., office equipment, energy charges, consulting services.
Effort	Time staff members spend on different activities. Effort is expressed in full-time equivalents (FTE) or, if necessary, in hours. If a staff member does not use FTEs pursuant to the rules set by a regulating body, the measurement of time in FTEs is estimated.

Lexicon	
Fixed costs	Costs that remain unchanged in total for a given time period despite fluctuations in service level.
Full cost	All of the costs required for the provision of a service, including service delivery, service delivery support, unit management and administration costs. It is equivalent to the total cost.
Indirect costs	The costs related to delivery but not directly attributable to it, such as policy and program design, and components often referred to as “overhead” or “corporate” costs (e.g., financial services, Human Resources, Information Technology, real property). Depending on the specific context, some organizations treat corporate costs (or their part) as direct costs.
Job costing	An approach used to link costs to individual jobs.
Modelling	Cost modelling can assist in the determination of the cost for certain activities and processes in order to create a repeatable process that allows this application to multiple situations. Through this process, one can develop a metric that becomes the standard expected rate of return for projects or programs.
Operating expenditure	Expenditure that it is appropriate to expense immediately given that the Department will benefit from it only during the current fiscal year. It may be a compensation expenditure, running expense or depreciation cost.
Opportunity cost	The value of the best alternative forgone i.e. alternative investment, project or program.
Partner	Department or public, parapublic or other agency at the federal, provincial or municipal level. A private organization may also exceptionally be a partner.
Process costing	An approach to link costs to the process of producing a service.
Pro-rated approach	A method employed to proportionally allocate indirect costs where it is not possible or too expensive to identify actual resources consumed.
Resources - Inputs	Inputs according to the activity-based costing model. Resources include operating expenditures and the effort of the organization's staff.
Service - Outputs	Product or service provided by the organization to a citizen, business, department, agency or partner. The product or service results from the completion of one or more activities.
Step-variable costs	Costs that stay fixed over a range of activity and then change after this range is overcome. In other words, these costs change in increments.
Transfer payment	Transfer of monetary assets by a government to an individual, an organization or another government, for which the transferring government: <ul style="list-style-type: none"> • receives no direct good or service in exchange; • does not expect to be repaid later; • does not expect to obtain a direct financial return.

Lexicon	
Unit cost	Cost for one unit of a service, i.e., the quotient obtained by dividing the full cost for a given service by the number of units of the same service provided during the period.
Usage/benefit approach	A method to measure or estimate the actual use of resources in producing a service (i.e., direct observation, time records, sampling techniques.)
Variable costs	<p>Costs that fluctuate in direct proportion to changes in the level or volume of service.</p> <ul style="list-style-type: none"> • Personnel involved in delivery as a percentage of total staff of an organization • Resources used in delivery as a percentage of total resource consumed by an organization • Service delivery budget as a percentage of an organization's total budget