



Natural Resources  
Canada

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Canada

## **NATURAL RESOURCES CANADA**

# **FRAMEWORK FOR REVENUE GENERATION, EXTERNAL FUNDING AND COLLABORATIVE ACTIVITIES**

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## Introduction

This document presents the philosophy and principles underlying revenue generation and equivalent activities in Natural Resources Canada (NRCan). These activities embrace direct revenue generation from the sales of products and services and the recovery of costs, the licensing of intellectual property, and activities that are equivalent to revenue generation in the sense that they enable NRCan to deliver some programs at a reduced cost and greater impact. They include the sharing of both costs and effort between NRCan and other participants, from the private sector, other public and government agencies, and universities, often working collaboratively.

The document responds to a request from the Departmental Management Committee to provide a framework, incorporating common guidelines, principles and terminology, by which the Sectors of the Department can plan, assess and report on their activities in the areas of revenue generation, external funding and collaborative arrangements. It provides a “how to” toolkit to aid those who are not familiar with the processes involved in these areas, and it identifies other documents that describe in detail the legal and policy aspects.

## Why are revenue generation, external funding and collaborative activities important?

As part of the recent Program Review and Science and Technology (S&T) Review, the federal government closely examined what business it should be in. An important theme that came out of these reviews was the need for government programs to be demonstrably relevant to the requirements of Canadians. The S&T Review also underscored the importance of collaboration with clients and other stakeholders.

At NRCan our work is principally for the general public good. Often, other organizations, from both the public and private sectors, share one or more of our objectives. In such cases, NRCan and those organizations benefit from sharing some of the costs of delivering the programs that meet those objectives. In other cases, specific users, rather than

taxpayers as a whole, benefit from a service provided by NRCan. In those cases it may be appropriate for NRCan to recover from the users the costs of providing the service. Further, much of our core research and knowledge generation in NRCan requires a long term effort. Eventually, certain industries may benefit through technology development or new market opportunities. It is appropriate that we look to these firms to pay back a share of the development costs through the payment of license fees and royalties.

By contributing their time and effort and by paying for work, clients and collaborators demonstrate that NRCan’s activities are directly relevant to their needs and objectives. The financial participation in our programs by companies also helps ensure a commitment on their part to implement the results of the programs, in order to receive a payback from their investment.

## Why does NRCan need a Framework on Revenue Generation, External Funding and Collaborative Activities?

A common understanding of the principles involved in revenue generation, external funding and collaborative activities is essential if we are to assess our efforts in these in a consistent manner.

- We need a clearly articulated management strategy and a common set of guidelines.
- We need a common lexicon - that is, a standard set of definitions and descriptions of the various mechanisms for taking advantage of external funding and collaborations.
- We need to be aware of the range of possible working relationships for external funding and collaborations, and of the authorities that allow them to be carried out.
- Finally, we need to have a consistent method for costing our goods and services.

This *Framework for Revenue Generation, External Funding and Collaborative Activities* is therefore intended to:

- articulate a common understanding within NRCan of the different kinds of arrangements that involve the recovery or sharing of costs;
- provide a set of common principles to guide decision-making and the implementation of new arrangements across the Department;
- raise awareness of the range of mechanisms that are available to offset program costs;
- define a clear rationale for each kind of mechanism that will help managers make decisions at the operational level; and to
- enable us to explain to our clients when and why we will expect them to share costs.

## Terminology

The following definitions relating to revenue generation, external funding and collaborative activities are based on Treasury Board documents, and should be used consistently within NRCan for describing and reporting in a uniform manner the ways in which financial or other resources flow to NRCan and between the participants in collaborative agreements.

- *Revenue generation* stems from the recovery of NRCan's full or partial costs in providing a good, service or use of a facility, from the sale of products, and from the provision of limited rights or privileges and intellectual property licenses to external users. It may also include repayment of contributions previously made to a client. "Service" includes the provision of advice, etc. as specifically requested by an individual client. Revenue generation involves the charging of user fees that are established either by fee schedules or by specific contracts.
- *Cost-sharing* arrangements involve NRCan and one or more participants sharing specified costs of a common undertaking, such as product development. This is done by both sides providing funds to a third party, such as a university, which actually performs the work. The participants who provide the funds are *not involved directly in the work*, and *no money is exchanged between them*. The arrangement may include provisions for the sharing of revenue generated from commercialization of the results of the undertaking.
- *Task-sharing* agreements involve work undertaken by NRCan and one or more participants in which each party *carries out*

*its share of the work in its own facilities, with no money changing hands* between the participants. A participant may sub-contract part of the work. Task sharing agreements may also include provisions for the sharing of revenue generated from the commercialization of the results of the undertaking.

- *Joint project* agreements are arrangements in which the participants *may or may not be involved directly in the project, and money may change hands*. Participants' involvement may include provision and sharing of personnel and financial resources, services and facilities. Any financial resources flowing in to NRCan for a joint project are generally deposited into a Specified Purpose Account. **A project that does not meet the strict definition of either cost-shared or task-shared should be considered a joint project.**

There is an important additional mechanism by which NRCan receives valuable support from its clients:

- *In-kind support* refers to payment in goods or services rather than cash and to the informal support to our programs that we receive from clients. Typical examples of the latter include accommodation of field personnel in exploration camps and the provision of data. Clients who provide this kind of support do not receive, nor do they expect, any privileges for having done so; their support is purely an indication of the value they place on NRCan as an organisation and in its programs.

## Guiding principles

We will work according to the following principles, embracing flexibility and accepting that there is no “one size fits all” approach to revenue generation and externally-funded and collaborative activities that is appropriate for all the diverse parts of NRCan.

- Mindful of the public good nature of our mandate, we will, first and foremost, work for the benefit of all Canadians.
- We believe that where the needs of the public and private sectors have common elements, external funding and other collaborative arrangements can be beneficial and are consistent with the public good.
- Where appropriate we will recover part or all of the costs of a particular program, activity or service from those specific users who benefit most directly from it, for example, by the charging of fees
- We will continue to maintain and develop NRCan core competencies in accordance with our mandate and with the evolving needs of both our Department and our clients, and will, when possible, use revenue generation, external funding and collaborative activities as means to ensure and enhance this.
- We will not compete with the private sector by undertaking an activity that could be carried out by private industry at a profit and in the time frame required by the client.
- We will assess the possibility of there being a conflict of interest, real or perceived, before embarking on any new externally-

funded or collaborative arrangement, in order not to jeopardise our important “honest broker” role, give an unfair advantage to a particular Canadian client or agency, or give a competitive advantage to a non-Canadian client.

- We will report on our activities in this area in a consistent manner across the Department, using a consistent terminology for describing our revenue generation and externally-funded and collaborative activities.

Sectors will define their expectations in the areas of revenue generation, external funding and collaborative activities, and establish a rationale for meeting those expectations, consistent with these principles.

## Putting the Framework into Practice: Guidelines for Decision-Making

NRCan Sectors have addressed, through internal and Departmental guidelines, the commonly-asked questions on external funding and collaborations. The Toolkit that accompanies this Framework document provides you with examples that you may find useful for addressing the major issues around external funding and collaborations. The Toolkit material is not intended to be prescriptive, and Sectors may wish to tailor it to their own needs. It will be periodically updated. Other reference material, principally in the form of Treasury Board documents, is available from your Business Development Office or its equivalent, and from your Administrative Officer.

### *How do I choose which mechanism to use?*

The degree to which NRCan’s objectives and interests coincide with those of its client helps to determine which mechanism, or combination of mechanisms, is the most appropriate.

- If the project’s purpose is *solely* to satisfy a request from a particular client, then it is appropriate for that client to pay the *full* project costs (i.e., including salaries and overheads). An example is a client asking NRCan to conduct analytical work using its specialized equipment and expertise that is not available in Canada in the private sector. NRCan would undertake the work, provide the client with the results, and would have no further interest, beyond the bounds of its normal service standards.
- If the objective of the project is *principally*, but not exclusively, that of the client, then having the client pay *partial* project costs is appropriate. An example would be a situation similar to that described above: a client asking NRCan to analyse samples it provided, but willing to give some benefit to NRCan such as providing the results of the analyses or the samples themselves for the Department’s use in a project of its own. In this case, a discount from the full project costs may be appropriate. This business decision is made at the Sector level.
- If the objective of the project is common to all participants, the sharing of costs or effort is appropriate. The actual mechanism selected - cost-sharing, task-sharing or joint project - will be determined by the resources (financial, personnel and technical expertise) available to each participant and how they wish to disburse these.
- If NRCan anticipates that by its providing financial or technical support to a client, the

client will successfully develop and market a new technology, product or service, it may be appropriate for the Department to make such support contingent on its contributions being repaid or for it to license the technology and receive royalty payments for its use.

*Toolkit material:  
Sample Guidelines for Undertaking Joint Projects*

### ***How do I determine which services should be charged for?***

The Department has a range of services for which it may be appropriate to charge clients. They include contract work in science and technology, the provision of training courses to external clients, laboratory services, consulting, examinations, licensing, permits, and equipment rental. The essential criteria for determining which services should be charged for are:

- do we have unique expertise in providing this product or service? (that is, we are not competing with the Canadian private sector);
- would providing the service jeopardise or interfere with our fulfilling our mandate?

See also “How can I avoid competing with Canadian industry?”

*Toolkit material:  
Managers’ Guide for Decision-Making for Departmental External User Fees and Charges Avoidance of Competition with Private Sector*

### ***In recovering costs, how do I set a rate or fee?***

Two separate authorities are required for NRCan to undertake cost recovery. Firstly, the mandate to conduct the activity for which costs are to be recovered must be identified in legislation (e.g. *Department of Natural Resources Act, Resources and Technical Surveys Act, Explosives Act*). Secondly, there needs to be an authority to set prices. There is a difference between cost recovery under regulatory and non-regulatory programs. For the former, fees must be established through the Federal Regulatory Process, whereas with non-regulatory programs, fees can be established by fee schedules (or contracts) established under ministerial contracting authority. The ministerial contracting authority does not apply to the sale of products. Fees for the sale of NRCan products are established under the authority of an Order in Council made under the *Financial Administration Act* or under the authority of the *Resources and Technical Surveys Act*. See the Toolkit material for further details.

Rates and fees are set using standard costing models. It is important that the Department be consistent in how it establishes fees for like types of service, such as laboratory analyses, which may differ widely in nature.

An important issue to be addressed is whether or not to charge full or partial costs. This is left to the individual manager’s discretion. There may be some value to discounting the full costs, for example, to assist a young Canadian company in an emerging industrial sector. Factors to be considered include the nature of the client (for example, Canadian or non-Canadian), the size of the client, and the benefit to NRCan, such as extent to which the project contributes to the development of NRCan’s core competency, or adds to our general knowledge base.

*Toolkit material:*

*Manager's Guide for Decision-Making for Departmental External User Fees and Charges*

### ***How Do I Determine How Much NRCan Should Contribute Toward a Collaborative Project?***

Factors that influence a manager's decision on the amount of NRCan's contribution to a cost-shared, task-shared or joint project - that is, whether through the provision of financial resources, personnel expertise, or both, include:

- the client's strategic importance to NRCan in particular and to Canada as a whole;
- the potential return on investment, both economic and in terms of NRCan's mandate;
- the degree of risk involved; and
- the number of participating agencies in the project.

The value of NRCan's contribution should be assessed in terms of its actual costs. The total amount of NRCan's contribution should include financial support, e.g. in a cost-shared project, and in-house effort.

*Toolkit material:*

*Guidelines on Contributions toward Collaborative Project Costs*

### ***How can I assess the potential for perceived or actual conflict of interest?***

Before embarking on a cost-shared or task-shared activity or agreeing to provide a service for which the cost will be recovered, we must answer a number of questions. If the answer to any one of

them is "yes", the project should not be undertaken. The key questions are:

- Is the proposed project in conflict with NRCan's mandate or with federal government policy?
- Would this undertaking jeopardise or appear to jeopardise our ability to provide objective advice to the Minister of NRCan - for example, in an environmental assessment?
- Would this undertaking give an unfair advantage to a particular Canadian client or agency, for example, by providing proprietary information that has been paid for largely from the general tax base?
- Would this undertaking give a competitive advantage to a non-Canadian client without there being an overall benefit to Canada?

Your Business Office (or equivalent) and Legal Services can help you in this area.

*Toolkit material:*

*Sample Guide for Assessing the Potential for Real or Perceived Conflict of Interest*

### ***How can I avoid competing with Canadian industry?***

(Note: Regulatory activities in NRCan such as those covered under the *Explosives Act* or *Canada Lands Surveys Act* are excluded from concerns of competition given that they are considered public-good monopolies)

The ability to accurately assess whether or not there is a competition issue with private industry requires good linkages and communication with that industry so that we know its capabilities and limitations, if any. Some of the key questions to consider when dealing with a potential competition question in relation to a particular product or service are:

- Is this product or service unique to NRCan?
- Could this activity be carried out by private industry at a profit and in the time frame required by the client?
- Would it be more appropriate for NRCan to carry out part of the project as sub-contractor to a Canadian firm? This might be the case, for example, if the client has specifically asked for NRCan involvement.

A general rule of thumb is that if, after addressing the issues exemplified in the Toolkit material, plus any others deemed to be Sector-specific, you are still in doubt as to whether a competition issue exists, the project should probably not proceed with NRCan involvement.

*Toolkit material:  
Avoidance of Competition with Private Sector*

### ***How do I deal with legal issues?***

Collaborative arrangements should be implemented by means of a memorandum of understanding if the arrangement is with another federal government department or by a contract in all other circumstances. Consult your Sector Business Development Office or intellectual property management office for advice. These offices have model agreements and standard clauses for use in establishing contracts with clients. If your Sector does not have such an office, consult Legal Services. Doing so will ensure that you do not break laws relevant to NRCan's contractual activities and will help minimise the financial risks managers assume on behalf of the Department.

### ***How do I deal with the disposition of Intellectual Property?***

Many collaborative arrangements involve the development of intellectual property. Treasury Board policy on the disposition of Intellectual Property (IP) arising from government contracts is based on the general assumption that the contractor will take title to the IP. However, it recognises that there are instances in which the IP should vest with the Crown. Regardless of with whom title to IP, NRCan has a responsibility, and is accountable, for ensuring that IP arising from R&D performed for it under Crown contracts can be exploited by the private sector for commercialization. The government's policy on IP arising from contracts is currently under review.

Note that under the *Public Servants Inventions Act*, all inventions developed by public servants in the line of duty or employment or with facilities, equipment or financial aid provided by or on behalf of the Government belong to the Crown. Even if the invention was made jointly with another person who is not a public servant, the interest of the public servant vests in the Crown.

Authority to assign rights of use and ownership of IP has been delegated to selected individuals within each Sector. Consult your Sector IP management office or Business Development Office (or equivalent) for advice. These offices have model agreements and standard clauses for use in establishing contracts with your clients. If your Sector does not have such an office, consult Legal Services.

*Toolkit material:  
Treasury Board Policy on Ownership of Intellectual Property in Government Contracts  
General NRCan Policy on Intellectual Property*



## ***How do I assess the value of “in kind” contributions and support from clients?***

Several different approaches to the valuation of in kind support may be envisioned. They can be listed under the following categories:

- *Market Value* - the cost to NRCan if it were to purchase directly the goods, services or intellectual property that the client has provided.
- *Client’s acquisition cost* - the original cost to the client of the goods, services and intellectual property that were in turn provided to NRCan.
- *Client’s incremental cost* - the incremental or actual cost to the client (including salaries and overheads such as facilities) to provide the support to NRCan.

The recommended method is to examine first of all if a market value could be assessed for the in kind support. In the case of, for example, a set of routine laboratory measurements made by the client, or travel expenses underwritten by the client, this is feasible. In this case, that would be taken as the value of the support. If a simple market value cannot be assessed, the client’s incremental cost or actual cost of providing the support should be assessed. This can be done using standard rates. See the Toolkit for further information.

*Toolkit material:*

*Guide to Assessing the Value of Clients’ In Kind Support*

## **Responsibilities**

The use and development of the Framework is a shared responsibility between the corporate level of the Department and the Sectors.

## ***Corporate responsibilities***

- Ensure that the necessary management tools are in place and that managers/staff have access to the up-to-date information they need.
- Assess the impact of new management and financial arrangements, such as vote-netting, on externally-funded and collaborative activities, as required.
- In conjunction with other Departmental initiatives such as the S&T Management Framework and the Business Plan, negotiate new authorities with Treasury Board and other agencies, particularly with regard to Human Resource issues, if required.
- Report on achievements in the annual Performance Report.
- Establish methodologies for assessing the impact (internal and external) of external funding arrangements and collaborative activities as input into determining optimum levels.
- Develop a set of standard rates from which the value of in kind support, in terms of clients’ incremental costs, can be assessed.

## ***Sectoral responsibilities***

- Identify those parts of their programs that are and are not appropriate for cost recovery or cost or task sharing, or for joint project agreements.
- Undertake analyses in order to find the “optimal” levels of cost recovery, cost-sharing, task-sharing, and joint projects.

- Establish targets for revenue generation, where appropriate, and objectives, such as for leverage from partners.
- Establish performance measures for achievement of targets or objectives.
- Report on achievements in their annual report.
- Consult with clients and stakeholders on a regular basis in order to ensure that the Sector's revenue generation, and externally-funded and collaborative activities continue to be responsive to their needs.

## **General reference material**

External User Charges for Goods and Services, Property, Rights and Privileges, *Treasury Board Secretariat, December 1989*

Guide to User Fees, *Treasury Board of Canada, 1992*

Managing Better, Vol. 3: Review of Cost Recovery and User Fee Approval Process, *Treasury Board Secretariat, 1996*

Guide on Financial Arrangements and Funding Options, *Treasury Board Secretariat, 1995*

Framework for Alternative Program Delivery, *Treasury Board Secretariat, 1995.*

Guide to the Costing of Outputs in the Government of Canada, *Treasury Board - Office of the Comptroller General, February 1989 (revised 1994)*