



Canadian Food
Inspection Agency

Agence canadienne
d'inspection des aliments

CFIA Service Standards and User Fees: Cost Recovery Policy & Framework

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Part 1 Cost Recovery Policy

Policy Statement

1. The Canadian Food Inspection Agency (the Agency) will charge a user fee for services that provide service recipients direct benefits beyond those received by the general public.

Policy Objectives

2. The objectives of the Agency's cost recovery policy are:
 - i) to encourage effective and responsive service delivery;
 - ii) to promote a fair and consistent approach to program funding;
 - iii) to foster an understanding that user fees may be charged for:
 - services provided by the Agency,
 - the use of facilities provided by the Agency, or
 - products, rights and privileges provided by the Agency; and
 - iv) to inform about the requirements of the *User Fees Act* (March 2004), the Treasury Board Policy on *Service Standards for External Fees* (November 2004), and the Treasury Board's *Guide to Costing*.

Application

3. This policy applies Agency-wide to all transactions, except for those that fall within the "Exceptions" category outlined below.

Authorities

4. The authority to establish or amend the Agency's user fees rests with the Minister of Agriculture and Agri-Food. However, before the Minister introduces a new user fee, increases user fees, or expands the application or duration of a user fee, the requirements, expectations, and conditions of the *User Fees Act* (UFA) must be met.

Exceptions

5. This policy does not apply to the following types of transactions:
 - i) real property transactions that are outside the department's core services;
 - ii) arrangements or accords negotiated with foreign governments, or international organizations;
 - iii) transactions subject to more specific federal policies and instruments applicable government-wide, including:
 - transactions between departments and federal employees as part of collective agreements or terms and conditions of employment (e.g. parking, clothing, uniforms, housing);
 - real property transactions covered by the *Federal Real Property and Federal Immovable Act* and Federal Real Property Regulations.
 - iv) the pricing of publications (which is subject to the Communications Policy of the Government of Canada);
 - v) access to and disposition of Crown assets;

- vi) royalties arising from Crown-owned intellectual property;
- vii) transfer payments (e.g. grants or contributions); and
- viii) fines or penalties.

Monitoring

6. The Agency will review this cost recovery policy, including an evaluation of its success in achieving the stated objectives. The timing of this review is subject to the policy's rank when considering all areas of risk or significance within the Agency.

Part 2 Cost Recovery Framework

Introduction

7. This cost recovery framework sets out the process for the Agency to implement its cost recovery policy. The framework will promote a consistent and robust approach to determining individual fees for services across Agency programs.
8. User fees can improve the Agency's accountability because, through a user fee, the Agency commits to providing service recipients with a measurable level of service and informing them of the costs to provide those services.
9. The seven guiding principles¹ for implementing the cost recovery policy are:
 - i) stakeholders should be consulted when establishing/changing user fees and service standards;
 - ii) user fees should have a direct relationship to the cost of providing the service;
 - iii) the standard of services related to the user fee should be clear;
 - iv) transaction costs in setting, collecting and administering user fees should be minimized;
 - v) new or amended user fees should be applied consistently across services and sectors;
 - vi) user fees should be easily adaptable to changes in the operating environment, and easy to update; and
 - vii) user fees should balance affordability and impact on competitiveness with industry's responsibility to pay for services and the Agency's responsibility to provide service.

Cost Recovery in the Federal Government

10. Government regulatory activities are carried out to generate broad public benefits, but may also provide valuable economic advantages to service recipients. These benefits include higher consumer confidence and improved acceptance of products in domestic and foreign markets. The federal government charges fees for services that provide recipients with direct benefits beyond those received by the general public.
11. When implemented in the 1990's, the federal government's cost recovery policy was viewed as a mechanism to change how government delivered and financed programs and services. The *User Fees Act* (UFA), which received Royal Assent on March 31, 2004, provides the legal framework for the development and implementation of user fees. Its goals are to strengthen accountability, oversight, and transparency related to the charging of user fees.
12. The UFA sets out a number of steps that must be completed prior to introducing, increasing, or broadening the scope of application or duration of a user fee, including:

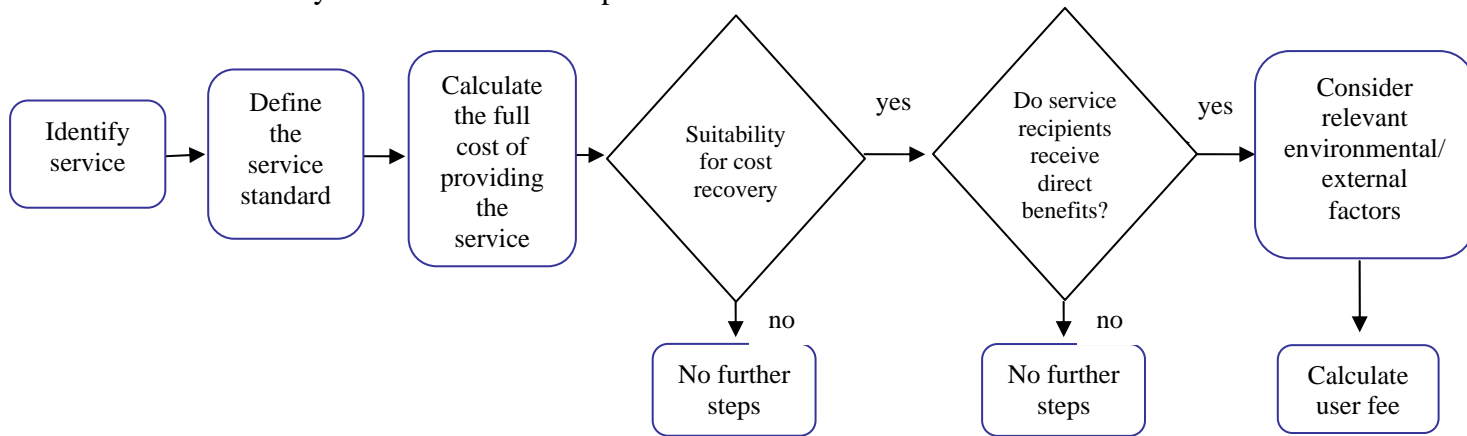
¹ In June 2008, a user fees working group was created. This group was co-chaired by the Agency and Agriculture and Agri-Food Canada, and included private sector representatives from the meat and livestock sectors. The working group considered the issue of user fees and competitiveness and developed cost recovery principles. These principles are consistent with Treasury Board *Policy on Service Standards for External Fees* and reflect the tenets of the *User Fees Act*.

- i) completing a consultation process to provide stakeholders with an opportunity to voice concerns or suggest improvements to the services;
 - ii) completing an impact assessment to identify relevant factors that may affect the user fee;
 - iii) identifying the cost to deliver the service and what costs the user fee will address;
 - iv) establishing service standards and performance measurements;
 - v) establishing an independent advisory panel to address complaints, if applicable; and
 - vi) reporting annually to Parliament.
13. Federal government departments and agencies undertaking cost recovery are guided by the following documents from the Treasury Board Secretariat: *User Charging in the Federal Government – a Background Document, Guide to Costing, and Policy on Service Standards for External Fees*.

Development of a User Fee Proposal

14. The UFA applies in cases where user fees are being fixed, increased or expanded in scope of application or duration. In these cases, a user fee proposal must be tabled in Parliament. Each user fee proposal must include the following:
- i) an explanation of the service for which the user fee is proposed;
 - ii) the reasons for any changes to the user fee;
 - iii) the service standards related to the service, including any performance measurements;
 - iv) the costs of the service covered by the user fee;
 - v) an estimate of the amount of revenue the Agency will collect in the first three fiscal years after the user fee is introduced; and
 - vi) if the fee is higher than another country's fee for a comparable service, the reasons for this difference.
15. Each user fee proposal will be based on the results of the following analysis:
- i) what service standards are associated with the service?
 - ii) what are the costs to the Agency of providing the service?
 - iii) are the services appropriate for cost recovery?
 - iv) does the service confer a private benefit to service recipients?
 - v) what environmental or external factors need to be considered?
 - vi) how does the fee proposal compare with the approaches of other jurisdictions?

16. The cost recovery framework can be represented as follows:



These steps are discussed in further detail in the sections below.

Service Standards

17. Service standards tell service recipients what to expect in terms of, for example, speed of service delivery, how services will be delivered and what they can do when they are not satisfied with the standard of service they receive.
18. Service standards must be objective, reasonable, measurable, published, and comparable to those established by other relevant jurisdictions. In accordance with Treasury Board Policy on Service Standards for External Fees and the UFA, service standards must contain:
 - i. **service description:** the services that will be provided, and, if applicable, the outputs or benefits that service recipients can expect to receive;
 - ii. **service pledges or principles:** the quality of service delivery that recipients can expect to receive, with a focus on elements such as openness, fairness, courtesy, professionalism and language;
 - iii. **delivery targets:** the key aspects of the service, such as timeliness, access, and accuracy;
 - iv. **costs:** the cost of delivering the service; and,
 - v. **complaint and redress mechanisms:** the recourse that service recipients have when they feel that the standards have not been met.

Costing Methodology

19. The costing methodology sets out a general approach to determining the full cost of providing each service offered by the Agency. This methodology is consistent with the principles laid out in Treasury Boards *Guide to Costing*.
20. The Agency's costing methodology will follow these general steps:
 - i. determine the service for which costing information is required;
 - ii. identify and calculate all the costs of the service;
 - iii. classify each cost as direct or indirect; and

- iv. review and confirm results.
- 21. Determining full cost requires that all resources used to deliver a specific service be accounted for. This includes costs such as inspector salaries, laboratory and scientific services, equipment, facilities, management and administrative support, etc. The proportion of indirect costs related to each service will be allocated on the basis of objective criteria, for instance, prorating indirect costs based on the number of employees.
- 22. Costs will be based on information recorded by the Agency in its most recent, complete fiscal year and on the level of service the Agency has committed to providing to service recipients. The full cost information will be used for reporting purposes and as a starting point for determining the amount of a user fee.

Services Appropriate for Cost Recovery

- 23. Services provided by the Agency may be cost recovered and user fees will be applied for those services where a direct benefit to service recipients can be identified. The Agency's services result from a need to oversee service recipients' activities and their compliance with standards. Although often considered to be for the benefit of the Canadian public, service recipients are the primary beneficiary. The act of regulating direct beneficiaries may result in indirect benefits that serve the health, safety, economic, or security interests of the general public.
- 24. Certain services, however, may not be considered appropriate for cost recovery, such as:
 - i) where cost recovery is not cost-effective (e.g. cost to collect the fee exceeds the cost of the service provided);
 - ii) where cost recovery would be inconsistent with government policy objectives (e.g. charging for testing related to food recalls); and
 - iii) where further analysis, as set out in the following sections, finds that services should not be cost recovered.

Public vs. Private Benefit

- 25. Determining what constitutes a public versus a private benefit is a fundamental decision when determining the proportion of the cost of a service that should be paid by service recipients where a direct benefit is received.
- 26. The Agency provides many services that are neither purely for public or private benefit. As a result, the Agency must set the proportion of the full cost of a service that will be charged to a service recipient in accordance with where the service falls along the public-private benefit continuum.
- 27. The Agency's services can be separated into three general categories: import, export, and domestic. Often, when service recipients engage in importing and exporting activities, services are requested of the Agency to address the risks inherent in importing food, plants or animals or ensuring that Canadian exports meet the requirements of importing countries. Therefore, 100% cost recovery for these services is the initial target.

28. For activities related to domestic consumption/protection, while it is the service recipients' responsibility to produce safe products, government oversight is in place to help safeguard the food supply, and animal and plant resources. Therefore, the cost recovery target for services related to domestic activities may be set at less than 100%.
29. The degree of cost recovery may be modified as the Agency completes its analysis to determine the amount of the user fee, taking into account relevant environmental or external considerations.

Environmental or External Considerations

30. When determining the amount of a user fee for a particular service, a number of factors may be taken into account. The amount of the user fee may be adjusted after considering the following factors, where applicable:
 - fairness and equity of the fee across industry sectors
 - economic impact on service recipients; ability of service recipient to pay
 - competition with the private sector
 - the degree to which public policy objectives may be affected
 - liability
 - need for interdepartmental and/or multi-jurisdictional co-ordination
 - regulatory efficiency
31. It may or may not be possible to directly account for each factor above when determining the amount of the user fee; however, these factors may influence the outcome. For example, services that provide recipients with a financial or competitive advantage favour a higher proportion of the full cost of a service to be charged to a service recipient. Services that encourage business development or innovation in Canada, where fees may discourage participation in a program, or where competitiveness may be significantly impacted by charging a fee may favour a lower proportion of the full cost to be charged to a service recipient. In addition, some of these factors may be inter-related or inter-dependent and, as a result, may need to be considered together, rather than in isolation.
32. This type of analysis offers insight into the market forces relevant to determining the amount of a user fee, including the possible effects on the demand for services.

Jurisdictional Comparisons

33. Fees charged by other jurisdictions for similar services will also be examined to provide further context, taking into account differing resource levels, service levels, user profiles, and regulatory objectives. In addition, the UFA requires a justification for user fees that are higher than those of other jurisdictions for comparable services.
34. Cost recovery is used in various countries for food safety and animal and plant protection activities. Jurisdictions that are comparable to Canada, as their regulatory frameworks are similar, include the United States, Australia, the United Kingdom and New Zealand. The

services provided in these countries differ in terms of the delivery body (e.g. third party institute in New Zealand) or its responsibilities, but there are similarities in terms of services provided.

Review Cycle

35. The UFA requires the Minister to table in Parliament an annual report of all user fees in effect, including an explanation of the service, product, etc. to which the user fee applies, the related performance standards and actual performance levels, and the costs related to individual services to which a fee applies.
36. To support the annual reporting process, the Agency will establish performance measurement strategies for all its services. The performance measurement strategies will help the Agency to monitor whether it meets its service standards.
37. The services offered by each program will be reviewed. This review will build on the information that is required to be reported to Parliament annually, pursuant to the UFA.
38. The purpose of this review is to identify and address fee inconsistencies, opportunities to achieve benefits beyond cost recovery, and opportunities to simplify the fee structure.
39. The review will also examine services that are not currently cost recovered. The purpose of examining these services is to ensure that the information supporting the decision not to charge user fees is up-to-date and still supports that decision.
40. The review cycle will repeat every 5 years. Issues may be addressed outside of the 5-year review cycle, should the need arise, using a risk-based approach. For example, in the case where the Agency is unable to meet its service standards, or when programs are redesigned resulting in changes to services or service standards, then user fees should be reviewed.

Annex A: Who Should Pay? – Public vs. Private Benefit

41. What constitutes public vs. private benefit is fundamental to decisions regarding what services should be subject to user fees and what the rate of cost recovery should be (the percentage of the costs paid by the user) for these services. Several criteria can be used to determine whether a service is of public or private benefit, such as how easy it is to keep someone from using the service, how much demand for the service would be impacted by charging a user fee, whether the use of the service affects another person's ability to use it ("rivalness"), and whether the service confers direct benefits (e.g. increased marketability, decreased liability). However, for the Agency's purposes, the most important distinction between public and private benefit is whether an identifiable group benefits from the service more than the general public does. A service that is a public good is available to all people at no additional charge, and no one person derives a greater benefit from the service than the general public does. An example of a public benefit is the production of food safety information products.
42. In contrast, a private good would be a service that benefits an identifiable user or user group more than the general public. Examples of services that are private goods are those that are specifically requested by industry (e.g. requests for import or export certificates) or those related to commerce rather than safety (e.g. organic certification).
43. If a user cannot be excluded from using a service, or efforts to exclude non-payers are not cost-effective, cost recovery is inefficient and therefore inappropriate, regardless of whether the service confers a private benefit. One of the aims of cost recovery is to have those who benefit from services, more than the general public, pay a fair fee for the service in order to finance government programs fairly. However, this approach only works for the services where clients see a benefit accruing to them from the service and can determine if the benefits outweigh the fees charged, and where non-fee payers can be excluded, in whole or in part, from benefiting from the service.
44. Most government services are neither purely for public or private benefit and must therefore set cost recovery rates that reflect where the activity falls along the public-private benefit continuum. While services that convey purely public or private benefit have obvious cost recovery rates (0% and 100%, respectively), setting the cost recovery rate for a service that is a mix of private and public good requires complex considerations.
45. The Agency's services generally relate to imports, exports or domestic products. The Agency's activities are the result of the need to provide oversight of the regulated industry and enforce compliance with standards. The products made by regulated industry can pose a risk. In order to mitigate the risk, regulations are often required. Consistent with approaches in other jurisdictions, those who create the need for regulation should bear the costs. Generally, the individual or organization being regulated is the direct user and the primary beneficiary of the oversight. In addition, regulation increases confidence in the marketplace, both public confidence in the products and industry confidence in the system. This confidence in turn facilitates commerce and trade. The act of regulating may serve the health, safety, economic, or

security interests of others in addition to direct users, however, these groups are generally viewed as secondary beneficiaries of the regulatory activity. Partial, rather than full, cost recovery may be appropriate if the public is felt to benefit to a large degree from the regulatory activity.

46. When industry engages in import and export activities, it may request services from the Agency. Having the Agency address the risks inherent in importing food, plants or animals into Canada or ensuring that Canadian exports meet the requirements of importing countries provides a financial or competitive advantage to those seeking the services (e.g. access to foreign markets). Therefore, 100% cost recovery would be appropriate for activities relating to import and export.
47. Each activity related to domestic production/consumption must be assessed individually to determine the extent to which they should be cost recovered. Partial cost recovery would be appropriate for activities related to compliance with regulations (e.g. domestic meat inspection) because these activities have a public benefit component, but are also required to ensure industry compliance.
48. Where the activity falls along the public-private good continuum is one of several factors used to determine the cost recovery rate. Additional factors, such as the impact on competitiveness, and special needs of small businesses, are considered when establishing the fee for service. This approach is consistent with Treasury Board guidelines and approaches used by other government departments.

Annex B: What Standards of Service Should Service Recipients Expect? – Appropriate Service Standards

49. Service standards are the Agency’s commitment to a level of performance and client satisfaction that tells service recipients what to expect. This includes how services will be delivered, what user fees will be charged and what service recipients can do when the services they received are not acceptable. The Agency will be reviewing its service standards and user fees, which includes communicating information about the Agency’s services. That communication takes place internally and with the public, and follows a ‘systems approach’ that links service standards, fees, feedback tools and reporting.
50. The Agency recognizes that service standards need to be:
- **Meaningful to service recipients.** Service standards should be set for aspects of the service that are relevant to the paying and non-paying service recipient and should be expressed in a way that service recipients understand. Standards must be measurable and what constitutes acceptable performance should be clearly defined.
 - **Based on consultation.** Both paying and non-paying service recipients should be consulted on the standards, including how performance will be measured. Themes may include but should not be limited to:
 - Capacity and level of service delivery, both existing and future.
 - Opportunities for service improvement.
 - Relevant international comparisons.
 - Potential service delivery alternatives.
 - Implementation phase(s) of service standards.
 - Definition of quality service and how it is best measured.
 - **Comparable.** Consistent with service standards established by other countries with which a comparison is appropriate.
 - **Attainable and challenging.** Service standards should be reasonable, realistic, practical, based on analysis, consistent with program objectives and achievable.
 - **Affordable, for both paying service recipients and the Agency.** Service standards should be attainable within available resources to ensure sustained acceptable performance by the Agency. In general, there is a direct relationship between the level of service provided and cost, and a balance is needed between what the Agency can afford to provide, and what service recipients can afford to pay.
 - **Published.** Service standards should be public and available to those receiving services.
 - **Used to measure performance.** Performance against service standards as well as service recipient satisfaction with the service provided should be reported. A number of methods to measure performance are available, such as collecting data to support quantifiable service standards, service recipient satisfactions surveys, etc. The method to measure performance should be determined at the time the standard is established.

- **Reviewed and updated.** New service standards may be implemented in phases. Once fully implemented, standards should be periodically reviewed and adjusted to reflect new circumstances.
- **Manage to meet service standards and quality.** Once a service standard has been developed, accepted, and published, managers should do everything in their power to ensure the standard is met. Managers should continuously assess performance against the standard and establish a service delivery improvement plan to address service deficiencies.

Annex C: The Process for Setting User Fees – Requirements of the User Fees Act

51. The *User Fees Act* (2004) lays out the process which federal departments and agencies must follow when they introduce new user fees, increase existing user fees, or change existing user fees so that they apply to more people or activities. The process has four phases: consultation, pre-proposal notification, Parliamentary tabling and implementation.

Phase 1 - Consultation

52. The *User Fees Act* requires the Canadian Food Inspection Agency (the Agency) to consult with stakeholders and give them a reasonable opportunity to suggest ways to improve the services for which the user fees will be charged. The consultation must include an explanation of how the user fee will be determined, a description of the standard of service that can be expected, a business impact assessment, and a comparison of the proposed user fee and service standard with those of other countries.

Phase 2 - Pre-proposal Notification

53. In this phase, official notice of the proposed new user fee(s) is given, and there is a complaint period of 30 days or more. This notification may be done through Canada Gazette, Part I. In addition, an independent advisory panel is set up to review and recommend solutions to unresolved complaints which arose during the comment period. This panel has three members, one each from the Department/Agency and the complainant, and a third member selected by the other two. The recommendations of the panel accompany the user fee proposal when it is tabled in Parliament.
54. The Agency may adjust the user fee proposal based on the consultations and independent advisory panel recommendations, before it is tabled in Parliament.

Phase 3 - Parliamentary Tabling

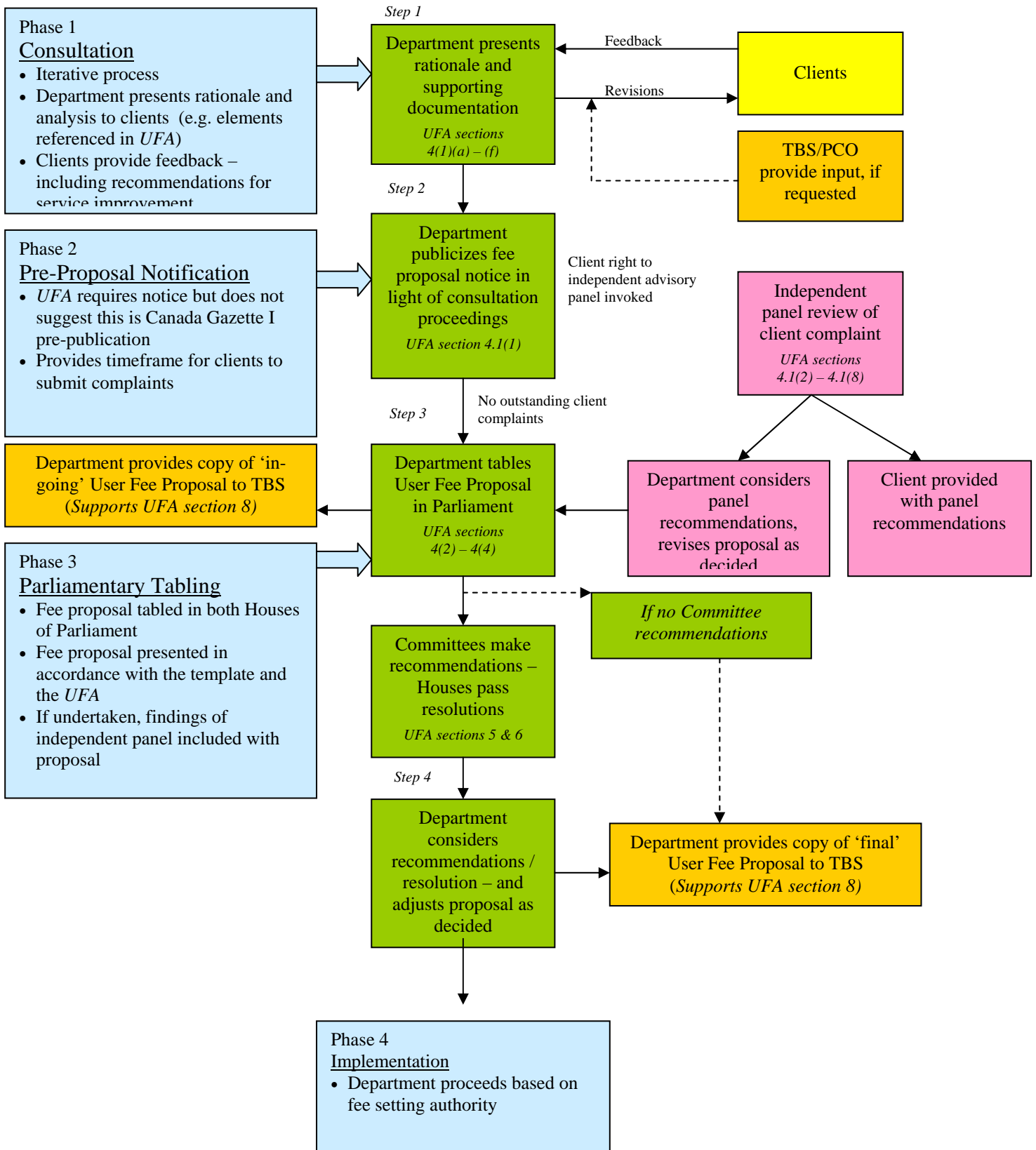
55. The Minister sees that the user fee proposal is tabled in both Houses of Parliament. The proposal contains a description of the service, the reason why the user fee is being changed, the associated service standards, an estimate of total fee revenue projections for the first three years, a rationale for any differences between the fee proposed and fees in comparable countries, and a description of the independent advisory panel process (from Phase 2) and its recommendations. The user fee proposal is referred to a Parliamentary Committee, which may make recommendations for changes. Both Houses of Parliament have 20 sitting days to make a recommendation to approve, reject or amend the user fee proposal. After 20 sitting days, this step is completed, regardless of whether the Committee has made a recommendation.

Phase 4 - Implementation

56. Once the user fee proposal passes the Parliamentary tabling step, the Minister has the authority under the *CFIA Act* to set the new fees. The new fees are then fixed in accordance with legislative authority. The Minister will report annually on all user fees fixed through the *User Fees Act*. This will include an assessment of departmental performance in meeting the service standards.

57. For more information on the user fee proposal approval process, please refer to the following link: <http://www.tbs-sct.gc.ca/fm-gf/ktopics-dossiersc/fms-sgf/uf-fu/menu-eng.asp>.

User Fee Proposal Approval Process As under the User Fees Act (UFA)



Glossary

Beneficiaries – The persons or groups in society who benefit from the services delivered.

Benefit – The value of products, services, rights or privileges, or access to or use of government-owned and controlled resources and assets, that is received by identifiable external individuals or groups. Examples of benefits to service recipients include economic benefit from regulatory activities in the form of reduced risk and liability, improved market access for products or services, enhanced credibility as suppliers and enhanced public confidence in the industry sector and its products.

Cost recovery – The collection of fees to recover some or all of the costs incurred in providing a product or service to a service recipient.

Direct costs – Costs that result from the production of a good or the provision of a service, and they can be attributed directly to the good or service. Normally direct costs include direct labour and direct operating costs (such as material, travel, and professional services, etc.)

Full cost – Cost of all resources, direct and indirect, consumed to deliver a specific service. It normally includes: program delivery, including laboratory tests if applicable; employee benefit plan; program support; internal services; accommodation; amortization charges; and services provided by other government departments.

Indirect costs – Costs that benefit more than one service or product. Indirect costs are classified as program support costs and corporate support costs outside of the program.

Service standards – How products or services will be delivered. They must be objective, reasonable, measurable, and comparable to those established by other relevant jurisdictions.

User fee – A fee, charge or levy for a product, regulatory process, authorization, permit, license, facility, or service that is provided only by a regulating authority.

The logo for the Government of Canada, featuring the word "Canada" in a stylized, serif font with a small crown above the letter 'a'.