



Costing Centre of Expertise Update

FMI PD Week – Hot Topics Stream
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Costing Centre of Expertise Mandate

- **To address systemic issues associated with the cost estimating of Cabinet documents, the Costing Centre of Expertise (CCE) was established within TBS in 2014**
- **CCE has three roles:**
 - Reviewing cost estimates in Cabinet documents
 - Strengthening the capacity of Departments to generate robust cost estimates
 - Managing User Fees, charging practices and the Policy on Transfer Payments

Reviewing Cost Estimates in Cabinet Documents

- In 18 months, CCE has reviewed \$20B worth of proposals through 93 Cabinet documents
- **Assessment:** contextual information is often missing and there is insufficient time for the CCE to review the volume of files in a meaningful manner:
 - 75% of reviews are completed in less than 5 days
- In order to increase the robustness of cost estimates in Cabinet documents we are exploring:
 - The presentation of cost estimate ranges
 - Sensitivity of the cost range to financial risk
 - Clearer identification of the framing and other key assumptions

Strengthening the Capacity of the Public Service to Generate Robust Cost Estimates

- **Our focus was initially internal:**
 - Ensure that TBS Program Sectors were supported in assessing the reasonableness of cost estimates in Cabinet documents
- **Our paradigm is evolving to an outward focus:**
 - Departments capacity to develop cost estimates is uneven. That said, it should be and it should match the complexity of the proposals the department is routinely called upon to develop
 - Strengthen the policy suite around cost estimating to incorporate ‘best practices’
 - Develop metrics to assess reasonableness of cost estimates

Cost Estimate Capacity Requirements Differ Across Departments

Proposal Complexity	Cost Estimate Requirements
Straight Forward	<p><u>Data & Tools</u>: Internal sources</p> <p><u>People</u>: Financial officers with designations</p> <p><u>Processes</u>: Based on Guideline to Costing</p>
Complex	<p><u>Data & Tools</u>: Internal sources and industry standards</p> <p><u>People</u>: Accountants with advanced cost estimating training</p> <p><u>Processes</u>: Based on Guideline to Cost Estimating of Capital Asset Acquisition</p>
Very Complex	<p><u>Data & Tools</u>: Internal sources, industry standards and some data may not exist for state of the art proposals</p> <p><u>People</u>: Professionally qualified cost estimators</p> <p><u>Processes</u>: Consistent and repeatable processes which provide decision makers with contextual information</p>

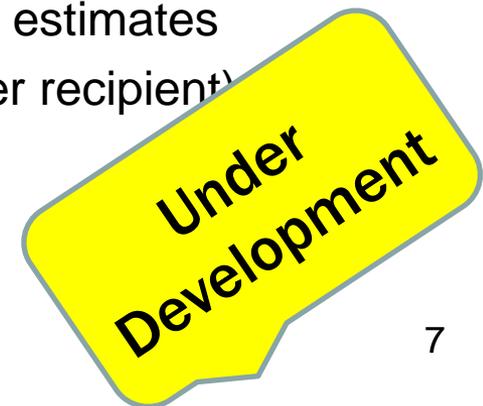
Increasing Proposal Complexity

Strengthen Policy Suite

- **Guideline on CFO Attestation is being recalibrated**
- **Integral to the skill-sets of cost estimators, is a requirement for consistent and repeatable processes**
 - Complex proposals: based on Guide to the Cost Estimating of Capital Asset Acquisition (released)
 - Straightforward proposals: based on Guidelines to Costing (to be re-released shortly)
- **Very complex proposals require strengthened guidance**
 - Based on the ICEAA Cost Estimating Body of Knowledge
 - Specification of evidence standards aligned to decision points
 - Additional instructions on dealing with uncertainty in cost estimating

Reasonableness Assessments

- **Benchmark information to assess the reasonableness of cost estimates in comparison to others:**
 - Identify what organizations and programs are comparable
 - Identify what are the key standard cost metrics
 - Determine metric(s) to assess an organization's ability to absorb incremental financial requirements
- **Compile an inventory of similar projects which have been completed in the past:**
 - Adjust historical costs to current year for past cost estimates
 - Create a catalog of cost drivers (i.e. admin cost per recipient)



Other Policies Managed by CCE

- ***User Fee Act***
 - Reduction in user fee renewals compared to past
 - Creating a perceived imbalance in the private versus public benefit
 - Addressing in part through the Policy Suite Renewal
- **Internal charging practices**
 - Set standards to ensure departments are using appropriate capacity-based charging protocols when buying and selling internal services
- **Policy on Transfer Payments**
 - Main concern is the tension between flexibility and control
 - Proposals being made to PSMAC on how to achieve this balance
 - Addressed through the Policy Suite Reset



Guideline on CFO Attestation of Cabinet Submissions

One Year Out

Background

- **The guideline on CFO attestation is the one of the most significant changes in financial management since the adoption of the CFO Model**
 - Developed over 2 years with significant community engagement
- **Since its launch in January 2014, 180 TB submissions have included a CFO attestation**
- **The OCG committed to conducting a one year review of the implementation of the guideline**

CFO Community Feedback / Observations

- **What we have heard from the CFO Community:**
 - Guideline has been an effective lever to enhance strategic engagement by CFOs
 - Has resulted in earlier CFO engagement in the development of Cabinet submissions
 - With horizontal initiatives: unclear on the roles and the responsibilities of the lead department
 - More clarity is required on when additional context should be included with an attestation (e.g. an observation)
 - It may not be clear to all CFOs that they need to attest to all options being presented

TBS Program Sector Feedback / Observations

- **What we heard from the TBS Program Sector:**
 - Unclear on what constitutes a ‘qualified’ opinion
 - Further guidance is required on what to highlight in a précis
 - CFO attestation requirements with respect to Crown Corporations is unclear
 - Inconsistent and late attestations limit their value in the TBS challenge process

CFO Attestations – By The Numbers

Between Jan 2014 & Jan 2015, TBS received 242 submissions, 180 of which had CFO attestations. Analysis of the attestations indicates:

- 98% of submissions included CFO attestations as required. Three (3) of the submissions were missing CFO attestations**
- None of the attestations included a ‘qualified’ opinion**

CFO Attestations – By The Numbers (con't)

- **51% of the attestations received included observations against one or more of the assertions**
 - For submissions greater than \$200M, 75% had observations
 - For two (2) of submissions reviewed, the quality of the evidence underlying the cost estimate did not align with the decision being sought (i.e. costing was of an indicative nature when a TB submission at a substantive level was required)
 - The CFO attestation did not highlight this fact
- **26% of horizontal initiatives did not have a lead CFO attestation**

CCE Observations

- **CFO observations against the assertions are not always pertinent to a Cabinet decision**
 - e.g. the initiative must access Supplementary Estimates ‘A’
- **CFO attestations are being received too late in the TB submission process; especially for submissions requiring a CCE due diligence review**
 - There may be an opportunity to leverage the CFO attestation at the draft submissions stage to support the due diligence role of the Program Sector and CCE
- **Based on the observations noted, it appears that in some of the cases, CFOs do not have sufficient time to complete a robust due diligence challenge of the submission (to be confirmed with CFOs)**

CCE Observation of CFO Attestations following Due Diligence Reviews

- **All submissions reviewed by CCE as part of a due diligence review had CFO attestations:**
 - In 63% of the attestations the CCE identified costing concerns with the submission:
 - 63% had issues with the cost estimate (i.e. framing assumptions, math errors)
 - 43% did not explain the proposed contingency adequately
 - CFO attestations were silent on several submissions which sought policy exemptions.
 - The CCE is reviewing the submissions to confirm that the submission included proposal paragraphs to request an exemption

Results of the Review

Issue	Proposal
Horizontal or joint initiatives	<ul style="list-style-type: none">• Define responsibilities and limits for all CFOs, including the lead CFO• Lead CFO responsible for compiling attestations from all other CFOs
Time limitations and/or insufficient information	<ul style="list-style-type: none">• Proactive: Establish a culture of early CFO engagement• Reactive: Close monitoring by the Program ADM and quarterly reporting to DM
When substantial risk are identified	<ul style="list-style-type: none">• Option of consulting with TBS Program Sector and/or the Office of the Comptroller General

Results of the Review

Issue	Proposal
Program ADM accountabilities	<ul style="list-style-type: none">• Clarify Program ADM responsibilities
Documentation	<ul style="list-style-type: none">• Develop an instruction on CFO Working Papers
Crown Corporation Submission (business plans)	<ul style="list-style-type: none">• Not subject to the guidance

Discussion

- **Have the CFO attestation requirements changed your relationship with your programs?**
 - Are you involved earlier in the process
 - Do you have enough time for your due diligence reviews
 - Is more information being made available to you now than before
- **Acknowledging the original intent of the guideline, what observations should be consistently flagged in the CFO Attestation?**
 - What is the line between being able to provide a clean attestation and saying the proposal has significant financial issues/risks
- **Any other thoughts to improve the Guideline?**