

## **CHAIRMAN'S OFFICE**

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- a. Public Benefit Service: These are public services that correspond to a public benefit. These services are considered non-excludable (no individual or entity can be prevented from consuming the service) and non-rivalrous (consumption by one individual or institution does not affect the provision of this service to others), for example, security and defense, and are usually free of charge.
- b. Administrative and Regulatory Service: These are public services that correspond to a private benefit to achieve the beneficiary's objectives, such as planning, organization, protecting rights, and preventing fraud, for example (issuing licenses and permits). They are charged for through "fees".
- c. Competitive Economic Service: These are economic services or goods that can be provided by both the public and private sectors, for example, health, education, and transport. They are charged for through a "price".
- d. Non-Competitive Economic Service: These are economic services or goods that involve monopolistic characteristics and are often limited to a single service provider, for example, water and electricity. They are charged for through a "tariff".

3. Services are classified according to the nature of the beneficiary:

- a. Government to Customer (G2C) services.
- b. Government to Business (G2B) services.
- c. Government to Government (G2G) services, whether at the local or federal government level.

### **2.2.3. Service Duplication**

- 1. The government entity must work to avoid duplication of services among government entities. Duplication occurs when the same or a similar service is provided by multiple government entities. Services are considered duplicated if they meet the following criteria:
  - a- Services fall within the same service category: The services fall under the same main service category, such as licensing or certification;

b- Similarity of submission outcomes: The purpose of providing the services is similar, for example, the outcome could be the renewal or cancellation of a license;

c- Services are provided to the same category of beneficiaries: When the beneficiaries of the service are similar, for example, companies operating in a specific industry or specific groups of individuals;

d. Similarity of service provision context: The services involve the same activity or circumstances. For example, issuing a trade license and issuing a marketing or distribution permit are considered services within the same category but are provided in different contexts.

2. Services can also be duplicated where a "similar" service is provided at both the federal and local levels. Similar services are defined as services that fall within the same service category and achieve the same submission outcome. For example, transferring ownership of a license and amending the trade name on a license are not the same service, but they fall within the same category (licensing) and have the same outcome (license amendment), thus they are a similar service. In this context, these services are considered duplicated if one is provided at the federal level and the other at the local level. The two criteria "same service category" and "same submission results" together form the minimum requirements for services to be considered duplicated. Any other services that do not meet these two criteria are considered different and therefore do not fall under duplicated services.

<b>Service Duplication Matrix</b>	<b>Same Service</b>	<b>Similar Service</b>	<b>Different Service</b>
Same Category	✓	✓	X
Same Submission Results	✓	✓	X
Same User Category	✓	✓	X
Same Context (Steps)	✓	X	X

3. Government entities should conduct internal reviews and joint discussions about the existing services provided by each entity. The results

of these reviews should be a specific list of duplicated services where the same or similar services are provided by multiple government entities. If it is found that services are currently being duplicated, the concerned government entities should aim to merge these services into a single service, ensuring that the responsibility for providing this service rests with one entity. All duplicated services should be merged under a shared services model No. (2) as specified in this guide and submitted to the Department of Finance, unless there is a specific reason to continue providing the service in the same manner.

4. Once the need for partnership arrangements in the provision of any shared services is identified, the lead partner for the shared service must formalize these arrangements through a memorandum of understanding signed by all parties.

## **2.2.4 Pricing of Government Services**

### **1. Administrative and Regulatory Services**

a. The value of fees should not be determined solely on the basis of the full cost of providing the service. It should be supplemented by a benefit coefficient based on the private benefit of the service to the customer. It is important to verify that there is a justification for the benefit coefficient on the price in relation to the cost of providing the service, and in a manner consistent with the interest of the service applicant.

b. The government entity may propose fees at full cost only or at a lower cost when full cost recovery has a negative impact on achieving the government's public policy objectives, provided that the entity states the rationale for the subsidy and identifies the source of funding for the deficit.

c. Administrative and regulatory services are priced after calculating the cost of service delivery, the expected demand for the service, and the estimated benefits to consumers when using the services. It must then be explained how each of these factors contributes to the final determined price for the service.

d. The government entity must assess whether the administrative or regulatory service is associated with infrastructure costs incurred by the government entity or the government that are not included in the service cost. If such costs exist, the government entity must calculate these costs

and propose fees or a mechanism to recover these costs, such as imposing a fee as a percentage of the value of the related transaction or imposing a fee based on a specific standard unit.

e. The benefit coefficient must be discussed and agreed upon by the relevant work teams, and the agreed-upon benefit factor should be clearly justified in the supporting study.

## **2. Competitive Economic Services**

Competitive economic services are priced at market price, taking into account the following:

- a- The cost of the service provided.
- b- The nature of the market in which the service competes and who the competitors are.
- c- The quality of the services provided compared to competitors.
- d- The expected profit from providing the service.
- e- The prevailing price charged by service providers.

## **3. Non-Competitive Economic Services**

- a. Non-competitive economic services are priced at the "tariff," which is the economic cost equivalent to the cost plus an appropriate return on capital.
- b. The grantor of the concession shall have the right to review the price lists after each period based on the foundations specified in the concession document.

### **2.2.5 Reporting**

- 1. Costing team officials in government entities must adhere to the requirements of the Government Costing Management team at the Department of Finance and the specific requirements of their respective entities regarding the preparation of periodic reports and analyses.
- 2. The head of the Government Costing Management team at the Department of Finance must adhere to the department's requirements regarding the preparation of periodic reports and analyses at the government level.
- 3. Periodic reports must be treated as highly confidential data.

4. The head of the Government Costing Management team at the Department of Finance shall submit annually to the Director General of the Department the key insights derived about the cost of government services, the value of the contribution/subsidy provided to that service, and other relevant important matters.

### **3. Procedures**

#### **3.1 Procedure for Costing Services in the Government Entity**

##### **3.1.1. Objective of the Procedure**

The procedure aims to calculate the costs of government services.

##### **3.1.2. Officials Responsible for the Procedure's Activities**

- Costing Team at the Government Entity
- Government Costing Management Team at the Department of Finance

##### **3.1.3. Inputs and Outputs of the Procedure**

No.	Input	Input Description	Automated Archiving	Manual Archiving
1	Decision	Decision to form the costing team at the government entity.		✓
2	Supporting Documents	These are the supporting documents or records by which the service costing process is carried out, for example: - The final approved organizational structure - List of cost drivers; - List of cost centers from the Mawared system - List of support center		✓

	operations and service center services - Revenue amounts and transaction numbers - Number of employees from the highest level to the lowest organizational unit (section or equivalent); - Current cost accounting lists.		
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No.	Output	Output Description	Automated Archiving	Manual Archiving
1	Report	Approved costing reports and recommendations.		✓

### 3.1.4. Detailed Description and Flowchart of the Procedure

#### Detailed Description of the Procedure

Step	Description	Responsibility	Department of Finance	Government Entity
1	Prepare the guide implementation plan and the circular regarding the start of the cost calculation cycle and follow up on its application after approval.	Government Costing	✓	
2				✓

<b>Step</b>	<b>Description</b>	<b>Responsibility</b>	<b>Department of Finance</b>	<b>Government Entity</b>
	Formally establish the costing team within the entity.	Director General		
3	Collect and verify the required information for calculating the costs of government services.	Costing Team		✓
4	Cooperate with the concerned entity to ensure its compliance with the implementation plan.	Government Costing Management Team	✓	
5	Classify units into support centers / service centers.	Costing Team		✓
6	Inventory and classify services and determine their delivery channels.	Costing Team		✓
7	Determine the service delivery procedures.	Costing Team		✓
8		Costing Team		✓

<b>Step</b>	<b>Description</b>	<b>Responsibility</b>	<b>Department of Finance</b>	<b>Government Entity</b>
	Determine the appropriate cost allocation drivers.			
9	Ensure completeness of information.	Head of Costing Team		✓
10	Update the list of cost centers on the Mawared system.	Finance Unit		✓
11	Ensure that cost centers and their costs are updated on the Mawared system.	Head of Costing Team		✓
12	Upload the required information into the costing model.	Costing Team		✓
13	Issue costing reports (fully loaded cost on services) and prepare/highlight observations or clarifications and related recommendations.	Costing Team		✓
14	Review the costing reports and recommendations,	Head of Costing Team		✓

Step	Description	Responsibility	Department of Finance	Government Entity
	approve them, and send them to the Government Revenue Department at the Department of Finance.			
15	Archive the costing reports.	Costing Team		✓

### Procedure Flowchart

## 3.2 Procedure for Preparing Government-Level Reports

### 3.2.1. Objective of the Procedure

The procedure aims to prepare cost reports for government services at the government level and make recommendations.

### 3.2.2. Officials Responsible for the Procedure's Activities

- Government Costing Team at the Department of Finance

### 3.2.3. Inputs and Outputs of the Procedure

No.	Input	Input Description	Automated Archiving	Manual Archiving
1	Report	Approved costing reports and recommendations for government entities.		✓

No.	Output	Output Description	Automated Archiving	Manual Archiving
1	Report	Approved costing reports and recommendations at the government level.		✓

### 3.2.4. Detailed Description and Flowchart of the Procedure

#### Detailed Description of the Procedure

Step	Description	Responsibility	Department of Finance	Government Entity
1	Collect costing reports from government entities.	Government Costing Management Team	✓	
2	Review costing reports from government entities and verify their accuracy.	Government Costing Management Team	✓	
3	If there are any observations, contact the head of the costing team at the government entity.	Head of Government Costing Management Team	✓	
4	Prepare government-level costing reports and the necessary recommendations.	Government Costing Management Team	✓	
5	Review the report and recommendations, approve it, and submit it to senior management.	Head of Government Costing Management Team	✓	
6			✓	

Step	Description	Responsibility	Department of Finance	Government Entity
	Submit the Department of Finance's recommendations to the leadership.	Director General		
7	Archive the costing reports.	Government Costing Management Team	✓	

### Procedure Flowchart

## 3.3 Procedure for Introducing, Amending, or Canceling Fees / Tariffs for Government Services

### 3.3.1. Objective of the Procedure

The procedure aims to clarify the mechanism for introducing fees/tariffs for government services.

### 3.3.2. Officials Responsible for the Procedure's Activities

- Government Entity
- Department of Finance
- Legislation Committee

### 3.3.3. Inputs and Outputs of the Procedure

No.	Input	Input Description	Automated Archiving	Manual Archiving
1	Study	The study prepared by the government entity regarding the introduction of a fee/tariff for new or existing services.		✓

2	Request	The request prepared by the government entity regarding the amendment or cancellation of a fee/tariff for new or existing services.		✓
3	Supporting Documents	<p>These are the supporting documents or records by which the service pricing process is carried out, for example:</p> <ul style="list-style-type: none"> <li>• Expected service costing lists</li> <li>• Legislative reference</li> <li>• Draft service delivery agreements</li> <li>• Benchmarking comparisons</li> <li>• Draft legislation.</li> </ul>		✓

No.	Output	Output Description	Automated Archiving	Manual Archiving
1	Emiri Decree / Decision	Decision approving the fees/tariffs.	✓	

### 3.3.4. Detailed Description and Flowchart of the Procedure

#### Detailed Description of the Procedure

Step	Description	Responsibility
1		Government Entity

Step	Description	Responsibility
	Calculate the cost of the service to be priced according to this guide and prepare a study in this regard and the relevant draft legislation.	
2	Receive the study to ensure its compliance with this guide. If the study is incomplete, it is returned to the government entity to complete the deficiencies. After completion, a report is prepared with the results of the Department of Finance's study and submitted to His Highness the Chairman of the Executive Council for initial prior approval.	Department of Finance
3	In case of approval, the draft legislation is sent to the Legislation Committee to carry out its procedures.	Department of Finance
4	Upon issuance of the legislation, the Department of Finance and the government entity are notified for implementation and to update the financial systems, payment gateway, and service portal.	Legislation Committee

### Procedure Flowchart

## 4. Guidelines for Costing and Pricing Government Services

### 4.1 Service Classification

1. The government entity classifies all the services it provides according to their economic characteristics as follows, noting that it is not necessary for the government entity to have all types of these services:

a. Public Benefit Services: These are services that do not have a corresponding private benefit, as the benefit accrues to society as a whole. The government is the sole provider of these services, and they are usually free of charge. The characteristics of these services are that the use of the service by one individual/entity does not prevent or affect its use by another individual/entity, and they are services from which a group of

beneficiaries cannot be excluded, meaning it is impossible or highly impractical to exclude an individual/entity from benefiting from the service. An example of these services is providing public security.

b. Administrative and Regulatory Services: These are public services that correspond to a private benefit, and are usually charged for and financed through "fees". Administrative and regulatory services are usually provided upon an explicit request from the customer, and fees for these services are imposed and their value is determined to enable cost recovery. Therefore, the determination of fees for this type of service should be based on the cost of the service. The characteristics of these services are that they are provided by the government or an authorized and documented entity.

Examples of these services include building licenses, health facility licenses, permits, and document attestation.

c. Competitive Economic Services: These are economic services or goods that are not exclusively provided by the government and are financed through a "price." These services are provided on a competitive basis and their price is determined based on market factors. They are non-public benefit services from which a group of beneficiaries can be excluded and are provided by both the government and the private sector. These services should be priced at the market rate (taking into account differences in service quality to ensure competitive neutrality). An example of these services is leasing spaces within the government entity's headquarters.

d. Non-Competitive Economic Services: These are non-competitive economic services or goods that are financed through a "tariff." The tariff for this type of service is imposed by the regulator of the service or commodity, as these services are subject to economic regulation, and the tariff is calculated based on multiple objectives and factors. Examples of these services include water and electricity services and sanitation services.

2. The government entity can classify its services by answering the following questions for each service provided:

a. Is the service a public good, meaning that the use of the service by one individual/entity does not prevent or affect its use by another individual/entity?

- b. Is the service non-excludable (meaning it is not possible or practically infeasible to exclude individuals from benefiting from the service once it is provided)?
- c. Is the service provided by the government, or is it also provided by the private sector?
- d. Is the service subject to a tariff by the service regulator?

### **Diagram No. (1) Service Costing Mechanism**

#### **Classification of Government Services**

Classify each service according to its economic characteristics

- 1. Is the service a public good and non-excludable? (Yes/No)
- 2. Is the service provided by both the government and the private sector? (Yes/No)
- 3. Is the service subject to a tariff? (Yes/No)

#### **Results:**

- **Public Benefit Services:** No charge to the beneficiary (Example: Public Security)
- **Administrative and Regulatory Service:** Fees are determined based on cost (Example: Commercial establishment license service)
- **Non-Competitive Economic Service:** Tariff is determined based on cost plus a return (Example: Water and electricity services)
- **Competitive Economic Service:** Fees are determined according to prevailing market prices (Example: Leasing spaces at the government entity's headquarters)

#### **4.2. Classify each service according to its economic characteristics**

- 1. The information provided by the costing process will enable the government entity to prepare its budget on a performance basis and support the decision-making process within the entity and the government in general. This information is also necessary to determine appropriate fees, prices, and tariffs and to avoid increasing the burden on the beneficiaries of these services. Cost calculation also enables the government entity to manage costs, monitor performance over the years,

and demonstrate that it operates efficiently, as the fees, prices, and tariffs for government services should generally be in line with the cost of their provision.

2. Costing initially requires the government entity to list all the services (outputs) it provides, whether to the public or any other external party.
3. After the government entity has listed all its services, it should prepare detailed information on the cost of the services it provides, including the following information:
  - a. Identifying the resources used to provide the services. Department of Finance
  - b. The cost of the resources required to provide each service in a specific period.
  - c. Estimating the number of times a service is provided in a specific period.
  - d. Determining the time taken for each activity (procedure) to provide the service.
  - e. Understanding the direct and indirect cost drivers.
  - f. Identifying fixed and variable costs.
4. The assumptions used should be clear, and the methodology and level of detail should be proportionate to the complexity and sensitivity of the process.
5. Capital costs for some services represent the largest part of their total cost. Therefore, it should be considered whether the recovery of capital costs, such as infrastructure development costs, is necessary, keeping in mind that all services should have their costs fully calculated, regardless of the decision on whether these costs should be recovered or not. In general, it is expected that all costs (including capital costs and depreciation of related assets) will be recovered so that users (beneficiaries) pay the true and full cost.
6. There are several methods for calculating the costs of services provided by a government entity. One of the most common is the cost center method, where the costs of the government entity's organizational units are allocated to the services (outputs). This is called the direct method of cost allocation, rather than allocating them to activities or procedures.

However, the Activity-Based Costing (ABC) method is more accurate and more suitable for cost control.

7. Through this method, standards and assumptions are applied to allocate costs to services through consistent allocation bases based on cost drivers.

The following are the stages of calculating the cost of government services:

### **Stage One: Identifying Cost Elements**

1. In this stage, cost elements are identified by determining the main categories of costs that can be allocated to different cost centers, such as: employee costs, administrative and general expenses, consumed and used materials, and depreciation and amortization. It should be noted that a government entity that provides capital outputs should add other costs of projects under construction as a cost element of the project during its construction period, as these costs will fall under other cost elements (depreciation and amortization) after the project is completed and operational. In general, costs can be divided into direct and indirect costs as follows:

2. Direct Costs: These are costs that can be directly traced to the services of the government entity. Direct costs are those elements associated with a specific cost item and are directly related to one of the concerned services. Direct costs usually consist of employee costs and consumed and used materials directly related to service delivery.

3. Indirect Costs: These are costs that cannot be directly traced to the services of the government entity and include cost elements that aim to assist the main departments in providing services. The most common indirect cost items are general and administrative expenses such as rent.

### **Stage Two: Identifying Cost Centers**

1. In this stage, cost centers of both service and support types are identified, and the groups of centers are classified as follows:

a. Service Centers Group (Service Departments): These are the organizational units, whether a sector, department, section, or equivalent in the government entity. These service departments are responsible for

providing the entity's main services (e.g., Facility Licensing Section, Roads and Infrastructure Section).

b. Support Centers Group (Support Departments): These are the organizational units, whether a sector, department, section, or equivalent in the government entity. These support departments are responsible for guiding and supporting the service departments in providing the entity's services (e.g., Finance Unit, Human Resources, Procurement, Information Technology, Legal Affairs, Communication, General Services). Then, all direct and indirect costs identified in the first stage are allocated to the different cost centers according to cost drivers.

### **Stage Three: Service Cost**

In this stage, the actual cost of the service is calculated by allocating the costs of the cost centers to the different government services provided by the entity, which will enable the entity to price its services.

### **Cost Drivers**

1. A cost driver is the factor that causes a change in the volume of resource consumption (costs). When any change occurs in the driver, the level of activity or the number of services provided will affect the change in the total cost, which consists of direct and indirect costs. There are three types of cost drivers:

a. Quantity: The cost driver is based on units of work (e.g., number of employees, number of applications). The cost of the service increases with the increase in the number of employees or applications.

b. Time: The cost driver is based on the length of time it takes to complete an activity. The cost of the service increases based on the length of time required to complete the service, regardless of how many services are provided (e.g., time taken to complete the service).

c. Direct: The entire cost of the service is directly charged to the service (e.g., all costs related to the service are directly charged to the service cost).

3. In general, the cost driver used depends on the nature of the service. The cost of the service may increase based on the number of employees or applications handled, or on the basis of the length of time required to

complete the service. It can also be a combination of these two types of drivers.

### **Diagram No. (2) Service Costing Mechanism**

### **Diagram No. (3) Working Mechanism**

#### **1. Steps for calculating the cost of providing a single service:**

- a. Identify indirect costs (support centers).
- b. Allocate indirect costs to service centers using an appropriate allocation method (such as the number of employees in each service center).
- c. Calculate the total cost of the service center (direct costs of the service center + the service center's share of indirect costs).
- d. Calculate the cost per minute for the service center (total costs / total minutes of providing all services).
- e. Calculate the cost of the service for the service center = cost per minute for the service center \* time taken to provide the service.

#### **4.3 Cost Allocation Models**

- Direct Allocation.
- Step-Down Allocation.
- Reciprocal Iterative Allocation.

**Direct Allocation:** Allocates all costs of support work units to service work units without considering the shared use among support work units.

**Step-Down Allocation of Costs:** Allocates the costs of support centers gradually and then to the service work units.

**Reciprocal Iterative Allocation Methodology:** Allocates costs repeatedly and reciprocally among all work units and then to the service work units.

Each cost allocation model has three main axes by which the cost allocation model is measured:

#### **✓ Accuracy**

Integrity and conformity of data and outputs accurately.

#### **✓ Transparency**

Clarity of the allocation process and allocation drivers.

### ✓ **Simplicity**

Balance between simplicity and accuracy of cost calculation to ensure understanding of the cost allocation process.

### **4.4 Target Cost = Target Price - Discount Factor**

1. The target price for the service is determined based on benchmark comparisons of service fees in light of the quality level of the service provided.
2. The discount factor is determined to reflect the risks of the impact of inflation, demand for the service, and expected profit.

### **4.5 Direct Costs of the Service Center**

The direct costs of service centers typically consist of:

1. Human Resources: This includes all salaries, wages, and allowances, and whether an employee's time should be allocated to a specific service or not. If there is difficulty in allocation or if the cost is significant, it is useful to determine the extent (percentage) of a group of employees' involvement in providing the service.
2. Direct Materials: Costs that can be directly charged to the service (for example, office equipment).
3. Other Direct Costs: For example, direct internet services for providing specific services.

### **4.6 Identifying the Individuals and Groups Benefiting from the Service**

1. Identifying the natural and legal persons (individuals and establishments) and the groups benefiting from the service is important. It enables the government entity to understand the nature of the service and the effects that may result from it. It also enables it to determine the target fee for each and whether it is appropriate to recover the full cost or part of it.
2. There are administrative and regulatory services that are by nature provided to individuals, such as issuing a passport or a birth certificate. There are administrative and regulatory services that are by nature provided to establishments, such as issuing a license for a medical facility. Meanwhile, there are administrative and regulatory services provided to

both individuals and establishments, such as issuing a car ownership certificate.

3. Individuals and establishments benefiting from administrative and regulatory services can also be classified into categories, as it may be appropriate to charge a different fee for each category. For example, a different fee can be charged for adults, children, and people of determination for entry to a public park.

#### **4.7 Excluding Costs Related to Inefficient Resource Allocation**

The principle of determining the fee according to the cost and the benefit coefficient requires that this cost be at an acceptable level of efficiency. This requires excluding any costs related to inefficient resource allocation to arrive at the standard cost, which is the cost per unit determined to be a measure that the actual cost should not exceed under normal circumstances.