

**Decision of the Chairman of the Department of Finance No.  
(13) of 2018**

**Concerning the Government Services Pricing Guide**

**The Chairman of the Department of Finance,**

- Having reviewed Law No. (1) of 1974 regarding the Reorganization of the Governmental Apparatus in the Emirate of Abu Dhabi and its amending laws,
- And Law No. (1) of 2017 concerning the Financial System of the Abu Dhabi Government,
- And Executive Council Decision No. (80) of 2018 concerning the Government Services Pricing Guide,
- And based on the powers vested in us and as required by the public interest,
- We have issued the following decision:

**Article One**

The Government Services Pricing Guide attached to this Decision is hereby issued.

**Article Two**

This Guide shall be published in the Official Gazette and shall come into effect one month after the date of publication.

**Riad Abdel Rahman Al Mubarak  
Chairman of the Department of Finance**

Issued in Abu Dhabi

On: 29 Sha'ban 1439 H

Corresponding to: 15 May 2018 AD

# **Government Services Pricing Guide**

## **Issued pursuant to Law No. (1) of 2017 concerning the Financial System of the Abu Dhabi Government**

### **Article (1)**

#### **Definitions**

For the purposes of applying the provisions of this Guide, the following words and phrases shall have the meanings assigned to each of them, unless the context indicates otherwise:

**The Emirate** The Emirate of Abu Dhabi.

**The Government** The Government of Abu Dhabi.

**The Executive Council** The Executive Council of the Emirate.

**The Department** The Department of Finance of the Emirate.

**Government Entities** Government entities specified under Law No. (1) of 2017 concerning the Financial System of the Abu Dhabi Government.

**Government Services** Services and goods provided by government entities, whether for a fee or free of charge.

**Fee** A financial resource collected by a government entity in return for public services that it exclusively provides.

**Price** A financial resource collected by a government entity in return for goods and services it provides on a commercial and competitive basis.

**Tariff** A financial resource collected by a government entity in return for non-competitive economic goods and services that it exclusively provides.

**Tax**

A mandatory monetary amount paid by the taxpayer as a contribution to bearing the costs of public services without receiving a specific benefit in return.

**Fine** A financial penalty imposed by the government to curb undesirable practices and behaviors.

<b>Market Price</b>	The prevailing price of a good or service in the market.
<b>Cost</b>	The total of direct and indirect costs.

## **Article (2)**

### **Scope of the Guide**

1. This Guide applies to all government entities and serves as the basis for pricing government services.
2. This Guide establishes the principles and methods for calculating fees, prices, and tariffs imposed on government services, based on considerations of fair cost, private benefit, market price, and economic cost.
3. The scope of the Guide does not include the principles or methods for determining local taxes or calculating fines imposed for violations.
4. The Government Services Pricing Guidelines are an integral part of this Guide.

## **Article (3)**

### **Objectives of the Guide**

This Guide aims to establish a unified regulatory framework for pricing government services in a manner that balances financial, economic, and social objectives, by defining the following:

1. Principles of pricing government services.
2. General rules for classifying government services.
3. Bases and guidelines for pricing government services.

## **Article (4)**

### **Pricing Principles**

The pricing approach in this Guide is based on the following principles:

1. Government recovery of the costs of public services, as the government should not make a profit from providing public services.

2. Considerations for recovering the costs of public services should be based on the cost of the service after excluding any costs related to the efficiency of resource allocation.

## **Article (5)**

### **Service Classification**

Government entities must classify their services according to their economic characteristics into the following four categories:

1. Public Good Services: These are public services that have a public benefit, are free of charge, and are funded through taxes.
2. Administrative and Regulatory Services: These are public services that have a private benefit, are usually provided for a charge, and are funded through "fees".
3. Competitive Economic Services: These are economic services or goods that are not exclusively provided by the government and are funded through a "price".
4. Non-Competitive Economic Services: These are non-competitive economic services or goods that are funded through a "tariff".

## **Article (6)**

### **Cost Calculation**

1. The government entity must calculate the cost of each government service for which it is responsible.
2. The cost of a government service includes the cost of inspection and quality control related to the service, while it does not include the cost of investigating violators, which must be taken into account when determining the value of fines imposed for violations.

## **Article (7)**

### **Fee Calculation**

1. The government entity must calculate the fees for administrative and regulatory services based on the cost after excluding any costs related to the efficiency of resource allocation.
2. The government entity must assess whether the administrative and 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 for their recovery, such as imposing a fee as a percentage of the value of the related transaction or a fee based on a specific standard unit.

3. The government entity must identify the natural and legal persons and the categories benefiting from the service and the proposed fees for each.

1. The government entity may propose fees lower than the cost if full cost recovery would negatively impact the achievement of the government's public policy objectives, provided that the entity provides sufficient reasons and identifies the source of funding for the deficit.

## **Article (8)**

### **Price Calculation**

The government entity must calculate the price of the competitive economic services it provides according to the market price, taking into account the cost of the service and differences in its quality.

## **Article (9)**

### **Tariff Calculation**

1. The tariff must be calculated based on the economic cost, which is equivalent to the cost plus the required return on capital.
2. The government entity must price the non-competitive economic services it provides according to the approved tariff.

## **Article (10)**

### **Approval of Fees, Prices, and Tariffs**

1. Government entities shall calculate fees, prices, and tariffs according to this Guide, and submit their requests to create, amend, or cancel any fees, prices, or tariffs according to the established procedures, in preparation for their approval by the Executive Council.
2. The government entity must review the fees, prices, and tariffs whenever there is a material change in the cost of the service or any other events that require it.
3. Government entities shall review all currently imposed fees, prices, and tariffs to verify their compliance with this Guide and submit them for approval no later than nine months from the date of issuance of this Guide.

# Government Services Pricing Guidelines

## Introduction

The Department of Finance of the Emirate of Abu Dhabi has prepared the Government Services Pricing Guidelines to assist government entities in applying the Government Services Pricing Guide issued pursuant to Law No. 1 of 2017 concerning the Financial System of the Abu Dhabi Government.

The Government Services Pricing Guidelines include the following:

1. Guidelines for Service Classification.
2. Guidelines for Cost Calculation.
3. Guidelines for Calculating the Price of Administrative and Regulatory Services.
4. Guidelines for Calculating the Price of Competitive Economic Services.
5. Guidelines for Calculating the Price of Non-Competitive Economic Services.
6. Guidelines for Preparing and Submitting a Government Service Pricing Request.

### 1. Service Classification

The government entity shall classify all the services it provides according to their economic characteristics as follows, noting that a government entity does not necessarily have to provide all these types of services:

- **Public Good Services:** These are public services that have a public benefit, are free of charge, and are funded through taxes.

The government exclusively provides these services, which do not have a private benefit as the benefit accrues to society as a whole. They are usually provided free of charge, and their costs are covered by taxes or other funding sources. A characteristic of these services is that their use by one individual/entity does not prevent or affect their use by another individual/entity. They are also services from which a group of beneficiaries cannot be excluded (i.e., it is impossible, or highly impractical, to exclude an individual/entity from benefiting

from the service). An example of such a service is the provision of public security.

- **Administrative and Regulatory Services:** These are public services that have a private benefit, are usually provided for a charge, and are funded through "fees".

- Administrative and regulatory services are usually provided upon an explicit request from the customer, and fees for these services are imposed and determined in a way that allows for cost recovery. Therefore, the fee for this type of service should be based on the cost of the service. A characteristic of these services is that they are provided by the government or an authorized and accredited entity. Examples of these services include building permits, health facility licenses, permits, and document attestation.

- **Competitive Economic Services:** These are economic services or goods that are not exclusively provided by the government and are funded through a "price".

These services are provided on a competitive basis, and their price is determined based on market factors. They are non-public good 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 the leasing of space within a government entity's premises.

- **Non-Competitive Economic Services:** These are non-competitive economic services or goods that are funded through a "tariff".

A tariff is imposed on this type of service by the entity that regulates the service or commodity, as these services are subject to economic regulation. The tariff is calculated based on multiple objectives and factors. Examples of these services include water and electricity services and sanitation services.

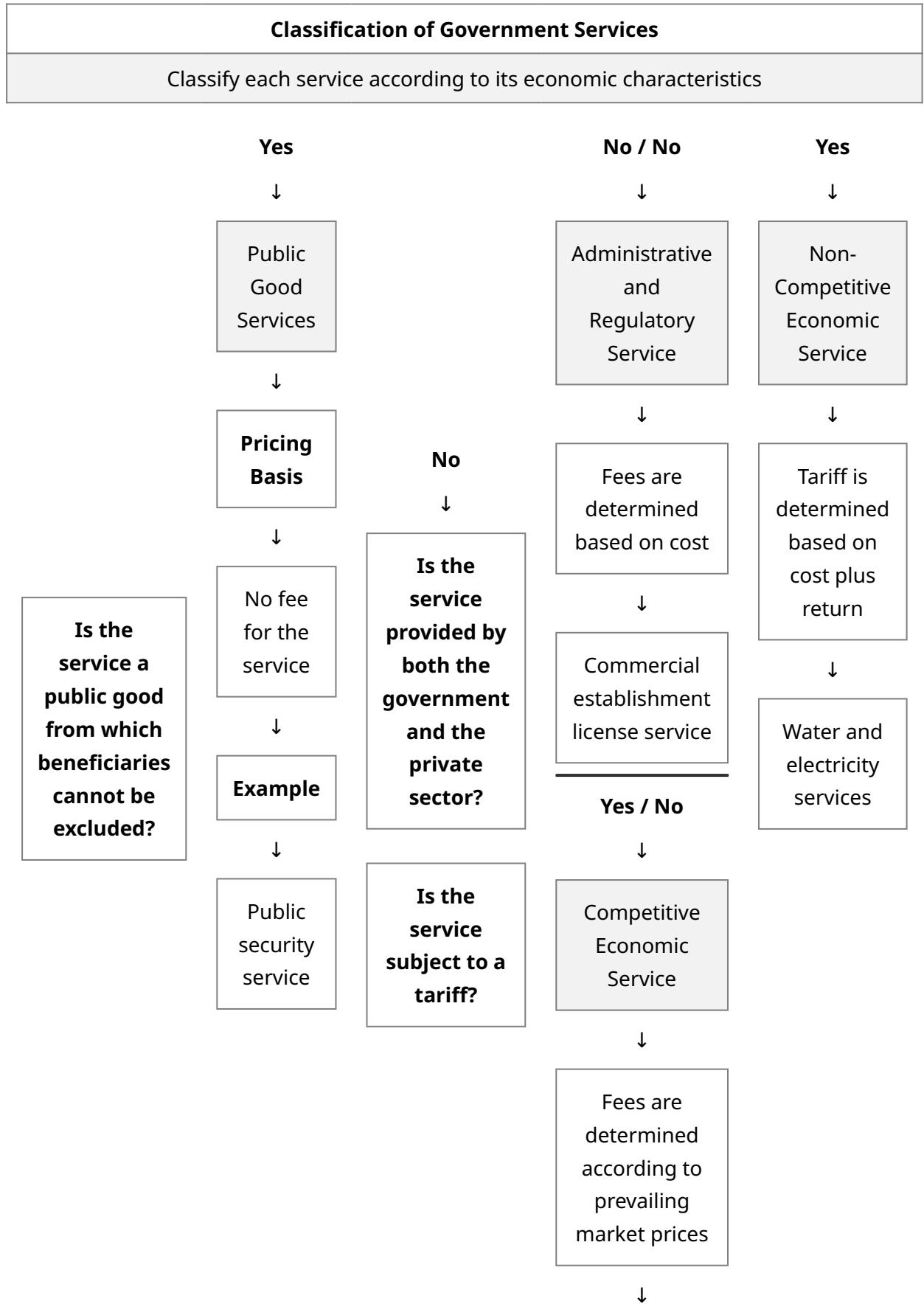
A government entity can classify its services by answering the following questions for each service provided:

- Is the service a public good (meaning that its use by one individual/entity does not prevent or affect its use by another) and is it a service from which a group of beneficiaries cannot be excluded (meaning it is impossible or impractical to exclude individuals from benefiting from the service once it is provided)?

- Is the service provided by the government, or is it also provided by the private sector?
- Is the service subject to a tariff by the regulating entity?

The government entity can also refer to the "Guide to Defining and Documenting Government Services" for the Abu Dhabi government.

The following diagram illustrates the steps for classifying government services:



Leasing space  
at the  
government  
entity's  
premises

## 2. Cost Calculation

The process of cost calculation is the cornerstone of pricing government services, as fees, prices, and tariffs are determined in light of it.

The information provided by the cost calculation process enables the government entity to prepare its budget on a performance basis and supports the decision-making process within the entity and the government as a whole. This information is also necessary for determining appropriate fees, prices, and tariffs and avoiding an undue burden on the beneficiaries of these services. Furthermore, cost calculation 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 align with the cost of providing them.

Cost calculation initially requires the government entity to identify all the services (outputs) it provides, whether to the public or any other external party.

After the government entity has identified all its services, it should prepare detailed information about the cost of the services it provides, which includes the following information:

- Identifying the resources used to provide the services.
- Estimating the quantity of each service provided in a specific period.

- Estimating the volume and cost of resources required to provide each service in a specific period.
- Understanding the drivers of direct and indirect costs.
- Identifying costs that account for changes in quantity.

The assumptions used should be clear, and the methodology and level of detail should be proportionate to the complexity and sensitivity of the process.

The capital costs of 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 the cost of all services should be fully calculated, regardless of the decision on whether these costs should be recovered or not.

In general, it is expected that all costs will be recovered (including capital costs and depreciation of related assets) so that users (beneficiaries) pay the true and full cost.

There are several methods for calculating the costs of services provided by a government entity, one of the most common being the cost center method, where the costs of the organizational units of the government entity are allocated to the services (outputs) rather than to activities or procedures.

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

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

## **Phase One: Identifying Cost Elements**

In this phase, cost elements are identified by determining the main categories of costs that can be allocated to different cost centers (e.g., personnel costs, administrative and general expenses, consumed and used materials, and depreciation and amortization). It should be noted that government entities that provide 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 be included under other cost elements (depreciation) after the project is completed and operational.

In general, costs can be divided into direct and indirect costs as follows:

- **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 personnel costs and consumed and used materials directly related to providing the service.

- **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. Common indirect cost items include general and administrative expenses such as rent.

## **Phase Two: Identifying Cost Centers**

In this phase, both service and support cost centers are identified, and the groups of centers are classified as follows:

- a- Service Centers Group (Service Departments): These are 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., Health Facilities Licensing Section, School Operation and Maintenance Section, Highway Construction Section, Park Construction Section).
- b- Support Centers Group (Support Departments): These are organizational units, whether a sector, department, section, or equivalent in the government entity. These support departments are responsible for directing and supporting the service departments in providing the entity's services (e.g., Finance and Accounting, Human Resources, Procurement, Information Technology, Legal Affairs, Communication, General Services).

Then, all costs (direct and indirect) identified in the first phase are allocated to the different cost centers based on cost allocation drivers.

## **Cost Allocation Drivers**

A cost allocation driver is the factor that causes a change in the volume of resource consumption (costs). Any change in the driver will cause the activity level or the number of services provided to affect the change in the total cost, which consists of direct and indirect costs.

There are three types of cost drivers:

- **Quantity:** The cost driver is based on units of work (e.g., number of employees, number of applications), where the cost of the service increases with more employees or applications.

- **Time:** The cost driver is based on the length of time it takes to complete an activity, where 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).

- **Direct:** The entire cost of the service is directly charged to the service (e.g., all costs associated with the service are directly charged to the cost of the service).

In general, the cost driver used depends on the nature of the service. The cost of a 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.

### Phase Three: Service Cost

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

The following diagram illustrates the different stages of calculating the cost of government services:

Identifying Cost Elements	Identifying Cost Centers	Calculating the Cost of the Service (Output)
Personnel Costs	Health Facilities Licensing Section	Hospital Licensing Service
Administrative and General Expenses	School Operation and Maintenance Section	Clinic Licensing Service
Consumed and Used Materials	Finance and Accounting Department	School 1 Operation and Maintenance Service
Depreciation and Amortization	Human Resources	School 2 Operation and Maintenance Service
Other	Procurement	
	Information Technology	
Capital Costs of Service Projects Under Construction	Legal Affairs	Park 1 Construction Project
	Communication	Park 2 Construction Project
	General Services	
	Park Construction Section	

### **3. Calculating the Price of Administrative and Regulatory Services**

The government entity shall calculate the fees for administrative and regulatory services, taking into account that the main objective is for the government entity to recover the costs of providing the service (i.e., the fee imposed on service users should reflect the cost of providing the service efficiently). However, there may be cases where it is appropriate to set the fee below the cost of providing the service, for example, if an increase in the service fee would have negative effects on achieving the government's public policy objectives.

#### **3-1. Excluding Costs Related to Efficiency of Resource Allocation**

The principle of setting the fee according to cost requires that this cost be reasonably efficient, which necessitates the exclusion of any costs related to the efficiency of resource allocation to arrive at the "standard cost." This is the per-unit cost that is determined as a benchmark that the actual cost should not exceed under normal circumstances to achieve the required level of performance and quality. The government entity can calculate the standard cost by comparing the service cost within the entity with its cost in peer entities within or outside the country, or with its cost in previous years.

#### **3-2. Considerations for Infrastructure Cost Recovery**

An administrative and regulatory service may be associated with infrastructure costs incurred by the government entity or the government that are not included in the service cost. This requires the government entity to calculate these costs and propose fees or a mechanism for their recovery, such as imposing a fee as a percentage of the value of the related transaction, a fee based on a specific standard unit, or other mechanisms.

For example, percentage-based fees can be used for land and real estate sales registration services, while standard unit fees (amount per square meter) can be used for waste management services.

The following is an illustrative example of an administrative and regulatory service associated with infrastructure costs (pricing the service of registering the sale of commercial land).

Assuming that a government entity provides a commercial land sales registration service and that the actual cost has been calculated at AED 1,050, and the cost after excluding costs related to the efficiency of resource allocation is calculated at AED 1,000.

Since the service does not have negative social and economic impacts, the target fee for the commercial land sales registration service is set at the cost after excluding costs related to the efficiency of resource allocation, i.e., at AED 1,000.

Since the commercial land sales registration service is associated with infrastructure costs (cost of land infrastructure development) not included in the service cost, the government entity must evaluate different mechanisms for recovering these costs.

Assuming the government entity concludes that the optimal mechanism for recovering infrastructure costs is to impose a fee as a percentage of the value of the related transaction, these fees can be calculated as follows:

Average infrastructure cost of commercial land = AED 500/m<sup>2</sup>

Average sale price of commercial land = AED 10,000/m<sup>2</sup>.

The proposed fee for recovering infrastructure-related costs is calculated as follows:

Proposed fee = 500 / 10,000 = 5%

Therefore, a fee is proposed to recover infrastructure-related costs on the commercial land sales registration service at a rate of 5% of the value of the sold commercial land.

### **3-3. Identifying Beneficiary Persons and Categories of the Service**

Identifying the natural and legal persons (individuals and entities) and the categories benefiting from the service is important as it enables the government entity to understand the nature of the service and its potential impacts. It also allows the entity to determine the target fee for each and whether it is appropriate to recover the full cost or part of it.

There are administrative and regulatory services that are by nature provided to individuals, such as issuing a passport or a birth certificate. There are also administrative and regulatory services that are by nature provided to entities, such as issuing a license for a medical facility. Additionally, there are administrative and regulatory services provided to both individuals and entities, such as issuing a vehicle ownership certificate.

Beneficiary individuals and entities of administrative and regulatory services can also be classified into categories, as it may be appropriate to impose a different fee for each category. For example, a different fee can

be imposed for adults, children, and people of determination for entry to a public park.

### **3-4. Full or Partial Cost Recovery**

There are some cases where it may be appropriate to charge fees at less than the full cost or to provide the administrative and regulatory service free of charge, as full cost recovery would negatively impact the achievement of the government's public policy objectives or could pose a barrier to them.

For example, recovering the full costs of civil court procedures might create a cost barrier that improperly limits access to justice. Similarly, services that develop and improve educational or health outcomes can be said to have broader positive effects on society. Conversely, services that facilitate certain types of industrial activities can be said to have negative effects on society through environmental damage.

Charging fees below cost means that the resulting deficit will be covered by taxes or another funding source. In this case, the government entity proposing this should provide sufficient reasons why taxes should contribute to covering the costs of the service or activity, as taxes have economic and budgetary implications.

Understanding whether full cost recovery would have a negative impact on the government's public policy objectives requires the government entity to identify the potential social and economic impacts of full cost recovery for the administrative and regulatory service.

The government entity can understand and identify the social and economic impacts by answering the following questions:

- Does the service target low-income individuals?
- Is it an essential service or a luxury service?
- Is it a mandatory service?
- Are there alternatives to this service?
- Does a price increase lead to a negative increase in the cost of doing business?
- Does a price increase negatively affect competition?

#### **4. Calculating the Price of Competitive Economic Services**

A government entity may sometimes have to provide competitive economic services that are available in the private sector. For example, a government entity might lease available space in its premises to a restaurant that serves the entity's customers.

In this case, the government entity must price these services at the market rate to ensure competitiveness, taking into consideration all of the following:

- The cost of the service provided.

- The nature of the market in which the service competes and who the competitors are.
- The quality level of the service provided by different service providers.
- The prevailing price charged by service providers.

## 5. Calculating the Price of Non-Competitive Economic Services

The tariff for non-competitive economic services is determined by regulatory government entities. These services usually have high fixed costs as they are often linked to infrastructure. Due to these high costs, allowing only one entity to supply the market is more efficient, as allowing competition would lead to a wasteful duplication of resources.

These entities providing this type of service are by nature not subject to competition and have no real competition that poses a genuine threat to their market power, allowing them to set unacceptably high prices. For these reasons, these entities are targets for economic regulations to determine prices or revenues.

Non-competitive economic services are common in markets aimed at providing essential services that require costly infrastructure to establish the supply network that, in turn, delivers these services or goods.

Examples include:

- Water supplies.
- Electricity supplies.
- Gas networks.
- Railway infrastructure.
- Aircraft manufacturing.
- Telecommunications industries.
- Postal distribution networks.

The tariff for economic services is calculated based on compensating the service provider for the costs of providing these services and allowing them to earn a reasonable return on their working capital.

The "cost build-up" methodology is a good example of this, which requires the following:

- **Estimating the value of capital assets:** The regulatory body (which is usually responsible for overseeing the price-setting process) estimates this value (i.e., replacement cost) and determines the characteristics (i.e., types of capital assets and asset lives) necessary for the entity to provide the required services. This will also require the regulatory body to assess what constitutes an efficient level of

capital investment to deliver the required quality of services and outputs.

**• Estimating depreciation or amortization and the required return:**

The value of capital assets is combined with the appropriate cost of capital to estimate the level of depreciation and return that the entity is allowed to recover each year. The rationale for this methodology is to allow the entity to earn a reasonable return on its working capital and generate sufficient revenue to replace assets at the end of their useful life.

- **Estimating operating costs:** The regulatory body estimates what constitutes reasonable operating costs for providing the required level of service quality and outputs. This is usually determined separately for controllable costs (i.e., costs over which the entity has some control) and uncontrollable costs (i.e., costs over which the entity has no control). In estimating the required level of operating costs, the regulatory body often assumes that the entity can become more efficient and effective over time (i.e., achieve lower operating costs per unit of output).
- **Determining the "cost-reflective" tariff:** The cost-reflective tariff is the tariff level that allows the entity to recover its full production costs and earn a reasonable return on its working capital (i.e., operating costs, depreciation or amortization, and returns). Setting the tariff at a cost-reflective level encourages the efficient use of services by ensuring that beneficiaries or consumers bear the full reflective cost. However, the government and economic regulatory bodies sometimes set the tariff below the cost-reflective level to alleviate the cost burden on beneficiaries or consumers. In this case, the government usually provides the entity with the required financial support to cover the difference between the reflective cost and the amount collected in tariff revenues.

## 6. Preparing and Submitting a Government Service Pricing Request

The government entity prepares a request to create, amend, or cancel any fees, prices, or tariffs for any of the government services it provides, using the designated forms. The request must include the government entity's recommendations and all supporting documents, such as the legal basis for providing the service, the mechanism for calculating the service cost, the proposed price, proposed payment methods, and other supporting documents. This is in preparation for its approval by the Executive Council.

The following diagram illustrates the procedures for requesting the approval and pricing of government services:

