Preparation

Investigating Options and Information Sharing

The Rural/Urban Cost-sharing Task Force proposed several principles of how to proceed and what to consider in developing inter-municipal service/cost sharing agreements. These principles are intended to improve and facilitate the development of cost-sharing agreements through relationship building and community capacity building.

Recognize, respect, and address the differing needs and values of each municipality including the broader rural urban differences.

If the ratepayers of one municipality are using a service/facility in a neighbouring municipality, there is an obligation to enter into discussions for a cost-sharing agreement.

Regionally accessible and beneficial services should be financed on a regionally cost-shared basis.

All parties to a cost-sharing agreement must have the opportunity to participate in a board or committee established to oversee operations.

Wherever there is service/cost-sharing, a sharing of ownership of associated facilities and assets will be encouraged.

In situations where one municipality is negotiating an agreement for sharing with another, and there are other municipalities within that municipality either negotiating an agreement or with a current agreement in place for similar services, all municipalities should jointly negotiate.

Councils will negotiate principles and set the parameters of cost-sharing agreements; their administration will then finalize details and draft agreements for council's approval.

Municipal services that are subject to regional negotiations (i.e. more than two municipalities) must be rationalized by the parties in a long-term plan to ensure the service meets the regional need as opposed to solely a local need.

Ensuring the necessary background information is gathered and prepared jointly prior to cost-sharing negotiations is essential. The following links identify opportunities for cost-sharing to assist in preparing a business case, and a step-by-step process to develop a business case to ensure the appropriate information is gathered for cost-sharing discussions.

Opportunities for Cost-sharing

Municipalities have many opportunities available to them to enhance the delivery of services to their ratepayers. The development of cost-sharing agreements is important for municipalities to consider for the following reasons:

1. **Efficiency** – Creates efficiencies and possibly economies of scale. Enhance the delivery of services and avoids duplication of effort/expenditure.

2. **Community Building** – The public expects municipal representatives (elected and appointed) to set an example for the community and provide leadership on cooperative initiatives. Councillors must work together as a community to achieve common goals, and cooperation is tied to better service for residents. Relationships are the key to building successful agreements.

3. **Economic Growth** – Common community goals and cooperative efforts will enhance the opportunity to attract economic growth and improve economic development to the area.

4. **Municipal Autonomy** – Municipal autonomy assists municipalities to develop solutions suitable to their own settings, avoids forced amalgamations and allows municipalities to control their own destiny.

5. **United Voice** – The development of co-operative initiatives and agreements allows municipalities to speak with one voice to government, thus achieving strength in unity and providing greater opportunity to influence other orders of government.

6. **Community Capacity** – Understanding the needs of the broader community and collectively bringing to bear the necessary resources to provide a more effective and broader range of programs and services not possible individually. Municipalities are representatives of the citizens, and are stewards of the resources available. A municipality has a responsibility to maximize the use of resources through collective sharing to benefit the community as a whole while preserving municipal autonomy.

Business Case

A business case is a financial exercise to define the economic impact or outcome of a particular course of action like a cost-sharing agreement.

It is essential to note that every business case analysis is a unique exercise, demanding the partners to consider all variables associated with the final goal (e.g. a cost-sharing agreement).

A business case:

- proves that preparation and research has been done prior to proposing the agreement
- indicates the agreement's viability
- boosts credibility
- identifies cost-effectiveness and efficiency
- provides financial justification for the agreement

Preconditions that could facilitate a business case:

- Resources and time commitments
- Access to financial and statistical data (including variable and fixed costs) and knowledge of how to use the data
- Assessment of economies of scale and scope

Follow the links below for more detail on developing a business case. These business case tools assume that all parties to the potential agreement are involved in developing the business case

1. Preparing to develop a business case (checklist)
2. Checklist - Sections to be included in a Written Report of the Business Case
3. Using a Business Case to Support Work on a Cost-Sharing Agreement
4. Conducting a Cost/Benefit Analysis
5. Follow-up to Business Case

Preparing to develop a business case

Assumption: all potential parties to the agreement build the business case together

Preparing to develop a business case

- Assumption: all potential parties to the agreement build the business case together
- Develop a joint vision
- Establish an administrative team
- Establish timelines and reporting process - progress, barriers, other issues
- Choose methods for allocating and/or assessing costs
- Share the financial and statistical data necessary to develop the business case
- Agreement on the distribution of workload to conduct the analysis
- Agreement on terms:
    - Financial recoveries or savings: cash return, non-cash return or cost avoidance, payback period
    - Return on investment
    - Variable cost and savings
    - Fixed costs and savings
    - Opportunity costs and savings

- Agreement on the use of source documents:
    - Audited Financial statements
    - Existing cost-sharing agreements
    - Government source documents (e.g. federal, provincial or municipal statistics)

- Discussion and decision about estimating soft costs and savings
- Estimates as to the stability of cost-sharing agreement savings and costs over defined time period
- Estimates of probability of soft costs becoming hard costs
- Savings and costs projection of the agreement over:
    - Short term (approximately 3-5 years)
    - Midterm (approximately 5-10 years)
    - Long term (10 years and beyond)

- Identification of potential cost-savings in other programs/services areas if the agreement is implemented

Sections to be included in a Written Report of the Business Case

- **Executive Summary** - A concise summary of the highlights of the business case
- **Background -** A summary of what has happened up to this point in terms of cost-sharing in the region, and what is likely to happen if the situation remains unchanged.
- **Project Description**
    - **A clear and formal description of:**
        - **what the project will accomplish (objective)**
        - **what it will include and not include (scope)**
        - **what the expected results are (outcomes); and**
        - **who will play a role in the project (stakeholders)**
- **Strategic Alignment** - Provides a summary of how the project aligns with the overall business or strategic plan of the Municipality.
- **Environmental Analysis** - Provides a summary of what other municipalities/organizations have completed or are working on to address similar problems or achieve similar objectives.
- **Alternatives** - Provides an outline of other possible projects/solutions that could achieve similar outcomes to what is being proposed. This section provides rationale as to why the current proposal was chosen over other options.
- **Business and Operational Impacts** - Provides a list of the impacts on all stakeholders in the project.
- **Project Risk Assessment** - Provides an understanding of the risks related to the project, and a risk mitigation strategy for each identified risk.
- **Cost Benefit Analysis** - Evaluates the costs and benefits associated with the alternatives available to address the issue.
- **Conclusion and Recommendations** - Provides a selected alternative based on an overall evaluation of the alternatives in terms of impact, risk and cost/benefit. Also provides specific recommendations for moving the project forward.
- **Implementation Strategy** - Provides the decision-makers with an understanding the resources needed to carry out the project (human, financial and time resources).
- **Review and Approval Process** - Shows by whom and at what stages the business case was reviewed and approved.

Using a Business Case to Support Work on a Cost-Sharing Agreement

Here are two options for understanding the degree to which a business case will support a cost-sharing agreement:

Option 1

Divide:
Current total annual variable and fixed costs
by:
Anticipated total annual variable and fixed costs

Result should be a number greater than 1 to justify a detailed analysis

Option 2

Subtract:
Total estimated future savings over a defined time period
From:
Total estimated current costs over the same defined time period

Result should be a positive number to justify a detailed analysis

Conducting a Cost/Benefit Analysis

This tool provides the reader with an evaluation of the costs and benefits associated with different alternatives. The reader can understand and compare the initial and on-going expenditures to the expected financial and non-financial benefits, for each alternative.

Quantitative Analysis - Financial Cost & Benefit

Description:

Full Cost Analysis

Where possible all costs and expected benefits resulting from this opportunity should be analyzed for each alternative (including the costs and benefits of status quo). This methodology provides the reader with a total cost picture and is much more informative than an incremental approach.

Incremental Cost Analysis

If it is not possible or practical to fully analyze the entire cost or where the incremental project costs are relatively small to the entire cost, an incremental approach may be used. This methodology involves identifying the changes or differences between each alternative, using the projected benefits/costs of the status quo alternative as a basis.

Timeframe

Identify an appropriate project timeframe over which both the cost and benefits will be analyzed, typically in the 1 – 5 year range.

Costs

Identify all relevant costs incurred by all stakeholders over the chosen project timeframe:

- Direct costs
- Indirect costs
- Initial costs
- On-going costs
- Capital costs

Consideration should be given to:

- When the costs will be incurred
- Who will incur the costs
- Certainty of costs

Benefits

Identify all quantifiable benefits related to all stakeholders, over the chosen project timeframe.
Consideration should be given to:

- When the benefits will be achieved
- Who will be the recipient of the benefits
- Certainty of benefits

A sample of a Summary Cost Benefit Template:

Summary of Quantitative Cost/Benefit	Alternative 1	Alternative 2	Alternative 3
Present Value of Total Benefits:	$	$	$
Present Value of Total Costs:	$	$	$
Net Present Value of Project	$	$	$

Sample Costing Template for each Alternative:

Quantitative Analysis – Alternative 1	Year 0	Year 1	Year 2	Year 3	Year 4	Year 5
Benefits:						
Revenue	$	$	$	$	$	$
Costs:						
Analysis	$	$	$	$	$	$
Design	$	$	$	$	$	$
Implementation	$	$	$	$	$	$
Ongoing Operational Costs:						
Human Resources	$	$	$	$	$	$
Administration	$	$	$	$	$	$
Net Benefit or Cost of Alternative 1	$	$	$	$	$	$
Net Present Value **(xx% Discount Rate)**	$					

Analysis:

A "Net Present Value" calculation is used to account for the fact that $1 today is not worth the same as $1 five years from now, due to inflation and interest rates. The use of a "Net Present Value" calculation should be used to take into account the time value of money in both the full or incremental cost approaches.

If there are some assumptions that have a significant impact on the cost or benefit, a sensitivity analysis should be presented. Contingency allowances or interest rate premiums should be used to account for differences in certainty/risk.

Qualitative Analysis - Non-Financial Benefits & Costs

Some of the costs and benefits may not be quantifiable (difficult to attach a dollar value). For example non-quantifiable benefits may be: increased customer satisfaction or increased staff morale. Non-quantifiable costs may be: reduced corporate image or adverse public perception. Where reasonable, these should be translated into quantifiable benefits ie. increased staff morale, may lead to high productivity, which may lead to less over-time. However, the non-quantifiable cost/benefits that cannot be translated into quantifiable cost/benefits should be summarized in the following manner:

Alternative 1

Qualitative Summary	Description	Stakeholder(s) Impacted
Benefits:		
Benefit 1	Description of benefit 1	
Benefit 2	Description of benefit 2	
Costs:		
Cost 1	Description of Cost 1	
Cost 2	Description of Cost 2	

Assumptions

All assumptions used to determine, both quantitative and qualitative, costs and benefits should be clearly documented. This would include general assumptions as well as assumptions specific to each alternative.

Follow-up to Business Case

- A sensitivity analysis tests the strength of the assumptions made, and the final Cost/Benefit Analysis. A sensitivity analysis considers less than optimum and worst case scenarios.

The key question: “if the costs are understated by 25 to 50 per cent and the savings are overstated by 25 to 50 per cent, what is the impact on the business case and cost/benefit analysis?”

This analysis provides a reasonable defense of the assumptions in the business case.

- All assumptions made in building business cases should be made explicit, and stated in simple yet meaningful terms. Positive business cases risk being ignored if assumptions are not fully explained or are presented in terms not easily understood.

- Sign-off by municipal administrators of the cost-sharing agreement and the business case is essential.

- To evaluate and monitor the success of the business case, methods of tracking future costs and benefits may be outlined. Plans to evaluate and monitor the business case shows a long-term and thorough commitment to enact a successful agreement.