

IC Chargeback Guiding Principles

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What is a chargeback?

A chargeback is a process by which a service center can recover its cost of providing services to its internal customers.

Service centers or recharge centers are formed within the college to provide goods or services necessary to conduct the instruction, research, or other programs of the institution. The scope of a service center may be campus-wide, such as a printing service operation or computing facility, or it may be incidental to departmental operations such as machine shops etc.

Costs are identified with the activity as described above and then redistributed to the users of the center through a rate setting and recharge process.

Why implement chargeback?

- To understand the true costs of providing a service
- To educate customers on the value of the services that are being provided
- As a tool to improve operating efficiencies
- To enable customers to manage their own consumption of services and associated costs

Chargeback Guiding Principles:

Fairness	<ul style="list-style-type: none">• The chargeback for the services of these activities are based on the actual department cost of the activity and are established such that the service unit “breaks even” over a period of time. That is, the net income (income and chargeback minus expense) of the unit should be close to zero over a two- to three-year period (for analysis purposes). This time frame eliminates drastic fluctuations of rates during a single year for the sole purpose of achieving zero net income within the year.
Effort	<ul style="list-style-type: none">• The price lists and/or segment chargebacks should be simplified as much as possible to manage the effort (e.g. data collection, transformation, calculation, reconciliation and billing) to an appropriate level and keeping with the value provided.
Transparency	<ul style="list-style-type: none">• Service centers and units/departments should reconcile chargebacks with unit budget costs during the budget process to assure alignment (net zero throughout the campus).

How:

To chargeback on a unit cost basis, unit consumption and cost data is needed.

Charge rates are computed at the break-even level for an upcoming time period (usually one year) and deducting any accumulated surplus or adding any accumulated deficit from prior years. The resulting costs are divided by the anticipated utilization for the same time period to determine the cost per unit of utilization. This break-even cost per unit should become the charge rate for the upcoming period. Examples of utilization estimates include hours of usage of a computing facility, number of copies for a printing center, and the number of productive labor hours for a machine shop.