



BEST PRACTICE GUIDELINES FOR USER CHARGING FOR GOVERNMENT SERVICES

Countries are increasingly financing government services through user charging. The objective of user charging is not only to achieve cost recovery from users, but also to make government services more effective and efficient.

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CLEAR LEGAL AUTHORITY

- It is important that the legal authority for an organisation to charge for its services be clearly defined.
- This authority should be a general framework for the application of user charges and should not set the precise amount of the charges to be applied. This allows the charges to be adjusted without further legislative authorisation.

The Finnish Constitution explicitly requires all user charges to be authorised by legislation. In 1992, the Finnish Parliament enacted the User Charging for Government Services Act. This Act provides general principles for what types of government services should be subject to charge and the basis upon which charges should be calculated. Within the limits set by this Act, the government is free to introduce user charges. Each ministry decides which of its services are to be subject to charge and then issues regulations to legally bring the user charges into effect.

From Finnish Case Study

CONSULTATION WITH USERS

- Consideration should be given to holding consultations with users when a charge is being introduced or significantly altered. This serves to communicate to the users the rationale for the charges and avoid misunderstandings. Furthermore, the views of the users can be useful in designing and implementing an effective and efficient charging system.
- It needs to be made clear to users that these consultations are a forum for discussing the best manner of implementing user charges rather than whether user charges should be implemented. The consultations should proceed rapidly with a date for their conclusion set in advance.
- Questions concerning the implementation of user charging systems will most frequently be directed to front-line staff. The rationale for user charging and the operation of the system should therefore be clear to front-line staff.

The United States Nuclear Regulatory Commission has recently become fully financed by user charges. These user charges are set each year by regulations issued by the Commission. Prior to the adoption of these regulations, the Commission seeks comments from interested parties by first issuing “proposed regulations” for the charges it intends to set. Only after evaluating the comments received on these “proposed regulations” does the Commission issue its final regulations for user charges.

From United States Case Study

DETERMINE FULL COSTS

- The full cost of providing each service that is subject to a charge should be determined. This costing should be carried out regardless of whether the intention is to recover fully or only partially the cost of providing the service. If the intention is not to fully recover costs, this information will make transparent the degree of subsidy involved in providing the service.
- Full costs include not only the direct costs of the service, but also costs shared with other activities (joint costs) and such non-cash costs as depreciation and cost of capital.
- Determining full costs can be complex, especially when joint costs must be allocated. The effort made in costing should be commensurate with the scale of the service being charged for. In the case of small scale services, it may be appropriate to use reasonable estimates for allocating joint costs rather than elaborate cost accounting systems.
- This costing should be reviewed periodically to ensure its accuracy.

The United States Social Security Administration is one of the world's largest information technology operators. On average, it handles 21 million transactions per day. In 1988, it decided to institute a cost attribution system whereby the cost of each transaction would be linked to the user of the service. Previously, all information technology costs had been attributed in total to the Office of Systems Operations. Extensive cost accounting systems were put in place. In the early stages, it was only possible to attribute four-fifths of costs to any specific user. Through improved systems, it is now possible to attribute nearly all costs to specific users. As a result, the management of this function has improved.

From United States Case Study

EFFECTIVE AND EFFICIENT COLLECTION SYSTEM

- An effective and efficient system for collecting user charges is critical for the credibility of any user charging regime. Responsibility for collection should rest with the organisation levying the charge. This does not preclude an organisation from contracting with a third party for collection services.
- In cases where payment cannot be demanded in advance of, or simultaneously with, the delivery of service, invoices should be sent out in a timely manner with clear deadlines for payment. Invoices should be clear and simple, providing sufficient but not overdetailed information.
- Efforts should be made to minimise collection costs and any inconveniences associated with the collection process.
- Non-payment of user charges should be followed up immediately. Appropriate enforcement mechanisms should be in place prior to the charge coming into effect. Recourse to these mechanisms needs to be clearly defined and transparent. The level of non-payment of user charges should be transparent. If a user charge is so small that it will not justify collection action, then the form of the charge should be considered for change.

The Barcelona Fire Department collects user charges for certain of its non-emergency services. It experienced significant problems with their collection as only 20-30% of invoices were actually paid. Various factors account for this. Responsibility for collection was unclear, the processing time for issuing invoices was lengthy, the invoices themselves were complicated, and enforcement mechanisms for non-payment were very limited. Efforts have now been made to rectify this situation and improve collection.

From Spanish Case Study

When Germany instituted a time-based road user charging system for highway use, the Euro-Vignet, it sought the co-operation of neighbouring countries in introducing a single system that would be jointly operated in a uniform manner across the countries. This minimised inconveniences to drivers and streamlined the collection process for the user charges.

From German Case Study

IMPROVE AND MONITOR ORGANISATIONAL PERFORMANCE

- Charging users directly for the services they receive can be a powerful management tool for improving organisational efficiency and service quality. Leadership by top management is required to fully reap these benefits.
- Setting specific financial, service quality and other performance targets for organisations, in conjunction with user charging systems, is important. The performance of organisations should be monitored on a regular basis to ensure appropriate levels of efficiency and service quality.
- Organisations should regularly and systematically solicit the views of service users in order to better understand their service requirements.
- It should be recognised that user charging may require a new set of skills for many government organisations. This should be recognised and properly planned for. This is especially relevant in the fields of human resource management and information technology systems. Sufficient time and resources need to be devoted to developing and maintaining these skills.

Client service improved dramatically when the Attorney-General's Legal Practice in Australia moved to a user charging regime. It now conducts regular surveys of clients and has established client focus groups. This has enabled the Legal Practice to customise its service delivery to the particular needs of clients. The Legal Practice regularly benchmarks its operations against "best practice" in the private sector in order to improve performance. The move to user charging also had a substantial positive impact on staff. An extensive programme was put in place to upgrade the commercial skills of staff and to generate and sustain the cultural change needed to successfully adapt to the new commercial environment. Surveys of clients and staff repeatedly confirm the improved performance of the Legal Practice.

From Australian Case Study

The Ordnance Survey sells maps and related data services to government organisations, utilities, commercial organisations and the general public. A number of consultative committees representing some 160 organisations with an interest in Ordnance Survey services have been established. These committees comment on the coverage, availability, level of detail, pricing, etc. of Ordnance Survey services. The Ordnance Survey takes the views of these committees into account as appropriate and to the extent feasible. Soliciting the views of clients in this manner has allowed Ordnance Survey to better tailor their services to the needs of the users.

From United Kingdom Case Study

TREATMENT OF RECEIPTS

- Consideration should be given to the respective organisation retaining the proceeds of any user charges it collects. Such revenue should be classified as offsetting receipts (negative expenditures), as appropriate. This serves to reinforce the notion that users are paying a charge in return for a specific service and that responsibility for revenue management rests with the organisation itself.
- Consideration should be given to adopting flexible budgetary arrangements for organisations financed by user charges which would allow them to respond to increased service volume by permitting commensurate increases in expenditure and user charging receipts.

At the same time as user charging reforms came into effect in Finland, a new system of net budgeting was introduced. This allows government organisations to finance increased expenditures with commensurate increases in user charges, without having to seek prior parliamentary approval. The budgeting system had previously operated on a gross basis, requiring parliamentary approval for all such changes to the budget. This reform has enhanced the financial and operational performance of government organisations.

From Finnish Case Study

APPROPRIATE PRICING STRATEGIES

- Wherever relevant, pricing should be based on competitive market prices.
- In other cases, pricing should be based on the principle of full cost recovery for each service unless there is a clear rationale for less than full cost recovery. This serves to enhance an efficient allocation of resources in the economy.
- Simplicity in the fee structure is important. If substantially the same service is provided to a group of users, it can be appropriate to charge a uniform fee notwithstanding some variability in the cost of servicing individual users.
- If certain services are attributable to a class of users rather than individual users, it may be appropriate to charge each user within that class a fee to recover the costs of those services. It should, however, be recognised that this may involve the loss of some of the benefits of user charging as the link between the charge and the service provision is less direct.
- Consideration should be given to differentiated prices for peak and off-peak periods in order to spread demand for services. Similarly, consideration should be given to offering priority service for a premium price.
- Introducing user charging for one service can have a significant impact on the demand for substitute services if they are not subject to a similar charge. Consideration therefore needs to be given to also charging for such substitute services.

The U.S. Nuclear Regulatory Commission operates on the basis of full cost recovery. It assesses two types of user charges. First, it assesses fees to recover the costs of providing individually identifiable services to specific users. Second, it assesses fees to recover the costs of services that are attributable to classes of users rather than individual users. The Commission uniformly allocates these costs to each user within that class and charges each user a commensurate annual fee.

From United States Case Study

When Statistics Sweden receives orders for specialised information contained in its computerised data systems, it offers differentiated prices based on the priority of the order. Premium prices are charged for orders that are required to be processed immediately; reduced prices are charged for orders that can be processed at night and at other times when demand on the data systems is low.

From Swedish Case Study

When the Icelandic Ministry of Health introduced user charges for outpatient clinical services, the number of one-day inpatient hospital stays increased noticeably as these services continued to be provided free of charge. This unintended effect was corrected when similar charges were introduced for inpatient services.

From Icelandic Case Study

ENSURE COMPETITIVE NEUTRALITY

- If an organisation is supplying a commercial service in competition with the private sector while retaining a monopoly provision of another service, care needs to be taken to ensure that the monopoly service is not subsidising the commercial service.
- When pricing such services, care needs to be taken to ensure that their costing is accurate and that they incorporate all items of cost faced by private sector entities. For example, government organisations may be exempt from various taxes and enjoy free provision of certain support services provided by central agencies.

In Finland, a major effort is made to ensure competitive neutrality. Government organisations are restricted in what commercial services they can offer; all such services must be closely related to the organisation's basic statutory function. Special provisions apply to the costing of such services to ensure their accuracy and completeness. Compliance is overseen by the Office of Free Competition which can order government organisations to revise their prices.

From Finnish Case Study

RECOGNISE EQUITY CONSIDERATIONS

- Consideration should be given to reduced charges for users where full cost recovery would represent an excessive financial burden on individual users. This may be especially relevant to lower-income individuals, smaller entities, users located in remote areas, and heavy volume users of services. The criteria for applying reduced charges should be clear and explicit.
- When a user charge does not represent full cost recovery, the degree of subsidy should be transparent to those providing and monitoring the service.
- It should be recognised that measures through the tax and benefit system may be a more efficient means of ensuring equity than reduced charges.

When Iceland introduced user charges for primary and specialist doctor services, it recognised that this would represent an unreasonable burden for lower-income individuals. As a result, it introduced discount cards that gave users access to these services for one-third of the regular charge.

From Icelandic Case Study

When Canada introduced user charges for air traffic control services, it considered that charging all aircraft the same cost-based charges would not be appropriate as the value of these services is much greater for a 400-seat Jumbo jet than a 15-seat commuter aircraft. As a result, the user charges applied for these services bear a direct relationship to the size of the aircraft although the cost of providing the service varies little with aircraft size.

From Canadian Case Study

Luxemburg takes the financial resources of each resident into account when user charging for retirement and nursing home services. If the resident's monthly income is less than or equal to the user charge, then the user charge is reduced accordingly and the resident left with a standard amount as pocket money. Special arrangements are also in place to take account of any assets owned by the resident.

From Luxemburg Case Study

About this Policy Brief

The Guidelines were reviewed and endorsed at the 1997 annual meeting of Senior Budget Officials and were subsequently approved at the Autumn 1997 meeting of the Public Management Committee. The Guidelines are not designed to identify what activities should be subject to user charging. Rather, they are designed to identify best practices for implementing user charges once the decision to impose them has been made.

The case studies have been published by the OECD as a Public Management Occasional Paper: *User Charging for Government Services*. It may be purchased at OECD Publications Offices in France, Germany, Japan, Mexico and the United States or at the OECD distributors in various countries.

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