

PES (2003) 16 Annex 1

WRITTEN MINISTERIAL STATEMENT:

The draft of the Written Ministerial Statement, announcing a change in the normal recovery policy for fees and charges, is attached to this annex. Departments should note that the text has been amended slightly from the draft circulated to Ministerial colleagues by the Chief Secretary in his letter of 16 July (see cover note paragraph 5).

Comparison with existing policy

2. Apart from the revised rates for cost of capital and rates of return on capital employed, the general recovery policy is unchanged from that in the *Fees and Charges Guide* of 1992 and in subsequent guidance such as that on *Selling Government Services into Wider Markets*.

Background

3. Fees and charges should normally be set to recover the full cost of the service, calculated in accordance with the Treasury's *Fees and Charges Guide*, while recognising that in some cases that may not be appropriate. (The Guide says that full costs are to be measured on an accruals basis - including depreciation, and **cost of capital**)

4. Full cost recovery may not be appropriate where:

- the legislation does not permit as much, or permits more (eg tax elements); or there is a policy decision to subsidise the service (including Treasury agreement where the *Fees and Charges Guide* indicates this is necessary (Guide paragraph 2.9);
- it is a commercial service where there is, or may be, private sector competition and the aim is to charge a market price, including a profit element where appropriate, in the interests of fair competition. For these commercial activities **an appropriate rate of return should be charged.**

Amendment of existing guidance

5. The new rates for cost of capital and rates of return should, in accordance with the timetable in the main part of this paper, replace those in:

The Fees and Charges Guide, (1992 edition) paragraphs 2.14, 4.7, 5.3, 6.2, 7.5 (i), and, for services where there is or maybe competition from the private sector, 7(ii) and 7(iii).

Selling Services into Wider Markets: A Policy Note for Public Bodies (December 2002 Edition) Annex B paragraph 8 (c), and 8 (e).

Charges for Information: When and How – Guidance for Government Departments and other Crown Bodies paragraphs 27, Annex 2 paragraph 1, and Annex 8.

Updated editions of these guidance documents will be issued in due course.

Written Ministerial Statement:

Title: Central government fees and charges recovery policy

The Treasury has reviewed the normal recovery policy for services where fees and charges are set by central government. The Treasury has concluded that the cost of capital rate in fees and charges where the norm is full cost recovery (and in appropriate exceptions from the norm) should be reduced from 6 to 3.5 per cent in real terms (keeping parity with the reduction in the discount rate for appraisal and evaluation of projects in central government and with the cost of capital in government resource accounts and budgets). For commercial services where there is or may be private sector competition, and a profit may be appropriate in the interests of fair competition, the required rate of return of at least 8 per cent in real terms has been replaced with an illustrative range starting with 5.5 per cent. Departments will need to make their own assessment of the appropriate rate of return for commercial services, but the rate is expected to fall in a range 5.5 per cent to 15 per cent in real terms (pre-tax), depending on factors such as the level of risk. In practice, the upper end of the range will rarely be used, as it is unusual for public sector bodies to engage in such high-risk activities.

The revised policy applies to central government departments, including agencies and Trading Funds, NHS Trusts and other NHS bodies and appropriate non-departmental public bodies. It will be used in determining fees and charges in the next Fees Order to be presented, or the equivalent point for commercial or other charges. Where a consequent change in fees and charges is required, it should be effective no later than 1 April 2004. This timetable should allow for consultation about the new fee levels where the legislation or customary procedure provides for consultation.

However, the words "used in determining fees and charges" have been used advisedly. Capital is often a relatively small factor in total costs and the effect may be rather to moderate the increase to statutory fees arising from changes to other costs rather than to reduce fees. There may also be services which are intended to recover full costs, but have not been achieving this objective and may therefore continue to experience increased fees and charges; or commercial services where the price charged in a competitive market may already be consistent with the revised policy and therefore require no reduction. The purpose of the revised policy is to put the cost of, and return on, capital on to a more current basis, not to make reductions in fees and charges unless they flow naturally from the revised policy (or unless there are other good reasons for a reduction such as a fall in other costs).

As a consequence of the revised policy on fees and charges, the financial objectives of Government Trading Funds (the required rates of return) will also be reviewed. They will be adjusted where necessary by laying a Treasury Minute under the Government Trading Funds Act 1973 before the House during the financial year 2003-04. Trading Funds undertake a wide range of charging activities - statutory, commercial, inter-departmental or a mix of those. The further financial objective will therefore need to be determined individually for each Fund.