

H M Treasury

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Under Secretary



Parliament Street
London SW1P 3AG

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Dear Accounting Officer

THE NEW FEES AND CHARGES GUIDE

A new version of the Fees and Charges Guide is being published by Her Majesty's Stationery Office on 16 October. The new Guide has been prepared in consultation with departments and replaces the version produced by the Treasury in 1983. It explains how the various services provided by Government departments (including Executive Agencies), non-departmental public bodies (NDPBs) and National Health Service bodies should be costed and charged for. The new Guide also applies to services provided by other bodies where a Minister or Government department is responsible for setting or approving the fee. A short summary of the new Guide is attached.

Availability

2. Copies of "The Fees and Charges Guide" (ISBN 011 560043 4, price £4.50) may be obtained from HMSO on or after 16 October. A complimentary copy of the Guide is being sent to departmental Principal Finance Officers and Agency Chief Executives with their copy of this letter.

Action to be taken

3. Departments should ensure that all appropriate staff, including those in Executive Agencies, are aware of the requirements of the Guide. It should be readily available to staff responsible for costing and charging for services, including service managers, fees and charges co-ordinators and relevant specialists.

4. It is important that the requirements of the Guide are fully met. Recent assessments of certain fees and charges services by the National Audit Office have re-emphasised the need to pay careful attention to the preparation of operating accounts, including Memorandum Trading Accounts (MTAs), on which costing and charging decisions are based.

5. Departments should bring this letter to the attention of NDPBs which they sponsor and to appropriate staff in other bodies providing services for which the department sets or approves fees, reminding them of their responsibility to comply with the provisions of the Guide.



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Time table

6. The new Guide takes effect immediately. The accounting requirements in paragraphs 3.8 and 3.9, which apply to all bodies whether they produce audited accounts or MTAs, should wherever possible be followed in accounts for 1992-93 and in any case no later than the accounts for 1993-94. Departments having to delay until 1993-94 should however note that the Treasury will require relevant information about the services concerned to be included in the annual report to the Treasury for 1992-93.

7. Although all relevant bodies must comply with these accounting requirements, existing Accounts Directions will not be amended to include them until the Directions are revised for other reasons. The requirements will be included as appropriate in future Accounts Directions.

The Costing Guide

8. Detailed guidance on costing techniques, the preparation of MTAs and other matters will be included in a new Costing Guide which will be available to departments, Agencies and NDPBs in the near future from the Accountancy Advice Division, HM Treasury. Departments will be notified separately about the availability of this Costing Guide.

9. Departments may wish to retain copies of the 1983 Fees and Charges Guide, which contains information about costing and the preparation of MTAs, until the new Costing Guide becomes available.

Enquiries

10. Any general enquiries about this letter should be addressed to Ian Thomson, Second Treasury Officer of Accounts, telephone 071 270 4304 (GTN 270 4304). Any enquiries about the availability of the Costing Guide should be addressed to Peter Atchison, Accountancy Advice Division, telephone 071 270 4347.

Yours sincerely

J S BEASTALL
Treasury Officer of Accounts

SUMMARY OF THE FEES AND CHARGES GUIDE

Government departments and Executive Agencies now make charges for an increasingly wide range of services, as a result of policy decisions, the implementation of the Next Steps initiative and changes in Government accounting practice. The new Fees and Charges Guide reflects these developments. It updates and supersedes the last edition of the Guide, which was produced in 1983 and is now withdrawn.

2. The purpose of the new Guide is to provide up-to-date guidance on costing and charging for the services (and occasionally products) supplied by Government departments, Agencies, NDPBs and NHS bodies. The Guide also applies to services provided by other bodies if a Minister or Government department is responsible for setting or approving the fee. The following paragraphs summarise the principles involved.

Services and Financial Objectives

3. The Guide provides guidance on how to define a service, and explains the key issues in setting financial objectives.

Costing

4. The Guide explains the general principle that full costs should be established for every service, including not just cash costs but also costs that may not involve the disbursement of cash, such as the cost of capital, depreciation and insurance. Costs should be calculated on an accruals basis, whether or not the relevant payments actually fall in the year in question. Actual costs should be used wherever possible: estimates or ready reckoner figures should only be used where more accurate information is not readily available.

5. Detailed guidance on costing is being prepared and will be circulated separately to Government departments.

Charging

6. The basic principle of charging is that the body in question should deliver the financial objective set for each service. This financial objective may take various forms: it may be simple full cost recovery including the cost of capital; in the case of commercial services it may involve a higher return, with a target set; it may exceptionally involve under-recovery of cost, again with a target set. Objectives will usually be defined in terms of full cost recovery (in whole or in part) but may occasionally be expressed otherwise eg by way of percentage return on capital employed.

7. Financial objectives should normally be set for each year, so as to reflect the costs incurred in the year in question.

8. Different services should be treated separately, with a separate financial objective for each service.

9. As a general rule, statutory services and transactions between or within departments (including transactions between a department and one or more of its Agencies, or between one Agency and another) should be charged for at full cost, although a subsidy may be agreed in some cases. Charges for commercial services are

likely to be determined by the market or other relevant factors, subject usually to constraints, first that the service should not recover less than its marginal costs, and second, where there are competitors, considerations of fair competition.

10. If a service fails to meet its financial objective in any given year the deficit should normally be recovered in subsequent years. It may be necessary, where fees and charges are based on a statutory provision, for an order under Section 102 of the Finance (No.2) Act 1987 to be made to enable the recovery of deficits (either from a previous year or the current financial year).

Handling Receipts

11. The Guide provides guidance on how Vote-financed bodies and trading funds should handle the receipts collected from fees and charges services.

Reporting and Accounting

12. Accounts should cover the results of the year's activities in accordance with Treasury guidance on their preparation. For services for which a charge is made and where full commercial-type accounts are not prepared, a Memorandum Trading Account (MTA) should be produced, normally on an accruals basis. The MTA format is also useful for preparing forecasts.

13. Reports need to be made to the Treasury to enable deficits to be monitored. A report is also required to the Public Accounts Committee on significant cases where a statutory or a commercial service fails to recover its full Costs, or is deliberately subsidised.

Responsibility

14. It is the responsibility of the Accounting Officer of the body supplying the service and, under him, of the Principal Finance Officer or Finance Director, or the equivalent officer in a NDPB or NHS body, to ensure that the necessary arrangements are in place and that the Fees and Charges Guide is followed correctly.