

Tool

Charging Users for Public Sector Service Provision (Checklist)

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| Area of Application | Any field in the context of public service provision where user charging is being considered |
| Objective | The implementation of user charging as a governance mechanism is the final goal. The tool is designed to facilitate decision-making with respect to the implementation of user charging. |

1 Context

Public Administrations are increasingly trying to finance government services through user charging. For many, the objective of user charging is cost recovery. A second objective may, however, be even more important: to make public service providers more client-oriented, effective and efficient by introducing a powerful feedback mechanism: *payment*.

2 Description of the Tool¹

The following checklist is designed to facilitate the implementation of user charging in public service provision. The checklist proposes 11 key issues to be considered closely before implementing user charging: feasibility, legal authority, consultations with users, the role of front-line staff, costs determination, the collecting system, organisational efficiency and service quality, the role of the clients, revenue management, pricing, and ensuring competitive neutrality. Users of the tool can check their own situation by going through these issues. This tool is designed to facilitate decision-making concerning the implementation of user charging.

Issue 1 Feasibility according to type of service

Is the service provided by a public organisation a private, a mixed or a public good? There are *technical* aspects to be considered in answering this question; in the end, however, whether or not the provision of a certain service is in the public interest is a political decision, based on the values and norms shared by the affected groups.

Issue 2 Clear legal authority

We need a clear legal authority for the organisation to charge for its services. This authority should provide a general framework for the application of user charges and should not set the precise amount of the charges to be applied. This would allow the charges to be adjusted without further legislative authorisation.

¹ This tool has been adapted from: Best Practice Guidelines for User Charging For Government Services. OECD Public Management Service. PUMA Policy Brief No.3, March 1998.

Issue 3 Consultation with users

Consultation with the users before a charge is introduced or significantly altered helps to communicate the reasons for these charges to the users, thus helping to avoid misunderstandings. Furthermore, the users' views and proposals can be useful in designing and implementing an effective and efficient charging system. It needs to be made clear, however, that these consultations are meant as a forum for discussing the best way of implementing the charges, rather than whether they should be implemented. The consultations should proceed rapidly, with an end date set in advance.

Issue 4 The role of Front-Line Staff

The reasons for user charging and the logic of the system should be clear to front-line staff, as most questions concerning the implementation of a user charging system will probably be directed to them.

Issue 5 Determination of full costs

The full costs of providing the service, regardless of whether the intention is to recover fully or only partially the cost of providing the service, should be determined. If a full recovery of costs is not intended, this information will make the degree of subsidy involved in providing the service transparent.

Issue 6 Collecting System

An effective and efficient collecting system is critical for the credibility of any user charging system. Responsibility should rest with the organisation benefiting from charging users. Non-payment of users should be followed up immediately. Appropriate enforcement mechanisms should be in place prior to the charge coming into effect.

Issue 7 Organisational Efficiency and Service Quality

User charging can be an effective and powerful management tool for improving organisational efficiency and service quality. Leadership by top management is required! It is important to set specific financial, service quality and other performance targets which should be monitored regularly.

Issue 8 Role of Clients

Service providers should regularly and systematically solicit the **views of their clients** in order to better understand their demands. This often requires new skills and attitudes, e.g. in client orientation, human resource management and information technology. Sufficient time and resources should be allocated to develop and maintain these capacities.

Issue 9 Revenue Management

Inflow from user charges should be applied as “negative costs” to the activities needed to provide the service charged. Revenue management should be in the hands of the organisation providing the service. Increases in expenditure should be allowed as a response to increased demand for a certain service.

Issue 10 Pricing

Pricing should follow one of the following principles:

- competitive market prices, if possible;
- if the above is not feasible, then full cost recovery;
- partial cost recovery (if the above is not feasible, e.g. in the case of a mixed good/service, making the criteria for applying reduced charges and the degree of subsidy explicit);
- simplicity in the fee structure;
- demand can be spread by price differentiation (e.g. peak vs. off-peak periods; priority vs. standard service);
- Introducing user charging for one service can have significant impact on the demand for substitute services if they are not subject to a similar charge. Consideration therefore also needs to be given to charging those substitute services.

Issue 11 Ensuring Competitive Neutrality

Competitive neutrality in situations where an organisation is supplying a commercial service in competition with the private sector, while retaining a monopoly provision of another service, should be ensured. A monopoly service should never subsidize a commercial service. Care needs to be taken to ensure that the costing is exact and incorporates all cost items that a private supplier would have to face (e.g. taxes).

3 Use of the tool

This tool deals exclusively with the topic of user charging. It is advisable that this tool should only be applied after ascertaining the overall situation with respect to possible problems of public service provision (e.g. by employing the “Checklist for Defining the Role of the State in Public Sector Service Provision” tool). For the final implementation of user charging more detailed information and additional support from public service sector experts will be required.