

INCREASES IN STATES FEES AND CHARGES

FINANCIAL DIRECTION NO. 4.1

States of Jersey

January 2006



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SUMMARY AND OBJECTIVE

- 1.1** This financial direction has been issued under Article [34](#) of the Public Finances (Jersey) Law 2005 (hereafter referred to as the Law).
- 1.2** The purpose of this financial direction is to provide mandatory requirements to States funded bodies wishing to increase fees and charges.
- 1.3** Specifically it includes:-
- [General introduction;](#)
 - [Procedures:](#)
 - Increases of 2.5% or less;
 - Proposed increases of more than 2.5%
 - [“User Pays” principle;](#)
 - [States leases and rentals;](#)
 - [Internal recharges; and](#)
 - [Annual Business Plan.](#)
- 1.4** Mandatory requirements are included in [section 5](#).
- 1.5** This financial direction replaces the previous code of direction “Increases in States fees and charges”.
- 1.6** Further information and advice can be obtained in the first instance from the accounting officer’s finance director or, if necessary, from the Treasurer of the States or his staff.

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APPLIES TO

- 2.1** This financial direction applies to all States funded bodies as defined in [Part 1](#) of the Public Finances (Jersey) Law 2005, except that section [5.16](#) does not apply to States trading operations.

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EFFECTIVE DATE

3.1 This financial direction is effective from 1st January, 2006.

4 RESPONSIBILITIES

4.1 The accounting officer of each Department is responsible for ensuring that this financial direction is complied with.

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MANDATORY DIRECTIONS

General Introduction

- 5.1** The purpose of this financial direction is twofold:-
- firstly, it intends to set the parameters within which Departments review their fees and charges; and
 - secondly, it aims to meet the requirements of the States Anti-Inflation Strategy (p125/2000).
- 5.2** The Anti-Inflation Strategy states that increases in States fees and charges should be limited to 2.5% per annum with compelling cases to be subject to the prior approval of the Minister for Treasury and Resources (previously the Finance and Economics Committee).
- 5.3** The aim of the States Anti-Inflation Strategy, as agreed by the States in September 2000, is to bear down on inflation in the Island. It was recognised from the outset that, because of the wide ranging involvement of the States in the Island's economy, action on States fees and charges would need to be an important element of the Strategy.
- 5.4** Departments should when reviewing fees and charges, first thoroughly satisfy themselves that any increase is absolutely necessary and that there is absolutely no scope for either holding or reducing fees and charges through efficiency and productivity gains. There should be no presumption of automatic increases "in line with inflation" without this process having been demonstrably undertaken first.
- 5.5** The Anti-Inflation Strategy recognises both the need to address inflation and to promote the principle of "user pays". The report attached to the Anti-Inflation Strategy states:-

"It is recognised that there may be legitimate and compelling instances where an increase above 2.5 per cent is desirable. These may be, for example, for "user pays" reasons (i.e. if one particular group receiving a valuable service from the States is charged below cost, then that group is simply being subsidised by taxpayers generally) or in pursuit of health or environmental objectives, where the purpose of raising a charge may be to signal the relative undesirability of a given activity.

The Minister for Treasury and Resources is well aware that these two issues may conflict. The previous Finance and Economics Committee was determined that States funds are allocated to high priority "core" areas, which may mean that if lower priority or non-

core services are to continue the full cost of service provision will have to be met by the user.

- 5.6** The procedures detailed in this financial direction apply to ALL States funded bodies - trading as well as non-trading. (However, the Jersey Competition and Regulatory Authority (JCRA) has taken over responsibility for monitoring the charges levied by the incorporated bodies). The financial direction also relates to fees and charges which are governed by States Orders and Regulations.
- 5.7** All fees and charges whether directly reflected in the island's retail prices index (RPI) or not, are covered by this financial direction.
- 5.8** Any proposal for the increase or introduction of a new charge which is effectively a duty or tax (for cross subsidy or other purposes) must be submitted to the Minister for Treasury and Resources for consideration. Only the Minister for Treasury and Resources can take taxation proposals to the States.

Procedures to be followed for annual fee or charge increases of 2.5% or less

- 5.9** In the first instance Departments should be able to demonstrate that:-
- they have actively reviewed all costs relating to a service; and
 - every effort is being made to control or reduce costs and improve productivity.

before an increase to a fee or charge is levied.

- 5.10** The prior approval of the Minister for Treasury and Resources to increase an existing fee or charge WILL NOT be required where the average increase in the fee or charge does not exceed the lesser of 2.5% per annum compounded or RPI(X) over the relevant period.

Procedures to be followed for proposed annual fee or charge increases of greater than 2.5% or RPI(X)

- 5.11** As in [5.9](#) above, in the first instance Departments should be able to demonstrate that:-
- they have actively reviewed all costs relating to a service; and
 - every effort is being made to control or reduce costs and improve productivity.

before an increase to a fee or charge is levied.

- 5.12** The prior approval of the Minister for Treasury and Resources WILL NOT be required where increases are calculated by reference to statute, or by a formula which has already received the approval of the States or the Minister for Treasury and Resources.
- 5.13** Where a fee or charge increase exceeds the above limit per annum it will be the responsibility of the requesting Department to ensure that:-

- the approval of the Minister for Treasury and Resources is gained before any increase is levied; and
- the requesting Department provides the necessary justification for the level of increase.

5.14 The Minister for Treasury and Resources has delegated the task detailed in [5.13](#) to the Treasurer of the States or, in his absence, another person as nominated by the Treasurer of the States where:-

- requests do not need to be submitted to the States for their approval;
- requests relate to non-contentious issues; and
- departments are able to demonstrate that they are increasing charges in order to fulfil the "user pays" principle.

The Treasurer of the States will be able to give "blanket" approval to groups of charges in a particular year, or a single charge over a period of a number of years.

"User pays" principle

5.15 It is recognised that there are instances where one particular group receives a valuable service from a States Department at a charge which is below cost and they are, therefore, being subsidised by taxpayers generally. In these circumstances it is expected that Departments carefully consider whether there is a case for the user to meet either the full cost of a service or a greater proportion of the cost of service provision. (When assessing the cost of providing a service Departments should ensure that all direct costs as well as overhead costs are taken into account – see financial direction "Accounting for overheads" for further information on which costs may be included).

5.16 In the circumstances in [5.15](#) above Departments are requested to follow the procedures detailed in sections [5.9](#) to [5.14](#) above. The charges cannot exceed the cost of service provision, except where imposed by States trading operations.

5.17 There may be instances where a Department decides to introduce or increase a charge in order to indicate the undesirability of a given activity on health or environmental grounds. For the avoidance of doubt this also relates to impôt duties. Where the proposal is to increase an existing charge Departments will be expected to follow the procedures in sections [5.9](#) to [5.14](#) above. Where the proposal is to introduce a new charge the prior approval of the States must be obtained (in accordance with P63/2003, which resulted in a States decision in June 2004). A "new" charge is one for a service for which charges have not previously been made.

States leases and rentals

5.18 The pricing policy in relation to lease and rentals charged by Departments should reflect market conditions. Where States owned land and property is "let" on the open market the charge should reflect market rates which may not necessarily conform to the 2.5% or RPI(X) increase parameter.

Internal recharges

5.19 The financial direction "Guidance on the administration of internal recharging within the States of Jersey" should be followed where cross Department charges are made. However, in the first instance Departments are not expected to increase any internal recharges by more than 2.5% or RPI(X) per annum unless they are able to actively demonstrate to the Treasurer of the States that:-

- they have actively reviewed all costs relating to a service; and
- every effort is being made to control or reduce costs and improve productivity.

before an increase to a fee or charge is levied and that the recharge is no more than the cost of providing the service (including overheads). The Treasurer of the States will decide whether to approve the increase.

5.20 No Department will be allowed to introduce a new internal recharge purely to meet its cash limit. The Treasurer of the States will adjudicate on whether a recharge is "new".

5.21 It may be necessary to adjust both the charging and receiving Departments' cash limits in certain circumstances where it is considered desirable to recognise the true cost of providing services to other departments. Procedures in financial direction "Variations to heads of expenditure" will need to be followed.

Annual Business Plan

5.22 Where a new charge is introduced (after the necessary States approval), or an existing charge is increased by more than 2.5%, this should be noted in the Annual Business Plan for the year in which it is proposed to introduce or raise the charge.

6 DEFINITIONS

Accounting officer – a person holding the post of, or acting as, the chief officer or head of a department.

States funded body – any of the following –

- (a) a Ministry;
- (b) a department of the States (including one or any part of one that has been designated a States trading operation);
- (c) a committee or other body established by an Act of the States or by or in accordance with standing orders; and
- (d) the holder of a Crown or States appointment funded by the States including any associated establishment of the holder.

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SELF CERTIFICATION TICK LIST

	Yes	No	N/A
Have Departments raising fees or charges demonstrated that they have actively reviewed all costs relating to a service; and every effort is being made to control or reduce costs and improve productivity? (see 5.9 , 5.11 and 5.19)			
Have fees or charges been raised without the prior approval of the Minister for Treasury and Resources only where:- <ul style="list-style-type: none"> • the increase is less than 2.5% (see 5.10); or • increases are calculated by reference to statute, or by a formula which has already received the approval of the States or the Minister for Treasury and Resources? (see 5.12) 			
Has the prior approval of the Minister for Treasury and Resources been gained for all other increases over 2.5%? (see 5.13)			
Has the Department requesting to increase charges by more than 2.5% provided the necessary justification for the level of increase? (see 5.13)			
Has the Treasurer of the States only been delegated approval of fees and charge increases over 2.5% in the circumstances detailed in section 5.14 ?			
Has the Department considered whether to implement the “user pays” principle? (see 5.15 and 5.16)			
Has the Department considered whether to increase fees and charges to indicate the undesirability of a given activity on health or environmental grounds? (see 5.17)			
Has the approval of the States been sought to introduce any new “user pays” charges? (see 5.17)			
Has the Department only introduced a new internal recharge for reasons other than meeting its cash limit? (see 5.20)			
Where a new charge is introduced, or an existing charge is increased by more than 2.5%, has this been noted in the Annual Business Plan for the year in which it is proposed to introduce or raise the charge? (see 5.22)			