

**For information on  
7 March 2001**

## **LEGISLATIVE COUNCIL PANEL ON FINANCIAL AFFAIRS**

### **Government Fees and Charges**

#### **Purpose**

This paper briefs Members on the “user pays” principle, the factors included in the cost computations of those government fees and charges governed by this principle, and the relevant guidelines for bureaux and departments, as requested by the Legislative Council’s House Committee meeting held on 5 January 2001.

#### **Background**

2. The various fees and charges charged by the Government may be divided into the following main categories -

- (a) those that are governed by the “user pays” principle, e.g. dog licence fee, no criminal record certificate fee, etc.
- (b) those that are subsidised by the taxpayer, e.g. school fees, medical fees, etc.
- (c) those that are tax-loaded, e.g. driving licence fee, annual vehicle registration fee, etc.
- (d) those that are charged for services rendered by utilities operated by the Government on a commercial basis, e.g. tunnel tolls; and
- (e) those that are pegged to market rates, e.g. advertisements in the Government Gazette.

3. In response to Members’ request, this paper addresses item (a) above.

## **The rationale for “user pays” principle**

4. The “user pays” principle is a long-established government policy. It is applied to various government services, through the collection of fees and charges that enable full-cost recovery from users of the services. It ensures that those who benefit from such services pay for them so that the costs of providing the services do not fall on the general taxpayer. Faithful implementation of the “user pays” principle, therefore, also underpins our low tax policy and helps us to strive for fiscal balance under a low tax regime.

5. The “user pays” principle requires the levels of relevant fees and charges to be linked to costs. To achieve this, bureaux and departments should ideally conduct detailed costing computations on an annual basis to ascertain the current costs for providing a service and adjust the level of the associated fee to enable full-cost recovery. Doing so, however, is time- and resource-consuming. Accordingly, bureaux and departments are required to undertake detailed costing exercises for the services they provide only once every four years. During the intervening years, the adjustment of their fees and charges is index-linked to the annual Government Consumption Expenditure Deflator.

6. Where a fee or charge governed by the “user pays” principle has not been revised for a lengthy period of time and where a very steep fee increase is required to achieve full-cost recovery, we are prepared to spread the increase over a period of some years. This is a situation we are facing right now. As a result of the fee revision moratorium introduced in February 1998, many fees and charges have not been revised for three years or longer. Accordingly, we have been proposing to Members in recent months to increase various non-livelihood-related fees and charges only by a reasonable margin and not by the full magnitude required to achieve full-cost recovery.

## **Computation of costs**

7. In computing the full costs of a service provided by the Government, we take into account the direct and indirect expenditure attributable to the provision of the service in accordance with generally accepted accounting and costing principles and conventions, including -

- (a) expenditure that is fully attributable and chargeable to the provision of the service, e.g. direct material and staff costs;
- (b) expenditure which cannot be fully attributed or charged to

the provision of the service but can be apportioned on a reasonable basis, e.g. electricity and rent;

- (c) capital expenditure which has been incurred in full or in part for the purposes of providing the service and is accordingly written off over a period of time by way of depreciation, e.g. computer hardware;
- (d) costs which are related to the provision of the service but do not involve cashflow expenditure, e.g. notional accommodation costs for a service provided in government-owned premises;
- (e) cost of work performed by other government entities which is directly related to the provision of the service, e.g. services provided by Fire Services and Buildings Departments in assisting Home Affairs Department in the issue of clubhouse licences; and
- (f) a share of the administrative expenses of the department providing the service and a share of Central Departments' costs <sup>(1)</sup>, which are collectively known as administrative overheads.

8. Some costs are deliberately excluded from the cost computation, e.g. cost related to policy making, policy development, law enforcement, prosecution, etc. We consider the costs of these activities should be borne by society at large and, therefore, should be a charge to the general taxpayer.

9. An example of a cost computation statement for a specific licence is at **Annex A**.

10. As a general rule, costings are performed for individual services. However, for a few departments with a large number of fee items, such as the Judiciary, Immigration and Marine Department, it is not cost-effective to undertake individual service costing exercises. These few departments therefore adopt a global costing method, which involves enumerating the overall costs of the concerned department in the provision of all services and allocating the costs on a pro rata basis. This method of costing is also in accordance with recognized accounting and costing principles and conventions.

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<sup>(1)</sup> There are a total of 12 Central Departments providing support services for other departments. The full costs of the centralised services, e.g. audit, legal, accounting, translation, etc. are apportioned to functional departments as Central Administrative Overheads in accordance with the amount of services received by them.

11. An example of the cost computation of the Visa Control Division of the Immigration Department is shown at **Annex B**.

### **Guidelines to bureaux and departments**

12. To ensure bureaux and departments adopt a consistent approach to the revision of fees and charges, Finance Bureau has issued circulars on the policy and arrangements relating to the review of fees and charges. To ensure the costing exercises are undertaken in accordance with generally accepted accounting and costing principles and practices, the Treasury has issued a Costing Manual setting out the costing principles and methodology with examples. In addition, the Civil Service Training and Development Institute periodically organizes seminars on fees and charges and cost accounting for officers responsible for such work.

13. We require all cost computations to be vetted and certified by a Senior Treasury Accountant in bureaux and departments, or centrally by the Treasury if such an officer is not available in a bureau or department. This is to ensure that costing exercises are conducted to a professional standard.

### **Productivity and efficiency improvement measures**

14. We accept fully the need to ensure that Government provides cost-effective services. Accordingly, Bureau Secretaries and Department Heads are required to improve efficiency and control costs on a pro-active basis. In addition, they are reviewing whether it is still necessary to provide all the services for which fees and charges are imposed. Where a service (e.g. licensing) has become non-essential with the passage of time, we will take necessary action (through legislative amendment or administrative measure) to dispense with the provision of the service and to abolish the associated fee or charge.

Finance Bureau  
Government Secretariat  
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(Example on individual service cost basis)

**COST COMPUTATION****Home Affairs Department****Licence fees payable under the  
Clubs (Safety of Premises) (Fees) Regulations****Cost at 2000-01 Prices****Area of clubhouse <101M<sup>2</sup>**

|  | \$                           |
|--|------------------------------|
| Staff Costs  | 354,736                      |
| Departmental Expenses                                    | 5,272                        |
| Accommodation Costs                                      | 22,924                       |
| Depreciation   | 118                          |
| Cost of Services Provided by Other Departments           | 67,400                       |
| Central Administrative Overheads                         | 17,737                       |
|  | <hr/>                        |
| <b>Total Cost</b>  | <b><u><u>468,187</u></u></b> |
| Estimated number of caseloads for financial year 2000-01 | 90                           |
| Unit cost at 2000-01 prices (\$)                         | 5,202                        |
| Existing fee (\$)  | 3,500                        |
| Proposed fee (\$)  | <b>4,025</b>                 |
| % increase   | <b>15%</b>                   |

(Note : Departments will be required to attach detailed cost information and cost calculation sheets to provide the supporting information as to the nature and method of calculation of costs for each cost element.)

(Example on global cost basis)

**COST COMPUTATION****Immigration Department - Visa Control Division****Fees Payable under the Immigration Regulations \*****Cost at 2001-02 Prices**

|   | \$'000                  |
|---|-------------------------|
| Staff Costs   | 308,176                 |
| Departmental Expenses   | 18,151                  |
| Accommodation Costs   | 37,942                  |
| Depreciation  | 2,462                   |
| Cost of Services Provided by Other Departments                                | 1,991                   |
| Central Administrative Overhead   | <u>16,055</u>           |
| <b>Total Cost:</b>  | <b>384,777</b><br>===== |
| Estimated revenue at existing fee levels (\$'000)                             | 134,938                 |
| Existing cost recovery rate   | 35.1%                   |
| Estimated revenue assuming a 20% increase on the existing fee levels (\$'000) | 161,926                 |
| Cost recovery rate after fee revision   | 42.1%                   |

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\* Fees payable under the Immigration Regulations comprise the following -  
(Types of services provided by Visa Control Division)

- (a) Ordinary visa
- (b) Transit Visa
- (c) Change of conditions of stay or extension of limit of stay
- (d) Entry permit valid for 1 entry
- (e) Entry permit for multiple entries and valid for 1 year
- (f) Entry permit for multiple entries and valid for 3 years

(Example on global cost basis) (continued)

**COST COMPUTATION****Immigration Department - Visa Control Division****Fees Payable under the Immigration Regulations**

(Allocation of Costs to Individual Services)

|   | <b>Ordinary<br/>visa</b> | <b>Transit<br/>visa</b> | <b>Change of<br/>conditions of stay<br/>or extension of<br/>limit of stay</b> | <b>Entry permit<br/>valid for 1 entry</b> | <b>Entry permit<br/>for multiple<br/>entries and<br/>valid for 1 year</b> | <b>Entry permit for<br/>multiple entries and<br/>valid 3 years</b> | <b>Total<br/>revenue</b> | <b>Cost<br/>recovery<br/>rate</b> |
|---|--------------------------|-------------------------|---|---|---|--|--------------------------|-----------------------------------|
| Existing revenue (\$'000)<br>(Estimated revenue for 2001-02)    | 19,466                   | 130                     | 33,192  | 9,628                                     | 8,532   | 63,990   | 134,938                  |                                   |
| As a % of total revenue (a)                                     | 14.4%                    | 0.1%                    | 24.6%   | 7.2%                                      | 6.3%  | 47.4%  | 100%                     |                                   |
| Allocated cost at 2001-02 prices (\$'000)<br>based on (a) above | 55,408<br>=====          | 385<br>====             | 94,655<br>=====   | 27,704<br>=====                           | 24,241<br>=====   | 182,384<br>=====   | 384,777<br>=====         |                                   |
|   |                          |                         |   |   |   |  | (From Annex B(1))        |                                   |
| Existing fees (\$)  | 135                      | 70                      | 135   | 135                                       | 270   | 540  |                          | 35.1%                             |
| Proposed fees (\$)<br>(assuming 20% increase)                   | <b>162</b>               | <b>84</b>               | <b>162</b>  | <b>162</b>                                | <b>324</b>  | <b>648</b>   |                          | 42.1%                             |