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|--------------------------------|--|-----------------------|
| <b>POLICY NO</b>               | <b>CP/FIN-3211</b>   |                       |
| <b>POLICY</b>                  | <b>Fees and Charges Pricing</b>  |                       |
| <b>RESPONSIBLE DIRECTORATE</b> | Corporate Services   |                       |
| <b>RESPONSIBLE OFFICER</b>     | Director Corporate Services  |                       |
| <b>COUNCIL ADOPTION</b>        | Date: 28/01/2014   | Resolution No: 10293  |
| <b>REVIEWED/MODIFIED</b>       | Date: 28/05/2015   | Resolution No: 10890  |
|                                | Date: 27/03/2018   | Resolution No: 117923 |
| <b>REVIEW DUE</b>              | Date: March 2019   |                       |
| <b>LEGISLATION</b>             | <i>Local Government Act 1995 – Sections 6.16, 6.17, 6.18;<br/>A New Tax System (Goods and Services Tax) Act 1999;<br/>A New Tax System (Goods and Services Tax) (Exempt Taxes, Fees and Charges) Determination 2011 (No. 1);</i> |                       |
| <b>RELATED POLICIES</b>        | Competition Principles Agreement – 11 April 1995 (As amended to 13 April 2007) – <i>Currently under review by the Australian Government.</i>   |                       |
| <b>RELATED PROCEDURES</b>      | Fees and Charges Review Guidelines   |                       |

#### **PURPOSE:**

The purpose of this policy is for the Council to ensure that the Shire's fees and charges are determined utilising key principles that ensure fair and reasonable charging to the community for the goods and services that the Shire provides.

#### **DEFINITION:**

All definitions are provided within the text of this document.

#### **POLICY STATEMENTS:**

The pricing principles and pricing basis are to apply to all fees and charges where possible, or unless legislation determines otherwise.

The Council will consider the following principles when imposing fees and charges:

1. Cost Reflective Pricing and Future Considerations
2. Community Expectations or Values
3. Comparison with Alternative Provider
4. Equity
5. Removal of Cross Subsidies
6. Predictability
7. Administrative Simplicity
8. Compliance with the *Trade Practices Act 1974* and the National Competition Policy requirements

## 1. COST REFLECTIVE PRICING AND FUTURE CONSIDERATIONS

Fees and charges have important implications for resource allocation and value for money for the community. Cost reflective pricing can help ensure the Council's resources are best utilised to meet its community needs.

Section 6.17(1)(a) of the *Local Government Act 1995* requires the Council to consider “*the cost to the local government of providing the service or goods*”. The Council will therefore consider the income anticipated from the imposition of the charge and the anticipated expenditure of administering the service.

Full cost recovery includes those costs both directly and indirectly associated with providing the good or service including capital costs (examples of direct and indirect cost components are outlined in Table A below). Council's view is that full cost recovery, where appropriate, also contributes to the optimum allocation of resources – where resources are allocated to benefit the community and the value the community places on those goods or services equals the cost of production of those goods and services.

Council may also consider the future plans for the services that are being provided, particularly in relation to infrastructure assets including buildings and facilities, and consider the impact of asset management costs in the future.

The *Local Government Act 1995*, section 6.17(3) states that “*the basis for determining a fee or charge is not to be limited to the cost of providing the service or goods...*” other than in particular circumstances, therefore allowing for fees and charges to be in excess of full cost recovery.

To this end, section 6.17(2) of the *Local Government Act 1995* also provides that “*a higher fee or charge or additional fee or charge may be imposed for an expedited service or supply of goods if it is requested that the service or goods be provided urgently.*”

Council will consider these options in determining the fees or charges to be imposed taking into account surrounding circumstances (e.g. additional labour hours may be required to provide the expedited service).

**Table A**

| COMPONENTS OF COST   |                         |   |
|--|-------------------------|---|
| TYPE OF COST   | CATEGORIES              | EXAMPLES  |
| <b>Indirect</b>  |                         |   |
| Costs that are not directly attributable to an activity – often referred to as overheads | Administrative Expenses | <ul style="list-style-type: none"> <li>• Cost of printing the annual report</li> </ul>                                      |
|  | Capital                 | <ul style="list-style-type: none"> <li>• Computers for corporate staff</li> <li>• Furniture for corporate office</li> </ul> |
|  | Materials and Supplies  | <ul style="list-style-type: none"> <li>• Stationery used by corporate services staff</li> </ul>                             |
|  | Labour                  | <ul style="list-style-type: none"> <li>• Remuneration of corporate staff</li> </ul>   |

| <b>Direct</b>  |                         |  |
|--|-------------------------|--|
| Costs that can be readily and unequivocally attributed to a service or activity because they are incurred exclusively for that particular product/activity | Capital                 | <ul style="list-style-type: none"> <li>• Depreciation or lease costs of specific-purpose buildings, vehicles, computers, and other equipment used directly in delivering services</li> </ul> |
|  | Administrative Expenses | <ul style="list-style-type: none"> <li>• Transport, accommodation and meal expenses for service delivery staff</li> <li>• service-related publications</li> </ul>                            |
|  | Materials and Supplies  | <ul style="list-style-type: none"> <li>• Spare parts, inventory, fuel</li> </ul>   |
|  | Labour                  | <ul style="list-style-type: none"> <li>• Salaries and wages of 'works unit' employees, payments to contractors and service providers</li> </ul>  |

Source: Victorian Auditor-General's Office.

## 2. COMMUNITY EXPECTATIONS OR VALUES

Each community member or group clearly places a "value" or level of importance on the goods and services that the Shire provides. This "value" will be dependent upon the strength of the benefits that it provides to the community member or group.

Section 6.17(1)(b) of the *Local Government Act 1995* requires the Shire to take into consideration "*the importance of the service or goods to the community*" in determining the amount of a fee or charge for a service or goods.

Council will continue to work with the community to ascertain their views on the importance of services or goods provided to the community.

## 3. COMPARISON WITH EXTERNAL PROVIDER

A comparison of fees and charges that are imposed by other Council's and service providers will be undertaken where possible.

## 4. EQUITY

Under the 'user pays' principle, the community should pay according to the level of benefits accrued to them. The Council has considered the following four levels of benefit that will be used when determining the pricing basis.

1. Public Benefit – the service provides a broad community benefit.
2. Private Benefit – the service benefits particular users making a contribution to their individual income, welfare or profits generally without any broader benefits to the community.
3. Shared Benefit – the service provides both community benefits and a private benefit.
4. Regulatory – fee or charge that is fixed by legislation.

## **5. REMOVAL OF CROSS SUBSIDIES**

Cross subsidies exist where the price charged for one service is set below its cost and the price charged for another service is set above its cost to the extent that the overall costs are recovered.

Cross subsidies distort pricing causing an inefficient allocation of resources, and are not considered the most efficient way to achieve equity or efficient practices.

Where possible, Council will minimise cross subsidies between services or groups of consumers.

## **6. PREDICTABILITY**

The fees and charges will be reviewed and adopted by Council at a minimum of 3 months prior to their commencement, where possible. This will ensure that the community has knowledge and certainty of the fees and charges which will allow the community to make more informed decisions.

## **7. ADMINISTRATIVE SIMPLICITY**

The charging of fees and charges will be simple to administer therefore minimising administrative costs, while ensuring compliance with the applicable legislation.

## **8. COMPLIANCE WITH THE *TRADE PRACTICES ACT 1974* AND THE NATIONAL COMPETITION POLICY**

The National Competition Policy competitive neutrality reforms are focused on the significant business activities of all local governments. The *Local Government Act 1995* only requires the application of full cost pricing to council business activities having a turnover in excess of \$200,000. Even then, competitive neutrality is only to be applied to the extent it can be demonstrated the benefits of implementation outweigh the costs.

The aim of the National Competition Policy is to create a level playing field by requiring Councils to adjust their service prices to neutralise any competitive advantages when competing with the private sector.

Council will consider the requirements of the *Trade Practices Act 1974* and the National Competition Policy when determining fees and charges associated with its significant business activities.

## **OUTCOMES**

In applying these principles the benefits have been allocated an associated pricing basis by the Council as a guide in setting fees and charges. This is detailed in the table below. The Pricing Basis has been applied to the various categories of goods and services offered by the Shire in the table titled "Application of Pricing Basis to Good & Services".

## Benefits and Pricing Basis Used by the Shire

| Benefits  | Pricing Basis                    |
|---|----------------------------------|
| 1. Public Benefit – service provides a broad community benefit and therefore full cost recovery should not apply. Partial cost recovery could apply in some circumstances.            | Zero to partial cost recovery    |
| 2. Private Benefit – service benefits particular users making a contribution to their individual income, welfare or profits generally without any broader benefits to the community.* | Full Cost Recovery               |
| 3. Shared Benefit – service provides both community benefits and a private benefit.   | Partial Cost Recovery            |
| 4. Regulatory – fee or charge fixed by legislation  | 100% of Regulatory Fee or Charge |

*\* Note that for the Private Benefit Category, 3 additional Pricing Basis classifications may be considered by Council being:*

- 1. Full Cost Recovery + Possible Mark Up*
- 2. Full Cost Recovery + Possible Future Consideration*
- 3. Full Cost Recovery + Possible Mark Up and/or Possible Future Consideration*

### Application of Pricing Basis to Good & Services

| Service   | Principle       | Basis of Cost                         |
|---|-----------------|---------------------------------------|
| Rates Enquiries   | Private Benefit | Full Cost Recovery                    |
| Professional Staff Time   | Private Benefit | Full Cost Recovery + Possible Mark Up |
| Number Plates   | Private Benefit | Full Cost Recovery                    |
| Photocopying  | Private Benefit | Full Cost Recovery                    |
| Sale of List of Owner/Occupiers and Council Minutes/Agendas                     | Private Benefit | Full Cost Recovery                    |
| Other Council Publications (i.e. rate books, Local Laws, Tender documents etc.) | Private Benefit | Full Cost Recovery                    |
| Dog Pound   | Shared Benefit  | Partial Cost Recovery                 |
| Dog Tags  | Shared Benefit  | Partial Cost Recovery                 |
| Dog Registration and Infringements  | Regulatory      | 100% of Regulatory Fee or Charge      |
| Dog Seizure Fees  | Private Benefit | Full Cost Recovery                    |
| Cat Pound   | Shared Benefit  | Partial Cost Recovery                 |
| Cat Registration and Infringements  | Regulatory      | 100% of Regulatory Fee or Charge      |
| Cat Seizure Fees  | Private Benefit | Full Cost Recovery                    |
| Towing and Poundage Charges   | Private Benefit | Full Cost Recovery                    |
| Road Closures and Traffic Management  | Shared Benefit  | Partial Cost Recovery                 |
| Bushfire Infringements  | Regulatory      | 100% of Regulatory Fee or Charge      |
| Caravan Parks & Camping Grounds   | Regulatory      | 100% of Regulatory Fee or Charge      |
| Building Control (applications, licences, levies etc)                           | Regulatory      | 100% of Regulatory Fee or Charge      |
| Building Control – Private Certification  | Private Benefit | Full Cost Recovery                    |
| Signage Approvals   | Private Benefit | Full Cost Recovery                    |
| Deposits and Bonds  | Private Benefit | Full Cost Recovery                    |
| Water Charges – Non Commercial  | Shared Benefit  | Partial Cost Recovery                 |

| Service  | Principle       | Basis of Cost                                      |
|--|-----------------|--|
| Water Charges – Commercial                           | Private Benefit | Full Cost Recovery                                 |
| Food Registrations, Applications and Other Charges   | Private Benefit | Full Cost Recovery                                 |
| Development Applications                             | Regulatory      | 100% of Regulatory Fee or Charge                   |
| Subdivision Applications                             | Regulatory      | 100% of Regulatory Fee or Charge                   |
| Private Works  | Private Benefit | Full Cost Recovery + Possible Mark Up              |
| Site Inspections                                     | Private Benefit | Full Cost Recovery + Possible Mark Up              |
| Plant Hire   | Private Benefit | Full Cost Recovery + Possible Mark Up              |
| Rubbish Charges                                      | Private Benefit | Full Cost Recovery                                 |
| Landfill Charges                                     | Private Benefit | Full Cost Recovery + Possible Future Consideration |
| Cemetery Fees  | Private Benefit | Full Cost Recovery                                 |
| Civic Centre   | Shared Benefit  | Zero to full cost recovery depending on usage      |
| Trading in Thoroughfares and Public Places           | Private Benefit | Full Cost Recovery                                 |
| Sport Association Ground Hire                        | Shared Benefit  | Partial Cost Recovery                              |
| Casual Ground Hire                                   | Shared Benefit  | Partial Cost Recovery                              |
| Library  | Shared Benefit  | Partial Cost Recovery                              |
| Airport  | Private Benefit | Full Cost Recovery + Possible Future Consideration |
| Non Sporting Activity Facility Hire – Non Commercial | Shared Benefit  | Partial Cost Recovery                              |
| Non Sporting Activity Facility Hire – Commercial     | Private Benefit | Full Cost Recovery                                 |
| Sporting Activity Facility Hire – Non Commercial     | Shared Benefit  | Partial Cost Recovery                              |
| Sporting Activity Facility Hire – Commercial         | Private Benefit | Full Cost Recovery                                 |
| Cleaning Charges                                     | Private Benefit | Full Cost Recovery                                 |

| Service                       | Principle       | Basis of Cost                         |
|-------------------------------|-----------------|---------------------------------------|
| Gymnasium Entry Fees          | Shared Benefit  | Partial Cost Recovery                 |
| Swimming Complex Entry Fees   | Shared Benefit  | Partial Cost Recovery                 |
| Leisure Centre Entry Fees     | Shared Benefit  | Partial Cost Recovery                 |
| Kiosk Sales at Leisure Centre | Private Benefit | Full Cost Recovery + Possible Mark Up |
| Leasing – Commercial          | Private Benefit | Full Cost Recovery                    |
| Leasing – Community           | Shared Benefit  | Partial Cost Recovery                 |

### GST Disclaimer

A goods and services tax (GST) applies to a number of goods and/or services supplied by the Shire. In accordance with Pricing Regulations published by the Australian Competition and Consumer Commission the prices shown for goods and/or services are the GST inclusive price.

Some goods and/or services supplied by the Shire are “GST free” or have been excluded under Division 81 of the GST legislation. Those goods and /or services which are “GST free” or excluded under Division 81 from GST are indicated in the Schedule of Fees and Charges as “GST not applying”.

The Shire reviews all fees to determine if they are subject to GST. If a fee is subsequently proven not to be subject to GST, then that fee will be amended by reducing the GST to nil. Conversely if the Shire is advised that a fee which is shown as being not subjected to GST becomes subject to GST then the fee will be increased but only to the extent of the GST.

## **EXPLANATORY NOTES:**

### **BACKGROUND**

Fees and charges are important to ratepayers and to the users of services. The Shire strives to maintain a consistent balance between the service levels provided, the cost of providing those services and the extent of subsidising the services provided.

From a ratepayer’s viewpoint, rate revenue subsidises all fees and charges where there is no full cost recovery. If fees and charges revenue do not keep pace with increases in the cost of service provision then the additional cost burden will fall back onto the ratepayer or service levels will reduce.

From the service user’s viewpoint, the fee or charge acts as a price signal about the cost and value of resources used to produce the service. It also creates a user expectation that appropriate service standards will be set and met.

The *Local Government Act 1995*, section 6.16 provides a local government with the power to impose and recover a fee or charge for any goods or service it provides or proposes to provide, other than a service for which a service charge is imposed.

In determining the amount of a fee or charge for a service or for goods, the Council, in accordance with section 6.17 of the *Local Government Act 1995*, must take into account:

- (a) *The cost to the local government of providing the service or goods; and*
- (b) *The importance of the service or goods to the community; and*
- (c) *The price at which the service or goods could be provided by an alternative provider.*

The additional principles contained in this Policy are to ensure that there is a reasonable approach utilised when developing the fees and charges that the Shire charges to the community. This approach is also equitable and transparent where the community can refer to these principles and better understand the reasoning behind why fees have been established the way they are.

A number of the pricing principles will be difficult to achieve in their entirety. Where this is the case the fees and charges will be amended over time to ensure that the pricing principles are achieved and that there has not been a disproportionate burden placed on the users. Council therefore commits to continuously working through these principles.

#### **RISK:**

**Risk:** Failure to maintain services to the community.

**Control:** Annual review of Fees and Charges with reference to the cost of services, service levels and extent of subsidisation by general rate revenue.

**Risk:** Inability to fund the infrastructure gap.

**Control:** Develop LTFP to ensure critical assets maintained in Annual Budgets.

**Risk:** Failure to comply with legislative requirements leading to damage of reputation and/or financial loss.

**Control:** Review policies and procedures in accordance with review schedule.