



## Fees & Charges Review Procedure and Guidelines

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<b>Endorsement</b>	Executive, 6 May 2015 Policy Review Panel, 27 May 2015
<b>Authorisation</b>	Council, 23 June 2015
<b>Expiry date</b>	30 June 2018
<b>Responsible officer</b>	Finance Manager
<b>Policy owner</b>	Management Accounting Coordinator

### 1. Purpose

Is to provide advice on the principles and procedure that Council follows in determining its fees and charges for goods and services supplied by Council to its customers under:- the Local Government Act 1989 (The Act) and other relevant legislation, (e.g. National Competition Policy and Competitive Neutrality Policy) to ensure a consistent application across all Council's services.

### 2. Background

Council acknowledges that there are competing priorities of community service obligations, maintaining infrastructure and ensuring that ratepayers are not unduly burdened by increased rate and charges. However, financial resources, largely comprised of rate revenue, are limited. Therefore, the pricing principles for Council's fees and charges seeks to ensure that they are determined utilising key principles, that ensure fair and reasonable charging to the community for the goods and services that the Council provides, thus seeking the appropriate balance between these priorities.

Fees and charges are important to ratepayers and to the users of services. From a Ratepayer's viewpoint, fee revenue supplements, and therefore ought to reduce, the Council's rates burden. If fees and charges revenue does not keep pace with increases in the cost of providing the service, or if fees are set only to partially recover costs, then the cost burden can fall back onto the ratepayer.

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.

This document outlines the procedure and guidelines to be adopted for Council fees and charges in relation to the implementation of the fees and charges policy, hence this document should be read in conjunction with the Council's fees & charges policy and the Council's schedule of fees and charges adopted as part of the annual budget.

### 3. Definitions

Word/Term	Definition
Accessible price	Is where the price for goods and services are subsidised by Council taking into account the Council's community service and social policy obligations. The level of subsidy is subjective and will depend on balancing community's affordability and access to Council services, with cost of delivering the service and its long term sustainability.
Benchmarking	Benchmarking involves measuring the performance of your business against a competitor in the same market. Comparing your business to others is a valuable way of improving your understanding of your business performance and potential.
Best Value Principles	The Best Value Principles are series of standards; a local government entity should meet in relation to quality, cost, needs of the community etc as outlined in Section 208b of the Local Government Act 1989.
Cost reflective price	Refers to price of goods or services set in order to recover the full cost of delivering the goods or services. These include direct and indirect costs plus an adequate rate of return on investment.
Direct cost	Are those that are directly attributed to the production of goods and or service. Direct costs refer to materials, labour and expenses related to the production of a product or service. These costs generally (not always) vary with the level of output of the goods or services.
Equity considerations	This involves balancing the desire to distribute costs equally to users who benefit from the service while assuring equal access to those with less capacity to pay.
Indirect costs	Indirect costs are those that cannot be accurately attributed to specific product, activity or service. These typically benefit multiple products services or activities and it is impracticable to accurately trace them to individual products or activities. E.g Depreciation, salaries of supervisors and managers etc.
National Competition Policy/Competitive Neutrality Policy	Refers to a set of federal government policies introduced in Australia with the aim of promoting economic reform to ensure that Government businesses do not enjoy any net competitive advantage simply as a result of their public sector ownership.
Overheads	Overheads are expenses that must be paid for on an ongoing basis regardless of whether an organisation is doing a high or low volume of business i.e. goods or services. Examples of overhead expenses include such items as rent, utilities and insurance etc.
Statutory Fees & Charges	Statutory fees and charges are those set by a state or federal legislation.
The Act	The <i>Local Government Act</i> 1989
VAGO	Victorian Auditor General's Office.

#### **4. Provision under the Act.**

The Local Government Act 1989 (the Act) empowers Councils to generate revenue from fees and charges by :

“Making local laws that provide for determining fees and charges for providing goods and services, or other act, matter or thing and the power to levy specific, maximum and or minimum, scales of fees under specified conditions or in specified circumstances.”

The Local Government Act 1989 (the Act) empowers councils to set the fees and charges to offset the cost of their services. A widely accepted public sector pricing principle is that, fees and charges should be set at a level that recovers the full cost of providing the services, unless there is an overriding policy or imperative in favour of subsidisation. In so doing, Councils must apply principles of sound financial management. These principles need to incorporate a range of ‘Best Value’ principles including service cost and quality standards, value-for-money, community expectations and values, as well as balance the affordability and accessibility of their services.

Business units must also comply with the government’s Competitive Neutrality Policy (NCP) for significant business activities they provide and adjust their service prices to neutralise any competitive advantages when competing with the private sector. (Please see section 8.3 regarding compliance of this aspect of the procedure if NCP is applicable to your area).

#### **5. VAGO and Internal Audit Review Findings**

The Victorian Auditor General's Office (VAGO) commissioned its own "Fees & Charges - Cost Recovery by Local Government" review. Melton City Council was not included in the review. The key findings and recommendations in relation to the report identified that Councils should:

- Develop and endorse central policies on service costing; and
- Strengthen fee setting practices to ensure decisions are evidence based and demonstrate consideration of direct and indirect costs, best value principles and competitive neutrality policy requirements.

In a recent internal audit review of Council’s fees and charges, Council’s internal auditors Crowe Howarth, in their report titled User Fees & Charges ( Non Statutory) reinforced the VAGO recommendations. They also made additional recommendations to Council to develop policies, guidelines and procedures to review fees and charges pricing methodology and its periodic review.

Council’s fees and charges policy and these procedures and guidelines incorporate these recommendations.

#### **6. Guiding Statements and Principles**

##### **6.1 Statutory Fees & Charges**

Council does not have the power to determine statutory fees & charges. Hence the Council’s guiding principle with regard to statutory fees and charges shall be to align the relevant charges with the statute. These will be done at the time of adoption of annual budget and also as and when the fees and charges schedules are revised by statute.

##### **6.2 User Fees & Charges (Non Statutory)**

With regard to user fees and charges that are not regulated by statute, Council will consider the following guiding principles and factors in selecting the fees and charges pricing

methodology. This will enable the Council to meet its objectives for the services to the community according to the Council plan.

These guiding principles include:

1. Cost reflective pricing and future considerations
2. Community expectations and equity values
3. Best value principles
4. Compliance with the Trade Practices Act (TPA) 1975 and the National Competition Policy (NCP) requirements.

### **6.2.1 Cost Reflective Pricing, Equity 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. In adopting cost reflective pricing Council will consider a range of factors such as the income anticipated from the imposition of the charge, external grants and contributions, anticipated expenditure of service delivery and the administration cost of providing the service.

Equity considerations are also important factors impacting on Council pricing decisions. These are also relevant in determining the appropriate level of cost recovery for given services. This involves balancing the desire to distribute costs equally to users who benefit from the service while assuring equal access to those with less capacity to pay. These are often competing priorities, which can be further complicated by the need to make appropriate price adjustments to subsidise services to one group of ratepayers/customers at the expense of another.

Business units should consider the future plans for the services that are being provided, particularly in relation to capacity to deliver, including human resources, facilities, and the impact of asset management costs in the future.

### **6.2.2 Community Expectation or Values**

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

Business units should take into consideration "the importance of the service or goods to the community" in determining the fee or charge for a service or goods supplied. Other value considerations under this category will include balancing the Community's affordability and access to council services with cost and quality considerations

### **6.2.3 Best Value Principles**

In addition to the above the Local Government Act 1989 requires the Council to comply with the other Best Value principles introduced as per Local Government (Best Value Principles Act) 1999.

- i) Achieve continuous improvement;
- ii) Consultation on services; and
- iii) Report to community.
- iv) Value for money
- v) Transparency and predictability

## **6.2.4 Compliance with TPA and Competitive Neutrality**

Councils must also comply with the government's Competitive Neutrality Policy (NCP) and Trade practices Act (TPA) guidelines for significant business activities they provide and adjust their service prices to neutralise any competitive advantages when competing with the private sector.

Under Clause 3(1) of the Competition Principles Agreement, the objective of competitive neutrality is..."the elimination of resource allocation distortions arising out of the public ownership of entities engaged in significant business activities:

Government business should not enjoy any net competitive advantage simply as a result of their public sector ownership.

## **7. Fees and Charges Review Procedure Summary**

Prices for all good and or services provided by Council will be established using the following 5 step process.

1. Adopt the appropriate pricing regime for the goods and services provided and articulate the rationale for the basis adopted
2. Choose the appropriate cost recovery/pricing methodology for the service
3. Comply with Trade Practices Act and Competitive Neutrality Policy and Guidelines
4. Establish prices for new services and/or review current price in the fees and charges schedule
5. Update the revised charges in the fees and charges schedule to be included in the Budget document.

Each step in the above process is described in detail in the Policy Implementation section below.

## **8. Policy Implementation**

To implement the fees and charges policy, each business unit within Council is required to review their individual fees and charges annually through the 5 step process outlined above.

### **8.1 Identifying the Pricing Regime**

Setting fees and charges process as outlined requires at the onset the selection of an appropriate pricing regime, that best describes the service being offered by Council :

#### **8.1.1 Statutory Pricing**

This pricing regime will apply where the service is a regulatory or statutory service where the fee is set by federal or state statute by the controlling authority or determined by Council in accordance with a pricing principle prescribed in the statute or regulations.

#### **8.1.2 Accessible Pricing**

This pricing regime will be adopted where the service provided falls within the community service, social policy obligations of Council. This is consistent with the community expectation for the provision of a range of services that delivery benefit to the whole community or community groups at a price within the user's capacity to pay.

Goods and services in this category are often priced using a full or partial Council subsidy paid for by the rate payers. The level of subsidy will depend on the nature of benefit provided, the target client group, level of external funding and users capacity to pay.

### **8.1.3 Private Benefit Pricing**

This pricing regime will be appropriate where the service benefits a particular group of users, making a contribution to their individual income, welfare or profits or a private benefit being provided without any broader benefits to the community

### **8.1.4 Disincentive Pricing**

This pricing regime will be adopted where the Council have an applicable policy objective that supports disincentive pricing or where the Council performs the role to regulate and restrict certain behaviour.

### **8.1.5 Market Pricing**

Market pricing will be adopted where the service provided is in competition with that provided by another Council or agencies (private or public) and there is pressure to set a price which will attract adequate usage of the service.

### **8.1.6 National Competition Policy Pricing**

This pricing regime will be applicable where the service provided falls within the NCP and TPA guidelines.

## **8.2 Choosing the Cost Recovery/Pricing Methodology**

For each pricing regime there are a range of cost recovery/pricing methodologies that are appropriate. In choosing the pricing methodology business units must give consideration to cost reflective pricing, community expectation, the level of social need for the particular service, environmental and amenity considerations and the level of state and federal government funding available for the service.

### **8.2.1 Statutory Pricing:**

If the service is a regulatory or a statutory service and where the fee is determined by Council in accordance with a pricing principle prescribed in regulations or determined by the relevant authority.

Price methodology under this category can range between.

- a. Statutory Minimum
- b. Statutory Maximum
- c. Statutory price as prescribed
- d. Statutory Price- Regulated price as directed by funding agency.

### **8.2.2 Full Council Subsidy Pricing**

Services provided under Council's community service obligations are funded from Council's rate revenue, and therefore receive a Full Council Subsidy.

### **8.2.3 Partial Council Subsidy Pricing**

Services provided by Council as part of a Community Service policy objective are often priced using a partial Council Subsidy. In this case, less than the full cost of providing the service is recovered from the price charged for that service. The subsidy is funded

from Council's rate revenue and in some cases from external sources, such as government grants.

#### **8.2.4 Full Cost Recovery Pricing**

Services provided by Council that benefit individual customers specifically, rather than the community as whole, will be priced on a full cost recovery basis. Full Cost Recovery pricing will aim to recover all direct and indirect costs involved in providing a service.

#### **8.2.5 Full Cost Recovery Plus a Margin of Profit**

Services provided by Council that compete with the private sector may also be priced on the basis of the competitive prices. These services will be priced on a full cost recovery basis as well as an allowance for profit. In some instances the setting of these fees will also be undertaken in accordance with National Competition Policy principles and the Trade Practices Act.

### **8.3 Competitive Neutrality and Trade Practices Act Requirements**

Where the Council services fall within the NCP and TPA guidelines, Council has the legal obligation to comply with the requirements of these guidelines.

The NCP policy guidelines outline that it is common for private businesses (including both, for profit and not-for profit entities) to coexist with government businesses in a variety of markets. They do not always compete on equal terms. Such inequalities arise from a variety of circumstances and it is the goal of NCP to offset these where appropriate. The stated aim of NCP is therefore to account for these differences in such a way that where governments including local government entities undertake significant business activities in markets and they do so on a fair and equitable basis.

Under the policy a significant business activity will include any activity undertaken by a Local Government agency:

- (a) Where the activity falls within the Australian Bureau of Statistics classification of 'Public Trading Enterprise' and 'Public Financial Enterprise';
- (b) where:
  - i. the activity is primarily involved in producing goods and services for sale in the market; and
  - ii. the activity has a commercial or profit making focus; and
  - iii. there is user charging for goods or services; or
- (c) where a Local Government agency submits a tender as part of a tendering process in competition with the private sector.

The Policy indicates, however, that an activity will not be a business activity if:

- (a) it provides goods or services to government, and for reasons of policy or law, there is no competition with alternative suppliers; or
- (b) it is clear that the activity's predominate role is regulatory or policy making or where the achievement of public policy outcomes is the main priority of the activity.

Examples of the types of Local Government activities which may be business activities for the purposes of competitive neutrality include:

- Childcare centres
- Training services
- Museums
- Cemeteries
- Aged care facilities
- Holiday parks.

If you believe that any of the services within your Business Unit fall under the Trade Practices Act (TPA) and National Competition Policy (NCP), Please consult with the Legal Officer who is responsible for developing a guidance document specific to TPA and NCP compliance.

#### **8.4 Establish prices for new services and/or review current price in the Fees and Charges Schedule**

All Council business units that provide services to the public are required to carry out an annual review of fees and charges.

*A spreadsheet template is provided to enable Business Unit Managers to carry out a review of all fees and charges in the latest Fees and Charges Schedule.*

For every item of price in the fees and charges schedule, Managers are required to identify the most appropriate responses under the following headings. Responses can be a selection from the pull down menu list supplied or managers can provide their own basis/rationale in the comments column on the right:

- Select pricing basis
- Choose appropriate rationale for the pricing
- Choose pricing methodology and
- Assess if current price is appropriate or requires revision and if so amend price for the service
- Complete the fees and charges schedule for the business unit- Enter specific comments for fees and charges, if any in the comments column.

In general this price review requires managers to assess objectively if a price increase over and above the minimum indexation of fees and charges as mandated in the budget document is warranted or justified.

*If after the review you conclude that such an increase is not warranted then the minimum indexation as determined by Executive for the budget year should be applied to increment the fees and charges for the year.*

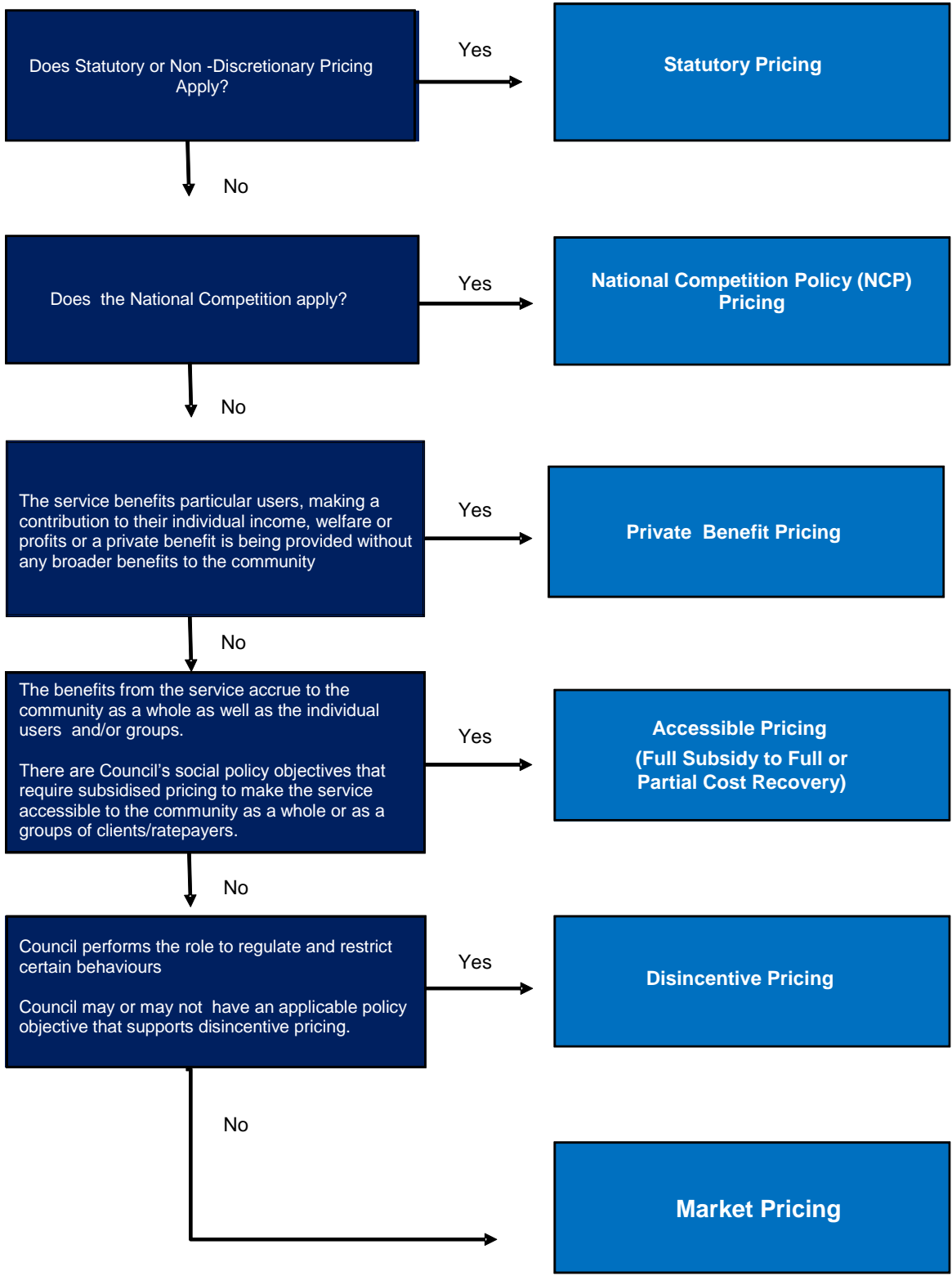
##### **8.4.1 Minimum Indexation**

*The minimum indexation determined by Executive for the 2015/16 Budget year is 3.5%. A lower rate should only apply where statutory limitations dictate the increase of fees and charges.*

The schematic diagram below outlines broadly the process for identifying the pricing regime. The table outlines the rationale and cost recovery methodology that may apply for each pricing regime.



### 8.4.2 Methodology for Selecting Pricing Regime – Flowchart



**8.4.3 Summary of Pricing Regimes, Rationale and Cost Recovery/Pricing Methodology that may apply for each type of service.**

Pricing Regime	Rationale for the basis adopted	Cost Recovery/Pricing Methodology could range between
Statutory Pricing	<p>(a) The service is a regulatory or statutory service and where the fee is determined by Council in accordance with a pricing principle prescribed in the regulations (e.g. a maximum price)</p> <p>(b) The amount of the fee is prescribed by legislation. Council has no discretion to amend the charge</p>	<p><b>Statutory Pricing</b></p> <ul style="list-style-type: none"> <li>• <i>Statutory Maximum</i></li> <li>• <i>Statutory Minimum</i></li> <li>• <i>Statutory Price as prescribed</i></li> <li>• <i>Statutory Price- Regulated price as directed by funding agency.</i></li> </ul>
Accessible Pricing	<p>(a) The benefits from the provision of the service accrue to the community as a whole as well as the individual users</p> <p>(b) Charging prices to recover the full cost may lead to widespread evasion or inappropriate adoption.</p> <p>(c) The service is targeted to low income users or a differential service fee is charged according to the classification of users to maximise access to the service</p> <p>(d) The service is intended to promote or encourages local economic activity</p> <p>(e) Service is intended as a Short term approach to stimulate demand for a service</p> <p>(f) Where there is a low number of other service providers or insufficient quantity to meet the need, or at prices that would make the service accessible to the community (public interest test)</p> <p><b>Note:</b> Accessible pricing should ideally be based on knowledge of the full cost of providing a service and subsidies will be based on a percentage of the cost of the service.</p>	<p><b>Accessible Pricing</b></p> <ul style="list-style-type: none"> <li>• <i>Full Council Subsidy Pricing (No charge)</i></li> <li>• <i>Partial Council Subsidy Pricing (Covering Direct cost and part of the overheads)</i></li> <li>• <i>Direct Cost Pricing (Recover direct costs or part of the direct costs)</i></li> <li>• <i>Lower than direct Costs - (Charge does not even recover direct costs)</i></li> </ul>

Pricing Regime	Rationale for the basis adopted	Cost Recovery/Pricing Methodology could range between
Private Benefit Pricing	<p>(a) The service benefits particular users, making a contribution to their individual income, welfare or profits or a private benefit being provided without any broader benefits to the community</p> <p>(b) Council has a monopoly over the provision of the service and there are no community service or equity obligations</p> <p><b>Note:</b> If a price less than full cost recovery is contemplated for this price regime, Council should review whether it should provide the service, or reconsider whether there is a community service obligation. Otherwise, ratepayers are subsidising a service for which no community service obligation has been identified.</p>	<p><b>Private Benefit – Pricing</b></p> <ul style="list-style-type: none"> <li>• <i>Full Cost Recovery (Recovery of direct costs plus direct and indirect Overheads)</i></li> </ul> <p>Or</p> <ul style="list-style-type: none"> <li>• <i>Full Cost plus a Margin (Recovery of direct costs, direct and indirect Overheads and a profit margin)</i></li> </ul>
Disincentive Pricing	<p>(a) Council may have an applicable policy objective that supports disincentive pricing. Or</p> <p>(b) Council performs the role to regulate and restrict certain behaviour.</p>	<p><b>Disincentive Pricing</b></p> <ul style="list-style-type: none"> <li>• <i>Full Cost Recovery (Recovery of direct costs plus direct and indirect overheads)</i></li> </ul> <p>Or</p> <ul style="list-style-type: none"> <li>• <i>Full Cost plus a Margin (Recovery of direct costs, direct and indirect overheads and a profit margin)</i></li> </ul>
Market Pricing	<p>(a) The service provided is in competition with that provided by another Council or agency (private or public) and there is pressure to set a price which will attract adequate usage of the service.</p> <p>(b) The service is a profit making activity and the price paid by users should recover an amount greater than the full cost of providing the service</p>	<p><b>Market Pricing</b></p> <ul style="list-style-type: none"> <li>• <i>Full Cost Recovery (Recovery of direct costs plus direct and indirect Overheads)</i></li> <li>• <i>Full Cost plus a Margin (Recovery of direct costs, direct and indirect Overheads and a profit margin)</i></li> <li>• <i>Benchmarked market prices based on other Councils or other service providers.</i></li> </ul>

Pricing Regime	Rationale for the basis adopted	Cost Recovery/Pricing Methodology could range between
		<ul style="list-style-type: none"> <li>• <i>Market Price - Gazetted Pricing - Under Department of Health (E.g for Cemetery Services)</i></li> </ul>
National Competition Policy Pricing	<p>(a) The service provided is in competition with that provided by another Council or Organisation (private or public). Council is required to price these services that compete in the open market on a 'level playing field' basis or</p> <p>(b) make the decision to depart from a commercial basis for pricing that will include a public interest test.</p>	<p><b>National Competition Policy (NCP) Pricing</b></p> <ul style="list-style-type: none"> <li>• <i>(Price to ensure compliance with the NCP)</i></li> <li>• <i>Full Cost Recovery (Recovery of direct costs plus direct and indirect overheads)</i></li> </ul> <p>Or</p> <ul style="list-style-type: none"> <li>• <i>Full Cost plus a Margin (Recovery of direct costs, direct and indirect overheads and a profit margin)</i></li> </ul> <p>Or</p> <ul style="list-style-type: none"> <li>• <i>Benchmarked market prices based on other Councils or other service providers.</i></li> </ul>

## 9. Accountability

### 9.1 Fees and Charges Review and Approval by Executive

Fees and Charges should be subject to a final review by Executive before publication to ensure that the prices determined according to the principles described above are practical.

On approval by Executive, the proposed fees and charges schedule for the following year will be presented for Council endorsement with the proposed budget document each year. The final step in the process is the release of the Council endorsed Fees and Charges Schedule (together with the Proposed Budget document) for public comment.

Council's annual user fees and charges will be adopted by Council as part of the annual budget process by 30<sup>th</sup> June each year.

### 9.2 Annual Review of Fees & Charges

Finance department will seek assurance from all business units that all fees and charges will be reviewed as part of the annual budget development process and that the price increases recommended in the budget is complied with.

Finance department will also seek notification from those business units, which do not escalate their fees and charges in line with the recommended budgeted levels, the reasons for such action and the Executive approval for the decision.

## 10. Goods and services tax (GST)

Council is required to include Goods and Services Tax (GST) to fees and charges. All prices listed for Council's fees and charges are inclusive of GST except where indicated.

Some fees and charges levied by Council are exempt from GST in accordance with the Federal Treasurer's Determination under Section 81-5 of A New Tax System (GST) Act 1999. Each fee and charge levied by Council will be reviewed with respect to its GST status at time of publication of the fees and charges schedule. However, if a fee or charge is shown as being subject to GST and is subsequently proven not to be subject to GST, then the fee will be amended by reducing the GST to nil. Conversely if Council is advised that a fee which is shown as not subject to GST becomes subject to GST then the fee will be increased but only to the extent of the GST.

The Fees and charges schedule would indicate the GST applicability for the service by a Yes/No response against each line item in the schedule.

Please contact Andrew Brae, Accounting Services Coordinator for advice and assistance with this task.

## 11. Responsibility for Administration of Procedures & Guidelines

<b>6.1</b>	<b>Finance Manager</b>
	responsible for administering this procedure & guidelines
<b>6.2</b>	<b>Director Management Accounting</b>
	responsible for providing professional advice and guidance to all staff regarding this procedure & guidelines

## 12. References and links to legislation and other documents

<b>Name</b>	<b>Location</b>
<i>Local Government Act 1989 (Vic)</i>	<a href="http://www.legislation.vic.gov.au">www.legislation.vic.gov.au</a>
Crowe Horwath- Internal Audit Report – Fees and Charges (Non Statutory)	Finance Department
VAGO- Victorian Auditor General's Office Report on Fees and Charges- Cost Recovery by Local Government	<a href="http://www.audit.vic.gov.au/reports_and_publications/reports_published_in_2012-13.aspx">http://www.audit.vic.gov.au/reports_and_publications/reports_published_in_2012-13.aspx</a>
Fees and Charges Review Procedure & Guidelines	Policy & Procedures Intranet
Schedule of Fees and Charges adopted as part of the Council's annual Budget.	<a href="http://www.melton.vic.gov.au">www.melton.vic.gov.au</a>