



## THE CITY OF BOROONDARA POLICY STATEMENT

### PRICING POLICY

#### PURPOSE

Council is empowered under the Local Government Act to raise revenue in the form of rates, borrowings and grants and to impose equitable fees and charges for its services. In doing so, Council must remain compliant with the Trade Practices Act and National Competition Policy.

The City of Boroondara Pricing Policy aims to provide guidance to the organisation in setting all fees and charges as published in Appendix D of the annual Budget document. This Policy provides more detail on the practical application of the Pricing of Services Principle contained in the Financial Strategy Principles section of the Council Plan.

Under this policy all fees and charges are required to be reviewed on an annual basis in accordance with the policy principles.

#### OBJECTIVES

This policy seeks to ensure that the following key objectives are met:

- Efficiency - the fees are simple to administer.
- Equity - the fees are fairly applied across a range of users considering users capability to pay.
- Effectiveness – the fees provide appropriate signals to users, value for money and ensure that everyone contributes appropriately to the delivery of services (promoting both efficiency and equity).
- Clarity – users are clear about when and how fees are applied.
- Transparency – the nature and use of the service is easily understood and accessible to all applicable users.

## SCOPE

This policy applies to all permanent fees and charges that are listed in the Fees and Charges Schedule which is published annually in Appendix D of the Budget document. This policy also applies to any new fee and charge that Council is eligible to charge under the Local Government Act, but has not previously been included in the Fees and Charges Schedule.

## POLICY

In developing this policy, Council acknowledges that there is a tension between the competing priorities of community service obligations, maintaining infrastructure and ensuring that ratepayers are not unduly burdened. However, financial resources, largely comprised of rate revenue, are limited. Therefore the pricing policy seeks to achieve the appropriate balance between these priorities, ensure that subsidies for community service obligations are justified and the recovery of costs as far as possible.

To implement the policy each Council Department is required to review their individual Fee's and Charges annually and to update the Fees and Charges Schedule that is included in the Budget Document.

For all fees and charges each Department is required to:

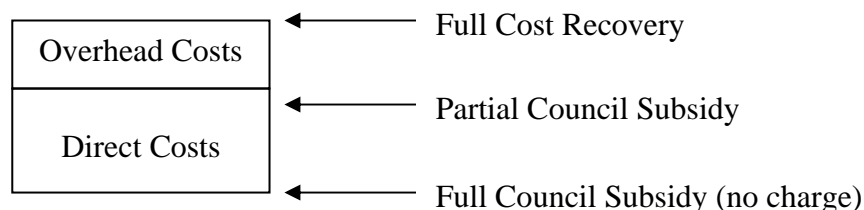
1. Determine the extent of cost recovery – refer to Cost Recovery Model.
2. Determine the Pricing of Services Principle that applies to each type of fees and charges – refer to Pricing Policy Principle Flow Chart.
3. Using Steps 1 and 2 above, determine the appropriate fee and charge to apply – refer to Pricing Principles.
4. Revise each fee and charge as appropriate and update the Fees and Charges Schedule to be included in the Budget document – refer to Fees and Charges Schedule in Budget document.

## Cost Recovery Model

In order to determine the extent of cost recovery to apply to the fees and charges, it is necessary to understand the relationship between cost and price. The relationship is graphically represented in the following Pricing Model.

### *Subsidy*

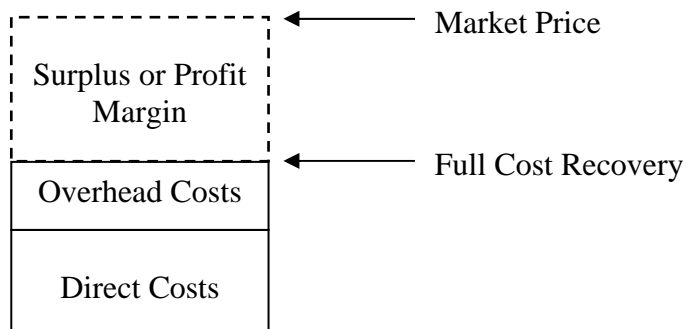
A subsidy occurs if the cost (including overhead costs) is greater than the price.



Therefore, **price = direct cost + overhead costs – subsidy**

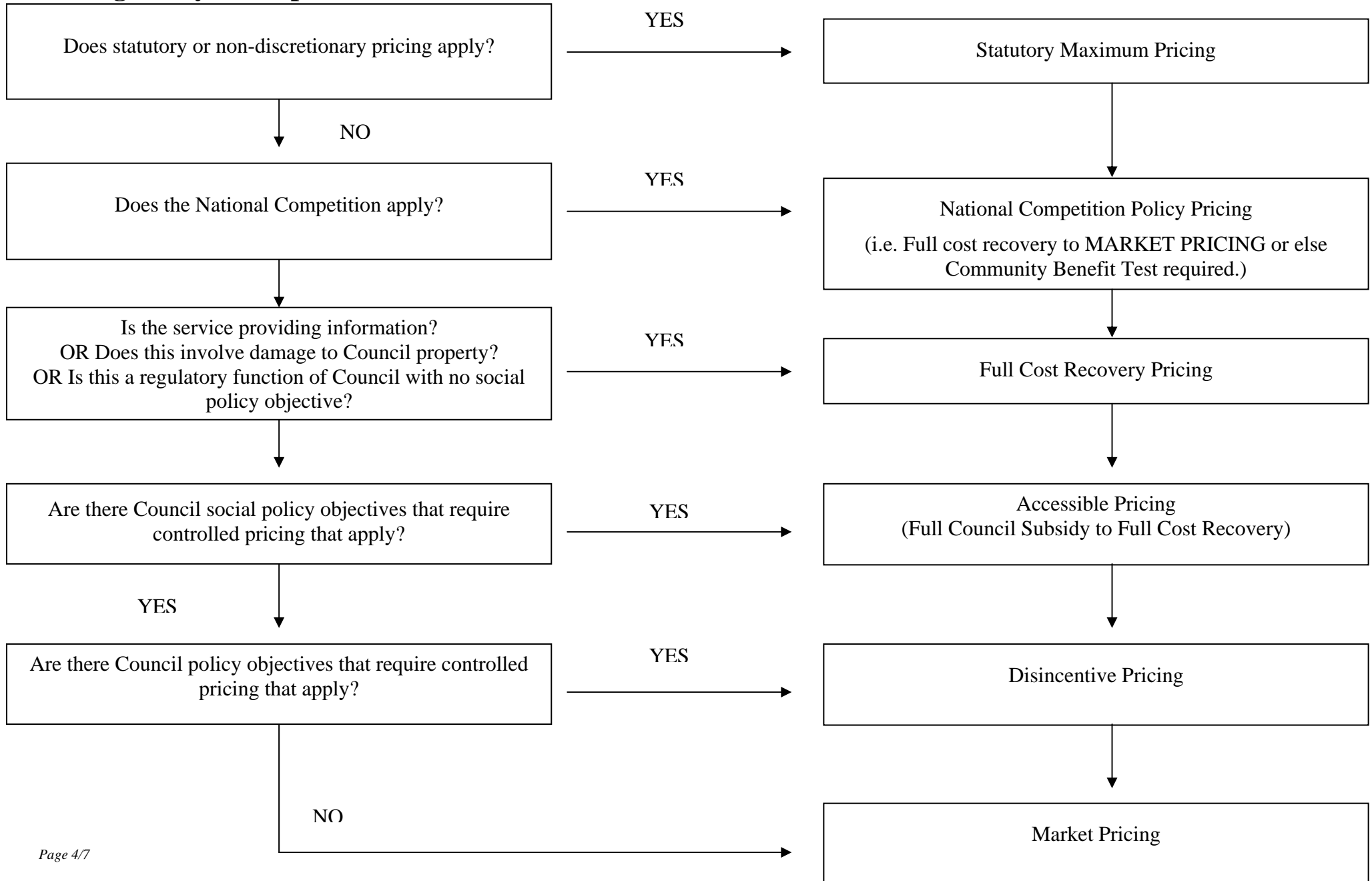
### ***Surplus***

A surplus occurs if the cost (including overhead costs) is less than the price.



Therefore, **price = direct cost + overhead costs + margin**

### Pricing Policy Principles – Flowchart



## **Pricing Policy Principles - Definitions**

The following pages describe each applicable pricing principle that is to be applied in each circumstance.

### ***Statutory Maximum or Non-Discretionary Pricing***

#### **Price at level set by statute.**

For some fees and charges Council's role is to administer services and apply fees set or controlled under statute or funding agreement. These fees may only provide a partial recovery of the cost of providing the service. Council set prices at the maximum available and there is no discretion available in setting the price above this amount.

Examples include specified Statutory Planning and Building Services fees and charges set by statute.

### ***National Competition Policy (NCP) Pricing***

#### **Price to ensure compliance with the NCP.**

Council is required to price services that compete in the open market on a 'level playing field' basis and to make any decision to depart from a commercial basis for pricing of services transparent. A significant business activity subject to NCP relies on other policy documents which describe how to identify a significant business activity, and the pricing requirements that flow from it.

Examples include Building Surveying and Recreation Centre fees and charges.

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

#### **Price to cover direct and overhead costs.**

These are services provided by Council that benefit individual customers specifically, rather than the community as a whole. The aim is to recover the direct and overhead costs associated with providing these services:

- Provision of information – This type of service involves the Council giving access to information, subject to compliance with information privacy and freedom of information.
- Damage to Council property – This involves the making good loss or damage to Council property.
- Regulatory function with no social policy objective – Council performs the role to regulate certain behaviour.

### ***Accessible Pricing***

#### **Price between full Council subsidy (no charge) to full cost recovery (covering direct and overhead costs).**

Council may have an applicable social policy objective that supports accessible pricing. The benefit of adopting a set of criteria to define a community service obligation is that it enables Council to critically examine the reasons for engaging in the provision of a service and subsidising it.

Appropriate situations for accessible pricing may be:

- Where the service benefits the community as a whole as well as the individual customer.

- Short term approach to stimulate demand for a service.
- Where charging prices at full cost recovered may result in widespread evasion or inappropriate adoption.
- Where the service is targeted at those with an inability to pay. In this case, concession fees may be considered depending upon the type of service being provided and the needs of the customer.
- 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.

Prices can be set from full Council subsidy (no charge) to full cost recovery with various levels of subsidisation in between. Accessible pricing will always 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.

Examples include Library Services and Family Services fees and charges.

### ***Disincentive Pricing***

**Price above full cost recovery (covering direct and overhead costs at a minimum).**

Council may have an applicable policy objective that supports disincentive pricing. Council performs the role to regulate and restrict certain behaviour.

Examples include various Local Laws fees and charges covering parking and animal management.

### ***Market Pricing***

**Price above full cost recovery (covering direct and overhead costs at a minimum) in line with benchmarked market prices.**

Includes services that provide discretionary activities without strong social policy objectives. These activities may provide revenue support and compliment other social policy actions.

Ideally, the price should be the greater of full cost recovery and a market based price. The price charged by competitors depends upon the marketing strategy that has been adopted and can be determined through benchmarking. If a price less than full cost recovery is contemplated, 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.

## **Final Review**

Finally all prices should be subject to a final review to ensure that the prices determined according to the principles described above are practical. Where a price determined according to the principles is considered impractical, Council may amend that price subject to regulatory requirements.

The final step in the process is to update the Fees and Charges Schedule annually prior to the release of the Proposed Budget document.

## **ACCOUNTABILITIES AND PROCEDURES**

### **Directors are responsible for:**

- Ensuring that the Pricing Policy is used to undertake an annual review of all fees and charges which relate to the Directorate.

### **Managers are Responsible for:**

- Undertaking an annual review of all fees and charges in accordance with the Pricing Policy and annual budget parameters;
- To identify any new fees and charges that should apply and seek approval from Business Development to include in the Fees and Charges Schedule.
- Update the Fees and Charges Schedule for inclusion in the Proposed Budget document prior to its release for Public Notice.

### **Employees are Responsible for:**

- Administering the fees and charges as contained in the Fees and Charges Schedule in the Budget document.
- Providing accurate information to facilitate an annual review of all fees and charges in accordance with the Pricing Policy.