

City of Boroondara  
Pricing Policy 2018

**Responsible Directorate:** Community Development

**Authorised By:** Council

**Date of Adoption:** 24 September 2018

**Review Date:** September 2022

**Policy Type:** Administrative

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# Introduction

The City of Boroondara provides a wide range of services, for which users pay a fee or charge which covers at least part of the cost of supply. The level of some fees and charges are statutorily set, however many are at the discretion of Council. Legislation provides for local governments to levy fees and charges.

Sound financial management of community service delivery requires fees and charges to reflect the cost of providing a service of a particular quality, moderated by considerations of affordability, accessibility and equity, as well as community expectations and values.

## Purpose

This Pricing Policy 2018 seeks to achieve an appropriate balance between the competing priorities of community service obligations, maintaining infrastructure and ensuring ratepayers are not unduly subsidising services used by some community members which do not have a broader public benefit.

It aims to establish robust principles and practices for fee and charge setting to ensure Council’s commitment to responsible financial management of municipal resources is achieved, while at the same time continuing to provide high quality, accessible services to the community.

## Scope

This Policy applies to:

* All members of staff with the responsibility for administering fees and charges for services.
* All permanent fees and charges are listed in the fees and charges schedule which is published annually in the Budget document.
* Any new fee or charge that Council is eligible to charge under the *Local Government Act 1989*, but has not previously been included in the fees and charges schedule.

## Corporate framework

This Policy supports the Revised Council Plan 2017-21 theme, Civic Leadership and Governance specifically:

* Strategy 7.2 - Ensure transparent decision making through open governance processes.
* Strategy 7.5 - Ensure sound financial management while allocating resources to deliver strategic infrastructure and services that meet community needs.

# Background

The City of Boroondara provides a wide range of services, for which users pay a fee which covers at least part of the cost of supply.

In 2010, the Victorian Auditor-General conducted an audit into the cost recovery practices of local governments through fees and charges (*Fees and Charges - Cost Recovery by Local Government*, VAGO, 2010). The recommendations of the report were supported in the Local Government Victoria Guide - *Revenue and Rating Strategy 2014*.

The Auditor-General stated “a widely accepted public sector 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.”

Both these publications focus on key areas of fee and charge setting including:

* Measurement of indirect costs incurred in delivering a service hence understanding the full cost of service provision.
* Compliance with National Competition Policy in order to not impact on the private sector.
* Understanding and making transparent the level of subsidy relating to services provided by Council
* Determination whether the service is a public or private good, i.e. whether the service provides a public benefit above that provided to the individual recipient.

# Pricing Policy principles - definitions

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

***Market Pricing***

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

This includes services that provide discretionary activities not mandated by legislation or agency agreements. These activities may provide revenue support and complement other social policy actions.

Ideally, the price should achieve full cost recovery and be at a level similar to those charged in the market as a whole. If a price less than full cost recovery is contemplated, Council may consider a review of whether it should provide the service, or whether there is a community service obligation that warrants a public interest test.

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. Any Council service that competes in the open market may be subject to competitive neutrality requirements if it is a significant business activity as determined by market share or sales volume.

***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.

Where the cost of provision of a service can vary due to operational factors between instances of service provision, full cost recovery in this context applies to the provision of a service to the community as a whole and not necessarily to individual instances of service provision.

Examples may include:

* Provision of information – This type of service involves the Council giving access to information, subject to compliance with information privacy and freedom of information requirements.
* Damage to Council property – This involves the repair/replacement of 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.
* Where charging prices at full cost recovery may result in widespread evasion or inappropriate adoption e.g. dumped rubbish.
* 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 of sufficient quantity to meet community need, at prices that would make the service appropriately accessible.

Prices can be set from full Council subsidy (no charge) to full cost recovery with various levels of subsidisation in between. Accessible pricing should always be based on knowledge of the full cost of providing a service and an understanding of the level of the subsidy being offered.

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 and prices for waste collection that are designed to minimise waste to landfill.

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

***Price at level set by statue***

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 departments should set prices at the maximum allowed by statute and increase fees as soon as the opportunity arises.

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

***Fee increases***

Price increases for fees should conform to the budget parameters for the respective financial year, subject to community service obligations, benchmarking or an assessment that determines the market place or the cost of the service requires a different fee adjustment.

The budget parameters for fees and charges will be based on the Victorian Consumer Price Index (CPI) as forecast by the Department of Treasury and Finance in the Victorian mid-year budget review normally published in December each year; and by labour cost escalation where this percentage increase is different to CPI. An exception to this guideline occurs for statutory fees which are discussed above.

Where higher or lower than budget parameter fee increases are proposed, benchmarking of other Council or competitor fees for the same service maybe undertaken for consideration by Councillors as part of the annual budget process.

## Policy environment

Council is empowered under the *Local Government Act 1989* to raise revenue in the form of rates, borrowings and grants and to impose equitable fees and charges for its services. In so doing, Council must remain compliant with the *Competition and Consumer Act 2010* and National Competition Policy.

This Policy incorporates the legislative imperatives of competitive neutrality, alongside recommendations of the Auditor-General and Local Government Victoria which require Council to develop and endorse central policies on fee and charge setting which provides guidance to staff on:

* Principles for fee and charge levels and their relationship to service delivery objectives.
* Appropriate fee and charge assessment methods, including factors to be considered in determining the required level of cost recovery.
* Procedures for assuring compliance with competitive neutrality requirements.
* Procedures for understanding the cost of service provision in order to recommend fee and charge levels appropriately.

The Auditor-General’s report states “A widely accepted public sector 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 doing so, Councils must apply principles of sound financial management and need to consider 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.

Councils must also comply with the governments Competitive Neutrality Policy for significant business activities they provide and adjust their service prices to neutralise any competitive advantages when competing with the private sector.

In keeping with the above,Council will implement fee and charge setting practices to assure decisions are evidence-based and demonstrate consideration of:

* Both the direct and indirect cost of goods and services to establish the full cost.
* Best Value principles including accessibility, affordability and the efficient cost of services.
* Competitive Neutrality Policy requirements.
* Understanding and making transparent the level of subsidy relating to services provided by Council.
* Determining whether the service is a public or private good, i.e. whether the service provides a public benefit above that provided to the individual recipient.

# Policy statement

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

Council must comply with the *Competition and Consumer Act 2010* with respect to those elements of Council operations that fall under the coverage of this Act. This includes services that provide discretionary activities not mandated by legislation or agency agreements.

Prices of services provided by Council should be reviewed at least annually using the more detailed guide which has been prepared to assist Council officers when setting fees and charges entitled, *"Guide to Reviewing Fees and Charges at Boroondara"* and with reference to the Pricing Principles.

Broadly, for all fees and charges each department is required to:

1. Determine the level of cost recovery being achieved including overhead costs (refer internal document, *Guide to Reviewing Fees and Charges in Boroondara*).
2. Increase at a minimum by the approved budget parameters, unless other factors indicate that increasing prices by applying the budget parameters would be inappropriate.

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

## 4.1 Responsible Financial Management

Council's financial resources are limited. The majority of Council's income comes from rates, with 5.7% of income raised through user fees and charges and 7.2% through statutory fines and charges in 2017-18. Although a relatively small proportion; fees and charges are an important source of income and increasingly so in a rate-capped environment.

Council’s commitment to responsible financial management means an appropriate balance between these priorities must be struck; ensuring subsidies paid to meet community service obligations are justified, and the costs of delivering services are recovered as far as possible.

**4.1.1 Provision of Agency Services**

Council provides agency services on behalf of other levels of government, funded at an agreed rate per service, for example a rate per hour or meal. Where the indexation of funding has not kept pace with increases in the cost of service delivery, ratepayers have subsidised the shortfall.

While it is acknowledged accessible pricing remains an important consideration in achieving the social policy objectives attached to those services, ratepayers ought not to bear an ever-increasing financial cost. Fairness and equity considerations require Council does not further increase subsidies to agency services. Instead, it will reduce service provision to a level that agency funding and the existing Council subsidy allows.

Tied grants that provide support to a Council service, such as public libraries, are not considered an agency service. This is because Council is able to determine the level of service to the community, including opening hours and number of locations.

In situations where users pay a fee toward the cost of an agency service, pricing guidance is often provided by the contracting agency. In keeping with the considerations indicated above, Council will charge the maximum permissible fee under the relevant guidelines. Where the agency service is essential to the health and wellbeing of clients, those who are experiencing financial hardship may apply for a fee waiver under the provisions of the Rates Deferment and Financial Hardship Policy 2010.

**4.1.2 Advocacy**

As noted in the Pricing Principles above, where a fee or charge is determined by statute, Council has no discretion to increase the fee or charge to achieve full cost recovery. The service is cross-subsidised by ratepayers who may never derive a benefit from the service. Council’s action in this case will be to advocate for a review of the fee or charge, and/or seek to have statutory control of the fee lifted.

# Implementation and monitoring

## Evaluation

The Policy will be evaluated through a review of the fees and charges submitted by Managers as part of the annual Budget adoption. This Policy will be reviewed every four years.

## Accountabilities

The Council department with responsibility for this Policy is:

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| --- | --- | --- |
| **Contact Department** | **Contact number** | **Contact email** |
| Finance and Corporate Planning | 9278 4340 | [boroondara@boroondara.vic.gov.au](mailto:boroondara@boroondara.vic.gov.au) |

**Directors are responsible for:**

* Ensuring 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.
* Identification of any new fees and charges should apply and contact Finance and Corporate Planning to include in the fees and charges schedule, following Council adoption.
* Updating the fees and charges schedule for inclusion in the proposed Budget document prior to its release for public notice.
* Understanding the level of subsidy being provided for Council services as they apply to the fees and charges policy.
* Ensuring the publicly available prices lists, websites, forms and notice boards are updated to reflect the Council approved fees and charges.
* Ensuring all electronic price lists are updated including the Property and Rating system.

**Officers are responsible for:**

* Administering the fees and charges as contained in the fees and charges schedule in the Budget document.

# References

* *Guide to Reviewing Fees and Charges at Boroondara -* internal document.
* *Fees and Charges - Cost Recovery by Local Government -* VAGO April 2010.
* *Assessing Local Government Revenue Raising Capacity -* Productivity Commission Research Report April 2008.
* *City of Boroondara Fees and Charges Review,* Internal Audit January 2013.