Pricing Policy
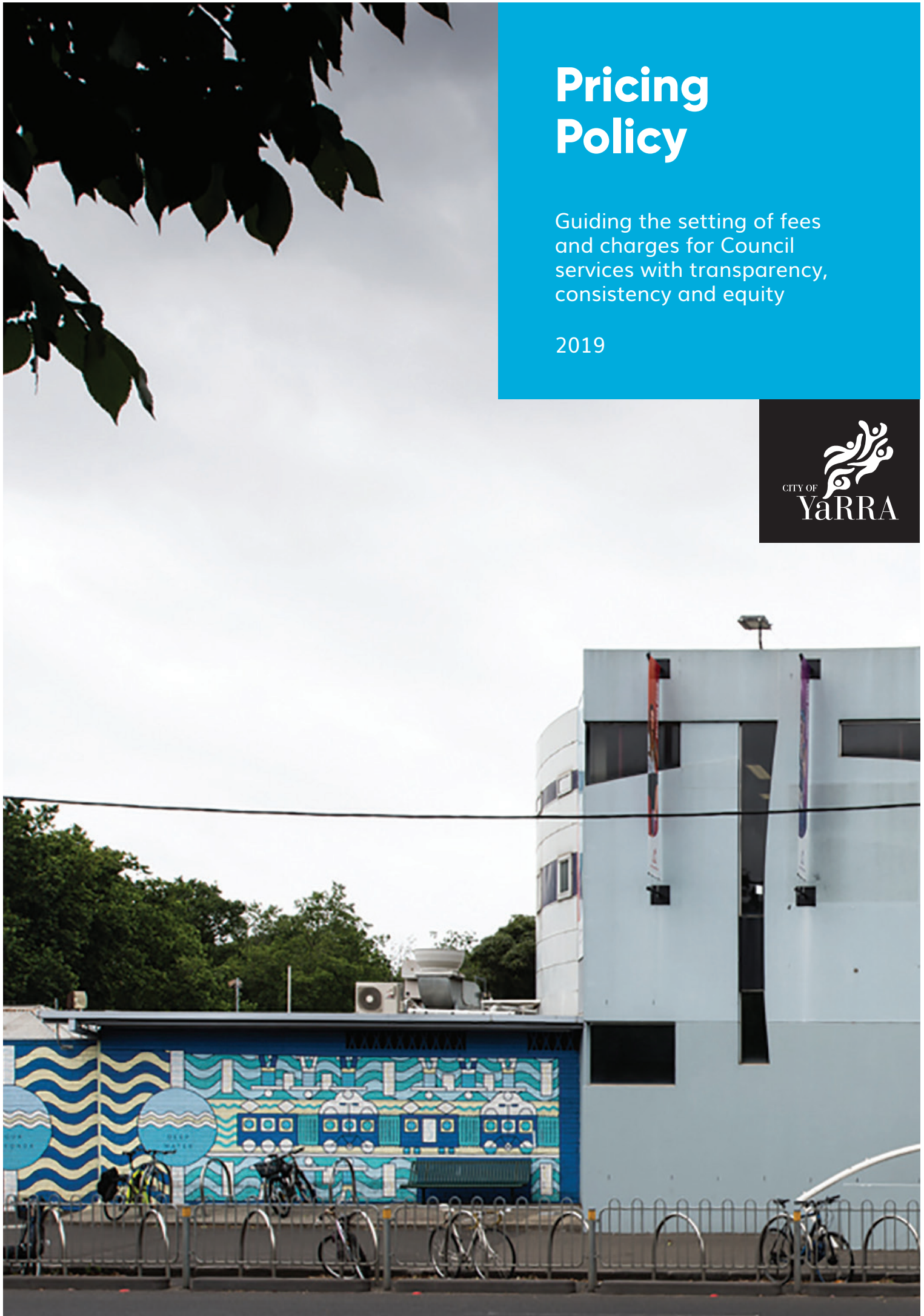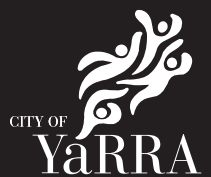
Guiding the setting of fees and charges for Council services with transparency, consistency and equity

2019

CITY OF
YaRRA

Acknowledgment of Country

Yarra City Council acknowledges the Wurundjeri Woi Wurrung people as the Traditional Owners and true sovereigns of the land now known as Yarra. We also acknowledge the significant contributions made by other Aboriginal and Torres Strait Islander people to life in Yarra. We pay our respects to Elders from all nations and to their Elders past, present and future.

Pricing Policy

1. Purpose

The Pricing Policy (Policy) establishes a consistent and transparent approach to the setting of fees and charges for transactional services delivered by Yarra City Council (Council). It takes into account community benefit, the needs and capacity to pay of particular user groups, the cost of running services and reflects corporate and strategic objectives.

The Policy provides the basis for which the Fees and Charges Schedule, adopted with the annual Budget, is developed and reviewed. It does this by providing:

• Principles that guide how Council sets appropriate fees for services.

• Pricing methods that indicate the extent to which:

– the general community benefits from a service, and therefore the extent to which the service will be subsidised from the rate base

– the user or person benefiting from the product or service, will be asked to contribute to the cost of service provision.

• Direction for Service Managers on how to set fees using pricing methods.

• Roles and responsibilities of administering this Policy, including review times.

2. Objectives

This Policy seeks to ensure that the following objectives are met:

• Council, officers and the community clearly understand the basis by which fees and charges are determined and applied to services.

• Council and officers are held accountable for fee setting decisions to ensure that strategic objectives are met and that services respond to community needs.

• Fees and charges are simple to administer so that resources are maximised.

• Council complies with all statutory and legislative requirements in setting fees.

3. Definitions

Community benefit	The degree to which benefits are accrued to just the individual, household or business receiving the service (private value), or whether benefits may be simultaneously generated for the broader community (public or social value).
Cost recovery	The recovery of some or all costs of service provision recouped through user fees and charges.
Direct costs	Costs that are directly related to the delivery of a specific service.
Fees and Charges Schedule	The list of fees and charges, submitted for approval to Council as part of the annual Budget process.
Full cost	Total costs, both direct and indirect costs, incurred in delivering a service.
Indirect costs	Costs that cannot be directly related to the delivery of a specific service. Also called a corporate overhead.
Public value	The value from services that are consumed collectively by the community rather than individually by the user. Examples include parks, clean air and street lighting. One person can consume these without reducing their availability to another person and nobody is excluded from consuming them.
Pricing method	The method for setting fees and charges which takes into account the costs of delivering the service, social policy objectives and community benefit. Pricing methods can be statutory or non-statutory.
Private value	The value derived by the user (i.e. an individual, household or business/organisation) who is receiving a service in a direct and typically voluntary, as well as generally economic, exchange.
Services	The wide variety of services, activities and facilities that Council provides to assist individual people, families and groups in the City of Yarra. Some services enforce various federal, state and local laws and Council has autonomy to provide services that meet the needs of the local community.
Social policy objective	The responsibilities, or obligations of Council, that are informed by the local community's needs, values, aspirations and priorities, and which are conveyed in strategic documents, for example the Council Plan.
Rate base	Council collects rates (or raises revenue) from residents and businesses to help fund local services and infrastructure. Property values are the basis for determining how much each property owner pays. The rate base refers to the revenue collected.

4. Background

Council provides a breadth of services to the community. In undertaking this role, Council assesses community needs and is guided by social policy objectives to determine which services it will support. Some services are required due to statutory obligations, whilst other services Council chooses to provide and at what level and quality.

In planning for a service, Council decides on the level of rate contribution it will allocate to support the service proportionate to its community benefit. Council places a high priority on ensuring accessibility to particular services and orientating them to its community. If the rate base does not cover the full cost of the delivering the service, the balance of the cost needs to be recovered from fees and charges or other revenue sources.

The underlying principle is that the role of the rate base is to finance the public value component of services and fulfil attendant social policy objectives; and that conversely, users are responsible for financing the cost of services from which they derive benefit, referred to as private value.

Fees and charges are significant from the perspective of the user and the rate payer. For the user, fees and charges represent the cost and value of resources used to produce the service, as well as setting an expectation about the level and quality. For the rate payers, fees and charges supplement Council's cost of delivering of a service and should lessen reliance on the rate base.

Fees and charges exist for different reasons. These include regulating behaviour to protect community health, safety and amenity; incentivising compliant behaviour; and enabling customer benefits that are sought by the user (i.e. they actively choose to partake in a service).

5. Scope

This Policy applies to services that have fees and charges listed in the annual Budget as well as any new fee or charge which has not previously been included in the schedule. The pricing for all non-statutory fees is determined in accordance with this Policy.

6. Principles

The following eight principles guide how Council sets fees and charges for its services:

1. Socially equitable
Council seeks to promote fair, just and equitable access to services.

2. Financially sustainable
Price-setting is informed by the cost of provision.

3. Transparent
Fees and charges are documented and presented in a way the community can understand.

4. Consistent
We set our fees and charges in a consistent way across Council services and facilities.

5. Promotes participation
Fees and charges are reflective of Council's commitment to supporting and promoting the participation of service target groups.

6. Reflects standard and quality
Our fee schedule recognises the size, standard and quality of the services provided.

7. Efficient to administer and regularly reviewed
Our fees and charges are simple to administer and review and in line with changes to service operating environments.

8. Recognises competitive neutrality obligations
We have regard to fees and charges of private competitors, except for services where there are no private competitors.
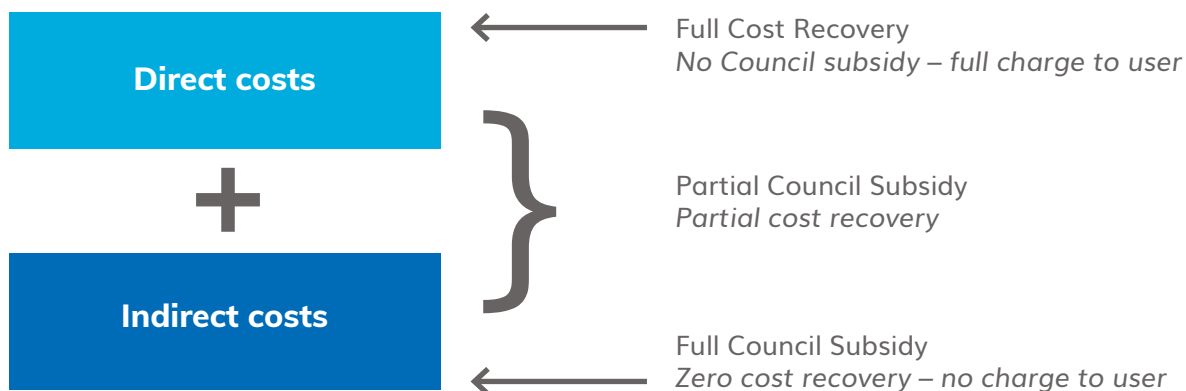
7. Cost recovery

Cost recovery involves Council charging a service user some or all of the costs to deliver a service. Cost recovery can promote equity, whereby the recipients of a service, rather than the general public, bear its costs.

Council incurs direct and indirect costs in delivering services to the community. Direct costs (e.g. wages for leisure staff) are directly traceable to the service. Indirect costs or overheads (e.g. information services) are not directly traceable and common to many services, requiring allocation in proportion to how the service uses the overhead.

Costs need to be recovered in some way: either from the users who benefit from the service; grants or government subsidies; or from the rate base where Council recognises a social policy objective. Many services are funded from more than one revenue source.

The desired degree of cost recovery influences pricing. As shown graphically below, full cost recovery is achieved when the price is set with the intention to cover full cost (direct + indirect). When prices are set below full cost recovery, Council makes this decision based on identified social policy objectives. If not, the rate base would be being used to subsidise a service that does not have value accruing to the broader community.

A subsidy occurs when the price does not cover full costs and there is recognised community benefit in covering a portion of the costs from the rate base. The degree of subsidy is proportionate to the level of community benefit.

Direct costs	Full Cost Recovery
	No Council subsidy – full charge to user
+	Partial Council Subsidy
	Partial cost recovery
Indirect costs	Full Council Subsidy
	Zero cost recovery – no charge to user

A consideration in setting fees are user volumes. These are used to determine the appropriate price per unit of a particular service (i.e. unit cost). When volumes are unknown, estimates are used and these are based on historical usage and other information that may shift user demand, for example:

Step 1: Establish the number of actual, estimated or intended users of the service.

Step 2: Calculate the unit cost of the service by dividing the total cost of the service by the number of actual, estimated or intended users.

8. Value to the community

Where Council sets prices for services Council determines the pricing method that is consistent with the level of individual and community benefit of the service. Council considers services at varying degrees along the public vs private value spectrum rather than one or the other. Council categorises its transactional services as being one of the following:

Public Value
Services that are consumed collectively and contribute to the community as a whole (rather than having an exclusive benefit to individual users). Council recognises a social policy objective and will fund the service entirely from rate revenue (with the possibility grant contributions).

• Likely pricing method: Full Council Subsidy

Note: Incentive pricing (see page 9) also seeks to contribute to the community as a whole, however this does not usually attract a Council subsidy.

Private Value
Services that benefit the individual user, who principally derive benefit from the service, rather than the community as a whole. Price for services with high private value aim to recover the full cost (both direct and indirect costs) from fees and charges and in some instances also generate a surplus.

• Likely pricing method: Full Cost Recovery or Market Pricing

Public value
Consumed collectively and contributes to the community as a whole

Mixed value
Benefits are derived for both the user and the community

Private value
Meets the user's needs and preferences who principally derive benefit
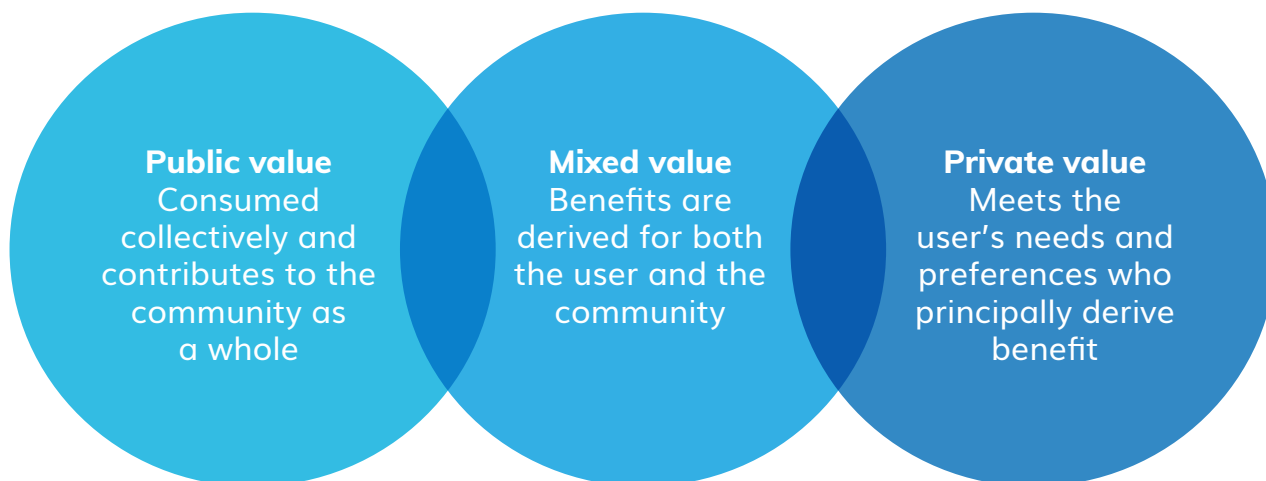
9. Pricing methods

There are a variety of pricing methods that Council uses when setting prices for services. In the first instance, fees and charges fall into two key categories; statutory and non-statutory.

Statutory pricing
The prices for some services are set or controlled under statute or funding agreement. This means that Council's role is to administer or deliver the service and apply the fees that are prescribed by state or federal government. These prices are set by legislation and may be below the full cost to deliver the service (i.e. the fee may only provide partial cost recovery). Council sets the maximum available.

Non statutory pricing
The prices for some services are not regulated by statute. For services that are subject to non-statutory pricing, there are a range of considerations that Council will take into account to determine the appropriate pricing method. These include: • The degree of private or public value of the service (see Section 8) • Competitive Neutrality requirements (see Section 10) • Benchmarking with other providers • Service delivery objectives • Financial implications.

Non-statutory pricing methods	
Full Council Subsidy *All cost is at Council's expense. There is no charge to the customer*	A full Council subsidy occurs when all costs (direct and indirect) are funded entirely from the rate base and there is zero cost to the customer. Application: *where no charge to a customer will deliver community benefit and/or makes a service accessible to low-income or disadvantages users (public value).*
Partial Council Subsidy *Price between full subsidy and full cost pricing*	A partial Council subsidy occurs when some costs are recovered. A portion of the cost is funded from the rate base or other revenue sources and a portion of the cost is funded by the customer. Application: *where Council recognises community benefit as well as individual benefit (i.e. there is shared benefit).*

Non-statutory pricing methods	
Full Cost Recovery *Price intends to cover direct and indirect costs, and in some cases there may be an allowance for profit.*	Full cost recovery occurs when all costs (direct and indirect) are intended to be recovered from the customer. There is no intent to subsidise the service. Application: *the service primarily benefits the individual user rather than the community as a whole.*
Market Pricing *Price is reflective of competitive market considerations. Competitive neutrality is given due consideration.*	Market price occurs when the service competes with others and there is pressure to set a price that will attract adequate usage of the service. Competitive Neutrality applies and the price must be consistent with the Competitive Neutrality Policy guidelines. Application: *the service primarily benefits the individual user, competes in a competitive market environment and the price must create a level playing field.*
Incentive Pricing *Price to cover full cost at a minimum and to encourage certain behaviour.*	Incentive pricing occurs when full cost is recovered and in some cases the fee can generate a surplus (profit). Application: *The fee is issued to encourage compliant behaviour for the greater good and can act as a penalty for breaking rules and local laws. Council performs the role to regulate and restrict certain behaviour/activities*

10. Competitive Neutrality

Council is subject to the provisions of the National Competition Policy and Victoria's Competitive Neutrality Policy (CN Policy).

CN Policy measures are designed to achieve a fair market environment i.e. government business activities, for example child care or leisure services, should not enjoy net competitive advantages over private sector competitors simply by virtue of public ownership.

The CN Policy states that it is appropriate to apply competitive neutrality principles when the business activity is significant; the benefits outweigh the costs; and it does not compromise other government objectives. Decisions on competitive neutrality must be documented in a manner sufficient to satisfy the accountability and transparency expected under the CN Policy.

11. Price setting process


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┌─────────────────────────────────────────────┐   Yes   ┌──────────────────────────┐
│   1. Does Statutory pricing apply?            │────────▶│   Statutory Pricing       │
└─────────────────────────────────────────────┘          │   Price set by Statute    │
                    │ No                                   └──────────────────────────┘
                    ▼
        ┌──────────────────────────┐
        │   Non-Statutory Pricing   │
        │   Price set by Council    │
        └──────────────────────────┘
                    │
                    ▼
  ┌─────────────────────────────────────────────┐
  │ ┌────────────────────┐ ┌────────────────────┐│
  │ │ 2a. Establish full │ │ 2b. Establish or   ││
  │ │ cost of service    │ │ estimate user      ││
  │ │ delivery (direct + │ │ numbers and        ││
  │ │ indirect costs)    │ │ calculate the unit ││
  │ │                    │ │ cost of service    ││
  │ └────────────────────┘ └────────────────────┘│
  └─────────────────────────────────────────────┘
                    │
                    ▼
  ┌──────────────────────────┐   Yes   ┌──────────────────────────┐
  │ 3. Does Competitive       │────────▶│   Market Pricing          │
  │ Neutrality Policy apply?  │         │   Set a competitive       │
  └──────────────────────────┘         │   neutral price           │
                    │ No                └──────────────────────────┘
                    ▼
  ┌──────────────────────────┐   Yes   ┌──────────────────────────┐   Yes   ┌──────────────────────────┐
  │ 4. Does the service       │────────▶│ 5. Is the service provided │────────▶│   Incentive Pricing       │
  │ contribute to a social    │         │ to encourage compliant     │         └──────────────────────────┘
  │ policy objective?         │         │ behaviour i.e. regulation  │
  └──────────────────────────┘         │ and local laws?            │
                    │ No                └──────────────────────────┘
                    ▼                                │ No
  ┌──────────────────────────┐                       ▼
  │   Full Cost Recovery      │   ┌─────────────────────────────────────────────┐
  │   or Market Pricing       │   │ 6. Consider the community benefit spectrum –  │
  └──────────────────────────┘   │ to what degree are benefits accrued to the    │
                                  │ individual and/or broader community?          │
                                  └─────────────────────────────────────────────┘
                                      │              │              │
                                      ▼              ▼              ▼
                              ┌───────────┐  ┌───────────┐  ┌───────────┐
                              │High degree│  │ Shared    │  │High degree│
                              │of Public  │  │ Value     │  │of Private │
                              │Value      │  │           │  │Value      │
                              └───────────┘  └───────────┘  └───────────┘
                                      │              │              │
                                      ▼              ▼              ▼
                              ┌───────────┐  ┌───────────┐  ┌───────────┐
                              │  Full     │  │ Partial   │  │ Full Cost │
                              │  Council  │  │ Council   │  │ Recovery  │
                              │  Subsidy  │  │ Subsidy*  │  │ or Market │
                              └───────────┘  └───────────┘  │ Pricing   │
                                                             └───────────┘
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*This pricing method will result in varying ratios of subsidy and cost recovery dependent on the service

12. Concession guidelines

Following the decision about what pricing method to use for a service, Council considers the capacity of users to pay and offers concessions to make some services more affordable for eligible members of the community. Concessional pricing aims to remove barriers to participation for low-income earners and people in the community who people who need it most. Concessions are given as a deduction on a fee or charge i.e. a discounted price.

Guidelines:

• Any person who holds an eligible concession card is eligible for a concession discount. For most individual concessions, the required cards are shown in the table below.

• For group or organisation concessions, proof of eligibility needs to be demonstrated.

• Rounding will occur on the deducted %.

• Generally, only one concession can be applied per fee or charge.[1]

Eligible concessions	
Individual concession	Centrelink Health Care Card
	Centrelink Pensioner's Card
	Veterans Affairs Pensioner or Gold Card
	Child or youth
	Victorian Seniors Card
	Full-time Students (with proof of current enrolment)
Organisational concession type	Charity organisation[2]
	Not-for-profit organisation
	Community groups
	Schools
	Organisation/group located in Yarra

13. Goods and Services Tax

Goods and Services Tax (GST) of 10% is payable on some services provided by Council. Some services provided by Council have been declared 'GST free' or excluded under section 81-5 of the *A New Tax System (Goods and Services Tax) Act 1999*. The Fee and Charge Schedule identifies where GST is applicable or not applicable.

[1]More than one concession may apply for certain services or target groups.
[2]To be eligible, you must be registered with the Australian Charities and Not-for-profit Commission.

14. Review process

All fees and charges will be reviewed annually during budget planning, however it is at the discretion of Council to amend fees and charges outside of the annual review period. The review process is the responsibility of Directors and Service Managers and it will:

• Be guided by the Pricing Policy principles.

• Reflect current social policy objectives and strategic priorities of Council as set out in strategic Council documents (i.e. Council Plan and other strategies).

• Consider service costs and any changes that may impact on these.

• Give regard to the prices charged for similar services delivered by other providers (applicable for services that compete with alternatives).

15. Transition period

The application of this Policy will be incremental. Where there is significant difference between current and new prices as a result of the implementation of this Policy, Council will consider phasing increases over a period of time.

16. Implementation and responsibilities

The implementation of this Policy is dependent on the following responsibilities being fulfilled:

• Council is responsible for endorsing the pricing for fees and charges as set out in the annual Budget in accordance with this Policy.

• Directors are responsible for ensuring Service Managers undertake an annual review of all fees and charges in accordance with this Policy, and that the Policy is used as a part of the Budget development process.

• Service Managers are responsible for annually reviewing fees and charges, with respect to Section 14 Review process; identifying any new fees and charges that should be applied; and updating the fees and charges schedule for inclusion in the proposed Budget.

• Officers are responsible administering the fees and charges as set out in the schedule in the annual Budget.

• Providing accurate current information to Service Managers as it relates to matters that influence the setting of fees for services, for example costing information, benchmarking of other providers and community needs.

17. Explanatory notes

- Council is empowered under the Local Government Act to set fees and charges to offset the cost of their services.
- Council is required to set prices with respect to National Competition Policy (Federal Government) and Competitive Neutrality Policy (State Government).

For further information related to this policy and referenced legislation see:

- *Local Government Act 1989*
- National Competition Policy
- Competitive Neutrality Policy (Victoria)
- *A New Tax System (Goods and Services Tax) Act 1999*
- Fees and Charges – Cost Recovery by Local Government. Victorian Auditor-General's Report April 2010.
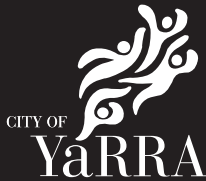
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Translations

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