

Pricing Policy: Principles and Basis

1 Purpose of Policy

To enable a pricing basis determination based on guiding principles, with respect to fees and charges made by Council under s608 of the *Local Government Act 1993* (the Act) and required to be shown in Council's *Community Strategic Plan* under s404(1) of the Act, in order to attain consistent application across all Council services.

2 Principles

That fees and charges made under s608 of the Act be classified according to the following pricing basis (*Department of Local Government Competitive Neutrality Guidelines, 1997*) as outlined below:

Pricing Basis	Description
Full Cost Recovery	Council recovers all direct and indirect cost of the service (including depreciation of assets employed).
Partial Cost Recovery	Council recovers less than the Full Cost (as defined above) (the reasons for this may include community service obligation or prioritises or legislative limits on charging).
Legislative Requirements	Price of the service is determined by Legislation and dependent on price may or may not recover Full Cost.
Market Based Pricing	The price of the service is determined by examining alternative prices of surrounding service providers (this also may or may not recover the full cost of the service). eg. Children's Services, Certification Services and Glen Street Theatre.
Zero Cost Recovery	Some services may be provided Free of charge and the whole cost determined as a community service obligation and or may fall within class of a public good.
Rate of Return	This would include Full Cost Recovery as defined above in addition to a profit margin to factor in a return to Council for assets employed.

3 Factors considered when determining the amount of the fee for service.

In applying the above pricing basis to fees and charges made under s608 of the Act, Council should take into consideration the following factors as outlined in s610D of the Act:

- a) The cost to the council of providing the service – The full cost method being used as a benchmark in this instance.
- b) The price suggested for that service by any relevant industry body or in a schedule of charges published, from time to time by the Office of Local Government.
- c) The importance of the service to the community – This would need to be considered in determining any potential community service obligation under a Partial Cost or Zero Cost Recovery method but could also apply to services where other pricing methods were used.
- d) Any factors specified in the regulations – This would be applicable to the Legislative and Regulatory methods but may also effect other pricing arrangements.

Other factors not specifically mentioned under s610D but also to be considered are detailed below:

- Whether services supplied on a commercial basis as part of a defined Council business – In such a case would likely to apply a Rate of Return method subject to market constraints.
- The capacity of the user to pay – In this regard services identified where by their commercial nature it is possible to build into pricing a rate of return for Council assets employed (Rate of Return).
- Market prices (Market Based Pricing method).

4 Principles

Guiding principles have been developed and are attached to this policy.

5 Authorisation

This Policy was adopted by Council and is effective from 28 March 2017.

It is due for review on 28 March 2021.

6 Who is responsible for implementing this Policy?

Chief Financial Officer.

7 Document owner

General Manager.

8 Legislation and references

- s404 and ss608 – 610 (inclusive) of the *Local Government Act 1993*.
- Pricing and Costing for Council Businesses, A Guide to Competitive Neutrality, Department of Local Government, 1997.*

10. Document History

Revision	Date	Change	TRIM Ref
1	13/12/2016	Draft Pricing Policy: Principles and Basis	2016/386055
1	28/03/2017	Adopted by Council – no changes to draft policy	2016/386055
2	2/8/2019	Approved by CEO – minor wording changes	2019/435456

PRICING POLICY – BASES, PRINCIPLES & CODES

WHY SHOULD I APPLY A PARTICULAR PRICING BASIS?

WHICH OPTIONS I HAVE TO APPLY A FEE?

Pricing Principles			Examples	Codes	Pricing Bases	
Private Good	Service benefits particular user, making a contribution to their individual income, welfare or profits without any broader benefits to the community.	Application Fee for drainage easement				
Monopoly	Council has a monopoly over provision of the service and there is no community service or equity obligation.	Abandoned vehicles – removal and storage. Standard fee to be paid prior to release of the vehicle				
Development	Fee set will enable Council to develop and maintain a service	Domestic Waste Management Charge	→	F	Full Cost Recovery	Council recovers all direct and indirect cost of the service (excluding depreciation of assets employed)
Contribution	Charges levied to compensate community for an increase in demand for services or facilities as a consequence of a development proposal	Section 94 and 94A Contribution Plans				
Regulatory – non fixed	Fee charged to cover costs incurred in legislative requirements where no community service obligation exists.	The Government Information Public Access (GIPA) Act 2009				
Shared benefits	The community as a whole as well as individual users (Community Service Obligation).	Hairdressers, Beauty Salons and Skin Penetration Inspection Fees				
Stimulus	A stimulus to the demand for the service is required. In the short term, only part of the cost of the service is to be recovered	Aquatic Centre - Recreation Programs				
Evasion	Charging prices to recover full cost may result in widespread evasion	Tree Preservation Orders	→	P	Partial Cost Recovery	Council recovers less than the Full Cost as defined above (the reasons for this may include community service obligation or prioritises or legislative limits on charging)
Equity	The service is targeted to low income users	Youth Program Fee				
Economic/ social/ community welfare	Service promotes or encourages local economic or social activity	Community Centres				
Regulatory - fixed	Fixed by legislation	Certificates for Classification of Council Land	→	L	Legal Requirements (Regulatory)	Price of the service is determined by Legislation and dependent on price may or may not recover Full Cost
Market	Service provided is in competition with that provided by another agency (private or public) and there is pressure to set a price which will encourage adequate usage of the service	Copying of documents, Construction Certificate prices, Glen Street Theatre ticket prices	→	M	Market Based Pricing (Reference Pricing)	The price of the service is determined by examining alternative prices of surrounding service providers (this also may or may not recover the full cost of the service)
In-house	Service provided predominantly for Council use but sale to external markets may defray costs	Human Resources Training				
Public Good	Service provides a broad community benefit inconceivable or impractical to charge for service on a user basis	Internet – public access				
Practical Constraint	Service is a minor part of the overall operation of the Council or the potential for revenue collection is so minor as to be outweighed by the costs of collection	Fee for participation in workshops, markets or events	→	F	Zero Cost Recovery	Some service may be provided free of charge and the whole cost determined as a community service obligation or may fall within class of a public good
Cost-plus activity	The service is a profit making activity and the price paid by users should recover an amount greater than the full cost of providing that service	Civil works on behalf of developers, the public & other third parties				
Penalty	Fee charged is greater than cost of the service so as to act as a disincentive	Dishonoured cheque fee	→	R	Rate of Return (RoR)	This would include Full Cost Recovery as defined above in addition to a profit margin to factor in a return to Council for assets employed and this pricing would normally be used by Council defined business activities (Category 1)
Utility	Fee charged for possession, occupation or enjoyment of Council Land, Public Land and Air Space by Gas, Electricity, Telecommunications and Water Utilities	Annual compensation fee for telecommunications facility on Council controlled land				

Competitive Neutrality Principles

In 1995 the NSW Government agreed, along with the Commonwealth and other State and Territory Governments, to implement competitive neutrality principles as part of its commitment to National Competition Policy (NCP).

The purpose of competitive neutrality policy is the elimination of resource allocation distortions arising from public sector ownership, where publicly owned business activities compete with the private sector. The intention is that publicly owned businesses should not enjoy any net competitive advantage as a result of public sector ownership. Such action removes potential market distortions and promotes an efficient allocation of resources between public and private businesses.

Typically, the application of competitive neutrality principles may require adjustments to the price of a good or service that make allowance for the following:

- taxes that may not be paid by a government business but would be paid by a private sector competitor;
- the cost of capital;
- any other material costs not borne by a government business purely as a result of its public ownership status.

Accordingly, when Council competes in the market place it should do so on a basis that does not utilise its public sector position to gain an unfair advantage over a private sector competitor. The principle of competitive neutrality applies to council business activities only. It does not apply to non-business, non-profit activities.

Council needs to look at the wide range of functions it performs to determine what its business activities are. One of the first matters for consideration will be the objectives that council has for the activity. Other factors are listed below. They are not exhaustive. Nor is a council obliged to consider an activity as a business because it satisfies one or more of the criteria. Council has a discretion as to whether it will treat an activity as a business. However, council must be able to justify any decision if requested by the community (or if a complaint is made in relation to unfair competition). The issues include:

- **Is the activity intended to make a profit?** An activity which is intended by council to make a profit clearly has a strong business element to it.
- **Does council bid for external contracts?** Any activity in which council bids for external contracts should be regarded as a business activity. For example, council's staff may tender for external contracts as well as providing internal services. Despite the in-house element of the activity, the decision to tender externally means that the council should regard the whole of the activity as a business, unless the internal unit and external bidders are completely separate.

Similarly, if a council unit intends to or has participated in a competitive tendering process called by council, the activity of the unit should be regarded as a business activity.

- **Is the activity provided on a fee for service basis?** A wide range of activities could be included in this. Once again, council will need to balance this element with others in any decision.
- **What economic impact does the activity have?** For example, a small scale activity, possibly included within a larger function, may not have a significant effect on the local or regional economy. It may also be inefficient to separate it from the larger function.
- **What is the nature of the activity and how important is it to customers?** A particular type of activity may be difficult to treat as a business, for example some community service functions. The reverse may also be true in relation to some activities.