



## **Appendix 3c**

### **18.3 Review of Policies**


*CP047: User Fees and Charges*

# **Ordinary Meeting of Council**

Wednesday 24 November 2021 at 7:00pm

Queenscliff Town Hall

## COUNCIL POLICY

<b>User Fees and Charges</b>	<b>Adopted By Council:</b>	28/03/2019	
	<b>Date/s Revised:</b>	Xx/2021	
	<b>Next Review Date:</b>	xx/2024	
	<b>Document No:</b>	CP047	
	<b>Directorate:</b>	Finance & Corporate Services	
	<b>Responsible Officer:</b>	Manager Finance & Corporate Services	

### CONTEXT

User fees and charges comprises of statutory fees and fines, levied in accordance with legislation, as well as fees charged to users for specific Council's services. All user fees and charges are included an appendix to the Council's adopted budget each year.

Council provides a wide range of services to the community of the Borough of Queenscliffe. Some of these services are required due to statutory or legislative obligations, while for other services Council has discretion in deciding whether or not to provide the service, the quality of service to be provided and what portion of the cost of such services will be passed on to users in the form of user fees and charges. It is important to note that costs which are not funded by user fees and charges will have to be funded from the rates budget, i.e. it comes off bottom line funds available for service delivery and capital works.

Income from user fees and charges averages 17% to 20% of total operating income of Council.

In setting its annual budget, Council notes that increases in statutory fees are made in accordance with legislative requirements, while the key principle for determining the level of user charges has been to ensure that increases reflect Consumer Price Index (CPI) increases or market levels. Most user fees income budgets are based on historical experience, given the difficulty in estimating volumes of activity, with the forecast revised during the financial year as new information becomes available.

### PURPOSE

The purpose of this policy is to supplement Council's Revenue and Rating Plan, for the setting of fees and charges, which is applied consistently across the Borough in order to enhance accountability and provide transparency to the community in Council's decision making process.

This policy applies to all fees and charges listed in the annual budget, as well as any new fee or charge which Council is eligible to charge under the Local Government Act 2020 (the Act) which may not have previously been contained in the schedule of fees and charges included in Council's annual budget.

The policy is used to assist in determining when Council will, and will not, apply full cost recovery in the setting of user fees and charges. While a full cost recovery basis for setting fees ensures that both efficiency and equity objectives are achieved, there are nevertheless circumstances in which it may be desirable to recover at less than full cost, or not to recover costs at all.

## DEFINITIONS

<b>Consumer Price Index (CPI)</b>	CPI measures changes in the price level of a market basket of consumer goods and services purchased by households. It is a statistical estimate using the prices of a sample of representative items whose prices are collected periodically. Annual change is used as a measure of inflation.
<b>Cost recovery</b>	The level of costs to be recovered from users of the service.
<b>Full cost recovery</b>	The full cost of delivering a service is calculated, using direct costs and indirect costs. After deducting any grants or other income, the balance will be recovered by the application of user fees and charges.
<b>Direct costs</b>	Those costs, captured at activity level, which can be readily attributed to a service because the costs are incurred exclusively for that service.
<b>Indirect costs</b>	Other costs which support the service, e.g. percentage of management time, administration costs and/or a share of asset maintenance costs.
<b>National Competition Policy</b>	Applies to the significant business activities of publically owned entities.
<b>Service</b>	A collection of tangible and intangible benefits that can be offered and consumed. Service provision requires work to be done by one or more people, for the benefit of others.
<b>Significant business activity</b>	Service which is defined as commercial and competes against other providers of the same service.
<b>Statutory fees and fines</b>	Fees and fines levied in accordance with legislation. Comprises of town planning fees, infringements and costs, permits, land information certificates and Penalty Enforcement by Registration of Infringement Notice (PERIN) court recoveries.
<b>User fees</b>	Relates to the recovery of service delivery costs, through the charging of fees to users of Council's services. Comprises of tourist parks, boat ramp, aged services, registrations, valuations and supplementary charges, building services, tourism and other minor fees.

## POLICY

The policy principles that form the basis of this policy are:

- Fees and charges are raised to increase revenue available to Council in supporting the cost of service delivery, support Council's medium to long term service delivery objectives and long term financial sustainability, and help users understand the value and benefits they obtain when accessing services;
- Full cost recovery promotes efficient allocation of resources by sending the appropriate price signals about the value of all resources used in the provision of Council's services and/or regulatory activity. It also promotes equity by ensuring those who have benefited from Council-provided services and/or regulatory activity pay the associated cost, while those who do not benefit do not have to bear costs;
- There are situations in which full cost recovery may not be desirable, in which case either partial cost-recovery or a nil charge may be applied by Council;
- Council's tourist park fees are applied at a higher level than the cost of the tourist park service itself (i.e. market pricing) to ensure a level of revenue is generated which also contributes to the cost of maintaining crown land reserves over which Council has Committee of Management responsibility;

- Council will provide improved transparency to the community by indicating the level of contribution from the rates budget, cost recovery and fee setting criteria.

### 1. Legislative requirements

The Local Government Act 2020 (the Act) gives councils the power to set 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 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.

### 2. Circumstances in which full cost recovery may not be desirable

Full cost recovery may not always be the desired option for Council, with the situation under which a partial or nil cost recovery may be more appropriate including the following circumstances:

- practical implementation issues make cost recovery infeasible;
- there are benefits to unrelated third parties (sometimes referred to as 'positive externalities')
- social policy or vertical equity considerations are considered to outweigh the efficiency objectives associated with full cost recovery; and/or
- full cost-recovery might adversely affect the achievement of other government policy objectives.

### 3. User Fee Decision Matrix

Council's user fees and charges policy is underpinned by the User Fee Decision Matrix, which provides a standardised approach in determining the contributions to be provided by users toward a service compared with the amount funded from the rates budget. This matrix is tabled below.

% from rates budget	Fee setting criteria	Cost recovery	Constraints
100% rate funded	No fee or charge levied	No cost recovery	N/A
Partially rate funded	Fee set by Council (discretionary)	Partial cost recovery	Impediments may prevent targeted cost recovery (e.g. set by statute)
0% rate funded	Fee set by legislation	Full cost recovery	Impediments may prevent full cost recovery (e.g. set by statute)
	Fee set by Local Law		
	Fee set by funding agreement		
	Fee set by Council (discretionary)	Market driven (must be full cost recovery plus margin)	This service is a significant business activity and subject to National Competition Policy

This User Fee Decision Matrix is based on the following:

- 3.1 The identification of services which Council provides;
- 3.2 Determining if the service has general or specific users. Services which are typically provided for the broader community, such as public open space, will not attract fees and charges.
- 3.3 Understanding the fee setting criteria, that is the type of fees and charges for the service may be subject to statute, local law, schedule of fees or the discretion of Council. The type of fees and charges will determine any restrictions on setting the price.
- 3.4 Determining if the service is a significant business. To comply with National Competition Policy, councils need to identify their significant business activities and adjust their prices, where relevant, to neutralise any competitive advantage when competing with the private sector e.g. fees of Council's tourist parks.
- 3.5 Classification of the cost recovery for the service will determine the total revenue from fees and charges. Individual fees and charges will then be set based on fees and charges setting criteria.
- 3.6 The level of contribution to be funded from the rates budget will be determined by Council, based on community needs and policy objectives. Services that are likely to attract a contribution from the rates budget are those which provide a broader community benefit, as well as benefits to the individual users. The target that is set will be endorsed by Council and used by the financial services team to calculate the required total fees and charges income. Individual fees and charges will then be set for each service, based on expected usage.

Council will develop a table of fees and charges as part of its annual budget each year. Proposed pricing changes will be included in this table and will be communicated to stakeholders before the budget is adopted, giving them the chance to review and provide valuable feedback before the fees are locked in.

#### **CONTINUOUS IMPROVEMENT**

This policy will be reviewed as a minimum in the first year of each new Council term, and as required.

#### **OTHER REFERENCES**

Local Government Act 2020

Victorian Auditor-General's Report, April 2010: *Fees and Charges – Cost Recovery by Local Government*

**END**