

# **Adopted Council Policies - Fees and Charges**

## **Financial Management Principles 2021 – 2025**

### **7. User Pays Principle**

Council will set user fees and charges for certain services through its annual budget and will determine movements in fees and charges with reference to changes in the cost of service delivery. This will include deliberative engagement, as outline in the Council's Community Engagement Policy, with the community on the proposed fees/charges prior to their adoption in any given year.

Council will apply competitive neutrality pricing principles to fees and charges for any services that are subject to market competition. Statutory fees determined by other levels of government will be set at that level.

Council will have regard to the following factors when determining the level of other fees and charges – user capacity to pay; equity in the subsidisation of similar services; addressing disadvantage in particular parts of the community; community and environmental benefits; and benchmarking of similar charges by other councils. The key principle that will apply is that the higher the level of private benefit, the higher the proportion that will be paid by the user, and the lower the level of Council subsidy. All Council charges will be calculated on a full economic (including direct/indirect (overhead) operating and capital replacement expenses) cost recovery basis; with any discounts, rebates or concessions applied based on the assessment the factors identified above.

Council will review and where appropriate adopt new fees and charges for services where there is a high level of private benefit to users and/or there is a significant public/economic activity policy benefit derived from the implementation of the new fee or charge.

## **Revenue and Rating Plan 2021 – 2025**

### **8.1 User Fees and Charges**

The City of Stonnington 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 (for further details please refer to Council's Financial Management Principles policy) 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.

## Attachment 2

Council's financial resources are limited. The majority of Council's revenue comes from rates, with 10.7% of income raised through user fees and charges and 10.3% through statutory fees and fines charges. Although a relatively small proportion; fees and charges are an important source of income and increasingly so in a rate-capped environment.

Examples of user fees and charges include:

- Kindergarten central registration and enrolment fees
- Meeting or Facility room hire
- Equipment hire fees
- Waste Management fees
- Active Ageing service fees.

Services funded by fees and charges provide enhanced community wellbeing. Council's Financial Strategy Principle on the Pricing of Services requires that fees and charges for services be set having regard to specific policies in applicable areas of Council, whilst incorporating cost recovery principles and marketplace competition.

Council's Financial Management Principles policy and internal guide to reviewing fees at Stonnington, ensures that fees are set in line with the objectives of supporting the community and balancing this with ensuring those that receive the benefit of services pay for these services. When setting fees and charges factors considered include the users capacity to pay, equity in the subsidisation of services, community service obligations, statutory or service agreement limitations and results of benchmarking of similar services.

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

Councils must also comply with the Federal government's 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 providing services to the community, Council must determine the extent of cost recovery for particular services consistent with the level of both individual and collective benefit that the services provide and in line with the community's expectations.

Services are provided on the basis of one of the following pricing methods:

- A.** Market Pricing
- B.** Full Economic Cost Recovery Pricing
- C.** Accessible Pricing (Subsidised Pricing)
- D.** Disincentive Pricing.

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

### **Market Pricing (A)**

## Attachment 2

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 economic cost recovery (including both direct and indirect costs plus the present and future cost of asset works) and be at a level similar to those charged in the market as a whole. If a price less than full economic 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 Economic Cost Recovery Pricing (B)

Full economic cost recovery price (B) aims to recover all direct and overhead costs plus present and future cost of asset works incurred by Council. This pricing should be used in particular where a service provided by council benefits individual customers specifically, rather than the community as a whole. In principle, fees and charges should be set at a level that recovers the full economic cost of providing the services unless there is an overriding policy or imperative in favour of subsidisation.

### Example of full cost recovery



For an example, the net costs of waste management and associated services are fully recovered by Council through the waste management charges.

In 2021, Council is in the process of adopting a revised Waste Management Policy. The key objectives of this strategy are to reduce the amount of waste deposited at landfills maximising recycling and achieve sustainable environmental outcomes by providing best practice services to the Stonnington community. An implementation plan has been developed setting out actions, priorities and resources required.

Costs considered in waste charges are waste to landfill (inclusive of taxes and levies), food organics and green organics waste service, the recycling service, hard- waste collection, operation of the Riversdale Road Transfer Station, Clayton Landfill, delivery of street sweeping services, public place waste and recycling services, and provision of waste collection in public parks, gardens, sportsgrounds and community buildings, bin renewal requirements, disposal of electronic waste and waste management resources and overheads. Waste bin fees and transfer station tipping fees have been set to recover the full costs of all of these services.

## Attachment 2

Another example where council could consider using this method is for Residential Car Parking Permits. As the benefit of the parking is derived by the permit owner, the cost to administer this could be applied. Another option to consider in the potential charging for these permits is the use of disincentive pricing (outlined below) in order to encourage more off-street parking within the municipality.

### **Accessible Pricing (Subsidised Pricing) (C)**

Accessible pricing (C) is where council subsidises a service by not passing the full economic cost of that service onto the customer. Subsidies may range from full subsidies (i.e. council provides the service free of charge) to partial subsidies, where Council provides the service to the user with a discount.

The subsidy can be funded from Council's rate revenue or other sources such as Commonwealth and state funding programs. Full council subsidy pricing and partial cost pricing should always be based on knowledge of the full economic cost of providing a service.

### **Disincentive Pricing (D)**

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

Council has developed the Financial Management Principles to help guide the fair and equitable setting of prices.

The policy outlines the process for setting fee prices and includes such principles as:

- Both direct and indirect costs plus costs associated with the present and future capital needs for the service must to be taken into account when setting prices (full economic cost recovery);
- Accessibility, affordability and efficient delivery of services must be taken into account; and
- Competitive neutrality with commercial providers.

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.