

Northern Territory Government Pricing Framework

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1. Introduction

The Northern Territory Government provides a range of goods and services to the public to achieve its policy objectives. There are several funding sources available to deliver these activities including charging users, general taxation and revenue from government investments.

The Northern Territory Government Pricing Framework provides guidance on when and how to determine appropriate pricing to charge users. Where identifiable individuals or groups create demand for government activities, they should be charged unless government has decided to fund those activities from general revenue. User charges play an important role in the delivery of government activities as they:

- support the equitable use of government resources as individuals or groups that create the need for or benefit from government activities directly contribute to the costs of provision rather than these costs being met by all taxpayers through general taxation
- improve the efficiency of government resources by sending appropriate price signals to users about the cost of providing government activities. In the absence of user charging, users and beneficiaries of government activities are likely to demand more than they would otherwise. Charges raise awareness of the resources involved in providing government activities and align consumption with the willingness of users to pay.
- improve the fiscal sustainability of government by recovering the cost of activities and reducing the reliance on revenue sourced through general taxation.

2. Purpose

The purpose of this framework is to:

- provide a consistent approach to determining the prices of charges that should apply to government activities
- outline agency responsibilities for implementing best practice pricing to provide government activities.

The framework is to apply when an agency is:

- designing and implementing a new pricing arrangement
- amending existing pricing arrangements
- or reviewing existing pricing arrangements.

The framework draws on the Australian Government Department of Finance – Australian Government Charging Framework Resource Management Guide No. 302 (July 2015) and the Productivity Commission Review of Cost Recovery by Commonwealth Agencies (March 2002).

3. Guiding principles

Six principles supported the framework to guide decision-makers when designing, implementing, amending and reviewing user-charging arrangements:

- **transparency** – charges should be clearly documented and include key information about the activity, charging rates and the basis for charges
- **efficiency** – charges should represent least cost or efficient delivery of activities by government. The cost of administering charges should be less than revenue received from charging
- **performance** – charges should be regularly reviewed for their effectiveness and ongoing alignment with government policy priorities

- **equity** – charges should be imposed directly, where possible, on those creating demand for or benefit from government activities
- **simplicity** – charges should be straightforward, practical, easy to understand and administer
- **policy consistency** – charges must be consistent with Territory Government policy priorities.

4. Scope

This framework applies to all Territory Government agencies and government business divisions, excluding entities that have separate specific government-approved charging guidelines, policies or processes in place for their activities. For those entities, the principles and information outlined in the framework may be useful when designing, implementing and reviewing their policies.

4.1. Government activities

The framework applies to three types of government activities: regulatory, resource and commercial.

- **Regulatory activities** are performed to control or influence behaviour to manage the risk of harm to consumers, the community or environment (for example, issuing licences). These activities are usually enforceable or require compliance by users.
- **Resource activities** involve government granting rights, privileges or access to public resources (for example, water). These activities may require or have legislative requirements associated with provision, others may involve commercial contracts.
- **Commercial activities** involve government providing goods or services in a competitive or contestable market (for example, sale of a publication or leasing infrastructure). There is usually a degree of user discretion on whether the good or service is consumed.

Further details on the characteristics of these activities and examples are provided at Appendix A.

There are circumstances where waiving charges may be warranted, including where:

- **charging may unreasonably affect disadvantaged individuals** – vulnerable populations should not be disadvantaged through imposed charges
- **charging may be inconsistent with government policy priorities** – it may not be appropriate if charging could directly and significantly impede government achieving its policy priorities (social, economic, financial and environmental)
- **charging cannot be implemented efficiently** – it is not in the public interest if the potential costs associated with administering charging outweigh the potential revenue generated
- **charging cannot be directly imposed** – it should only be imposed when it is practical to directly charge those that create demand for or benefit from government activities.

Agencies should assess whether their activities may warrant an exclusion from charging. Any exclusion decisions must be supported by detailed rationale and be reviewed as part of any portfolio pricing review (refer to section 6.4 – Portfolio pricing reviews).

4.2. Out of scope

The framework does not apply to:

- general taxes (such as payroll tax, stamp duty, gambling taxes, etc.)
- fines and pecuniary penalties, whether imposed by courts or administratively under legislation
- intra-government charges (that is, charging arrangements between government agencies)
- co-payments, co-funding or charges relating to partnerships
- repayments of loans, grants, donations or similar amounts paid to the Territory Government
- investment returns, interest, dividends, debt charges and related charges
- government owned corporations.

5. Pricing models

5.1. Cost recovery

Cost recovery involves setting prices based on the costs of supplying a good or service. It involves modelling or calculating the costs associated with providing government activities and setting prices to recover those costs, either in full (full cost recovery) or in part (partial cost recovery).

Full cost recovery is an appropriate pricing model for all types of government activities (regulatory, resource and commercial) as it promotes efficiency and equity by ensuring users and beneficiaries of government activities are charged directly and only for the cost of provision.

The full cost of an activity should comprise both the direct and indirect (overheads) costs of providing an activity. There are two costing methods:

- the fully distributed cost method which allocates direct costs to specific activities while allocating indirect costs across all activities on a pro-rata or average basis
- the incremental cost method where the assessed cost of an activity is based on the additional costs to an agency to undertake that activity.

The fully distributed cost method is generally appropriate where cost-recovered activities account for a large part of an agency's activities. The incremental cost method may be appropriate where activities make up a smaller part of an agency's activities and indirect costs would continue if an agency did not undertake the activity. Regardless of the costing approach, cost recovery charges should be set according to an efficient cost base (that is, the minimum level and standard necessary to achieve government's objectives) to ensure agencies do not set excessive cost recovery charges.

Full cost recovery is recommended where possible, noting there will be instances where partial cost recovery is appropriate. For example:

- where charging on a full cost-recovery basis may disadvantage vulnerable individuals or groups (that is, where concessions are deemed appropriate for certain groups)
- where full cost recovery may impede government policy priorities
- where the government activity provides broad external benefits to society that would be under consumed if charged on a full cost-recovery basis (for example, education).

Cost recovery charges may be implemented through fees or levies. Cost recovery fees are charged directly to specific individuals or organisations while levies are a tax imposed through legislation on a group of individuals or organisations. As a general principle, agencies should implement cost recovery through fees where possible as fees allow costs to be directly recovered from those that benefit or create the need for

activities. Levies have the benefit of being simple to implement and administer and may be appropriate where:

- cost recovery fees are overly complicated or costly to implement
- the benefit of an activity is shared broadly rather than derived by a specific identifiable party
- it is difficult or impossible to identify the users of an activity or the extent of their use.

5.2. Value-based pricing

Value-based pricing involves setting prices based on the estimated or perceived value of a government activity to the recipient.

Value-based pricing should be limited to pricing for resource activities (where government is conferring a clear right, privilege or access to public resources). This is appropriate to ensure the public receives an appropriate return for the use of publicly owned resources that may exceed the cost of government activities (for example, regulation and licensing) associated with managing the resource.

The basis for setting charging rates under this model will be dependent on the method for valuing resource activities. The agency responsible for providing resource activities should assess valuation options by consulting relevant stakeholders and documenting the rationale for charging decisions.

5.3. Commercial pricing

Commercial pricing involves setting prices according to current market prices for the same or similar products.

Commercial pricing should be used for setting charges for commercial activities but only when government is providing the commercial activity in direct competition with the private sector. In these instances, it is presumed that competitive pressures ensure prices are set at efficient levels. In adopting commercial pricing, agencies should verify compliance with the Territory Government's competitive neutrality policy requirements to make certain any charges are adjusted to reflect the advantages and disadvantages of public ownership¹.

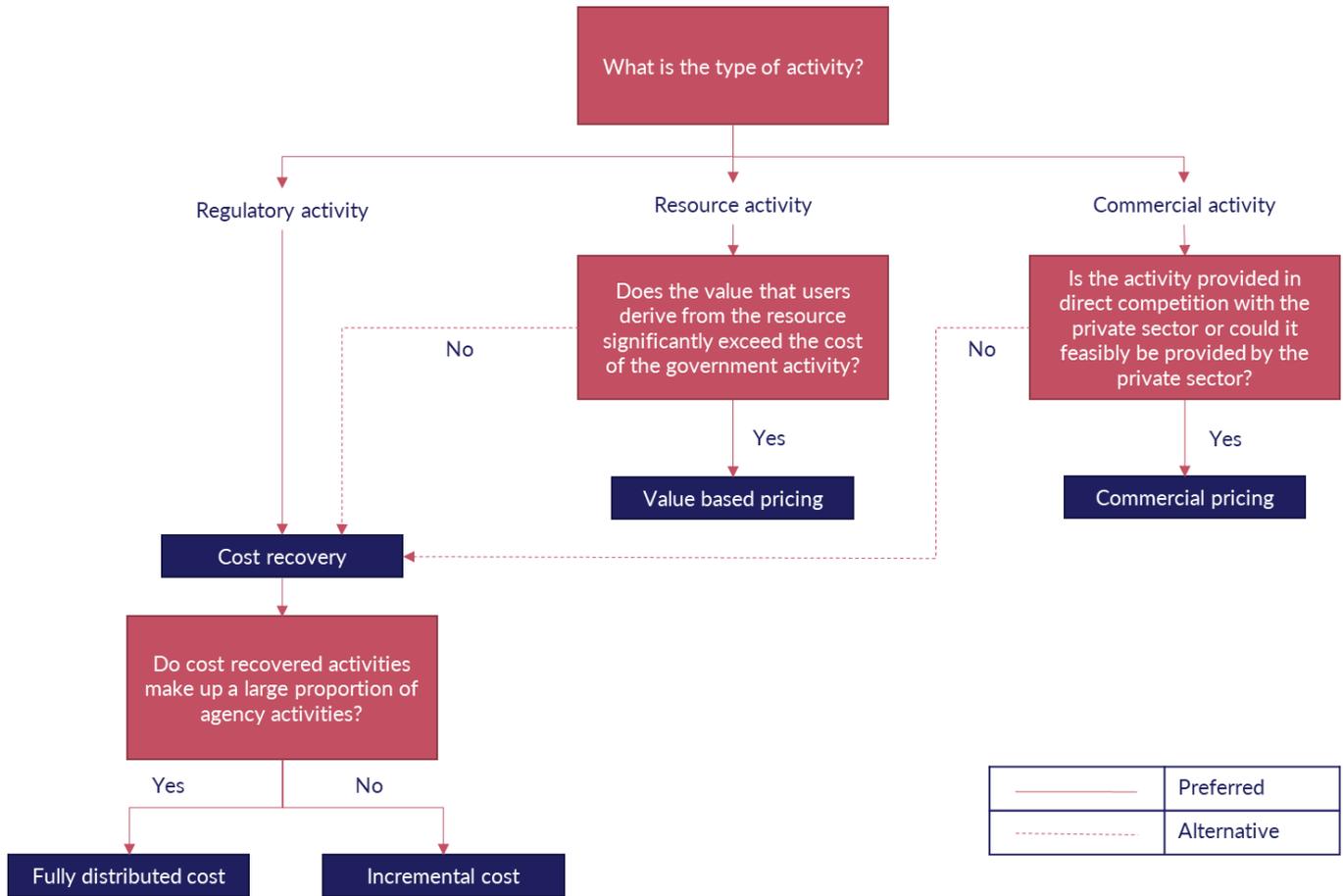
For commercial activities where government is the monopoly supplier and where high barriers to competition exists, prices should be set on a full cost-recovery basis to ensure prices paid by consumers are reasonable and reflect the efficient costs of providing ongoing and reliable services.

5.4. Selecting an appropriate pricing model

Figure 1 and Appendix A provide further guidance to assist agencies to select an appropriate pricing model, including when the preferred model may not be appropriate. When selecting an appropriate pricing model, also consider the guiding principles set out in section 3.

¹ https://nt.gov.au/data/assets/pdf_file/0003/469515/Competitive-Neutrality-Policy.pdf

Figure 1 – Pricing models



6. Implementation of the Pricing Framework

6.1. Roles and responsibilities

Implementation of the framework will be overseen by the Budget Review Sub-committee of Cabinet, which will receive information on reviews of fees and charges and the impact of the framework on agency charging practices and government revenue.

Agencies are responsible for:

- selecting an appropriate pricing model and assessing the fees, charges or levies to be applied to recover the costs of the agency’s applicable activities
- considering the trade-offs between fees and levies and appropriateness of these charges by consulting with relevant stakeholders
- implementing new or amended fees and charges.

The Department of Treasury and Finance’s role is to:

- provide agencies with advice and assistance to resolve practical difficulties that may be encountered when undertaking a costing exercise or determining prices for their services
- provide information and advice to government on the implementation and impact of the framework.

6.2. Approvals

Each agency is responsible for implementing charging arrangements where appropriate. Ministerial or government approval may be required to introduce or amend charging arrangements:

- where there is a high level of interest in the activity from stakeholders, the media and parliament
- for proposals that are expected to generate significant new revenue to government
- where legislative authority is required.

Engaging with stakeholders is recommended to ensure proposed charges are practical and appropriate. Articulate the views expressed through stakeholder engagement to decision-makers as part of the approval process.

6.3. Authority to charge

Agencies are responsible for assessing what legal authority is required for charging proposals. In certain circumstances, legislation may provide the statutory authority to charge for a particular activity, in other instances an agency may require new legislation or legislative amendments to charge.

Legislation generally underpins regulatory activities, which must have authority in an Act of parliament or in supporting subordinate legislation. Resource and commercial activities may not require a statutory basis. If there is any doubt whether there is an appropriate legal authority to introduce or amend user-charging arrangements, seek legal advice from the Solicitor for the Northern Territory.

For charges set in legislation, the *Revenue Units Act 2009* provides for government fees and charges to be expressed in revenue units and indexed annually using a rate determined by the Treasurer. Where practical, fees and charges are to be expressed in revenue units to maintain alignment between prices and cost of provision between reviews.

6.4. Portfolio pricing reviews

Each agency is responsible for conducting periodic reviews of all existing and potential charging arrangements within their portfolios at least every five years. The portfolio pricing review should:

- assess the extent of charging activities across the portfolio
- compare and analyse different charging activities
- evaluate the performance of charging activities
- identify charging potential for new and existing activities
- identify opportunities to amend or discontinue specific charging activities
- assess the effectiveness of stakeholder engagement strategies and opportunities for improvement.

Portfolio pricing reviews should be informed by monitoring and evaluation undertaken by agencies and additional stakeholder consultation, if agencies have not already been regularly engaged with stakeholders.

The review findings must be submitted to the responsible minister and copied to the Department of Treasury and Finance. Any significant recommendations from the portfolio pricing review will need to be approved by government and documented before changes to charges are implemented.

Appendix A – Characteristics of government activities

Type of charging activity	General characteristics	Examples
Regulatory charging activities		
Approval activities – applications registrations or similar	<ul style="list-style-type: none"> Charges relate to ongoing government activities Government determines whether to charge for the activity The activity can only be undertaken by government or someone acting on behalf of government There is limited user discretion and usually conditions apply Charges must have a legislative basis Involves charging individuals or organisations Revenue for the activity must be aligned with expenses incurred in providing the activity to individuals or organisations 	<ul style="list-style-type: none"> Inspecting facilities or equipment Registering firms or individuals before they can sell particular products or services Evaluating products for safety Assessing or approving activities to be undertaken Rating or classifying products Providing accreditation to train or certify
Compliance activities – monitoring compliance, investigation and enforcement	<ul style="list-style-type: none"> Charges relate to ongoing government activities Government determines whether to charge for the activity The activity can only be undertaken by government or someone acting on behalf of government There is limited user discretion and usually conditions apply Charges must have a legislative basis Charges apply to a group of individuals or organisations 	<ul style="list-style-type: none"> Monitoring compliance, such as compliance with safety standards through audits, collection of compliance information, complaints mechanisms Investigations, such as investigating breaches of standards

Type of charging activity	General characteristics	Examples
Resource and access charging activities		
Rights and public resource activities – right or privilege to access or use natural resources	<ul style="list-style-type: none"> • Government or an accountable authority of government may determine whether to charge for the activity • The activity can only be provided or permitted by government or someone acting on its behalf • Activity usually has conditions and there is user discretion, particularly relating to public property and equipment • Charges may require a legislative basis • Charges apply to individuals, organisations or groups • Value-based pricing is preferred where consistent with the Principles, otherwise cost recovery should be used 	<ul style="list-style-type: none"> • Licences to access, use or take natural resources • Access and use of intellectual property
Commercial charging activities		
Sale of government goods or services – providing goods or services where the same may be provided by the private sector	<ul style="list-style-type: none"> • Charges may relate to either ongoing or occasional government activities • Government or an accountable authority of a government entity may determine whether to charge for the activity • There is generally a high degree of user discretion and may have contractual conditions • Charges may require a legislative basis • Charges apply to individuals, organisations or groups • Commercial pricing is preferred where consistent with the Principles, otherwise cost recovery should be used 	<ul style="list-style-type: none"> • Sale of publications or data • Specialist expertise, such as laboratory technicians or researchers • Private advertising on a government website • Private sponsorship of a specific government activity, such as a conference, survey, training course or exhibition • Retail activities, such as a café or gift shop at a cultural institution • Entry to an exhibition, such as a specialist cultural exhibition • Use of public infrastructure, such as leasing or sub leasing a building, hiring a laboratory or sporting facility • Use of public equipment, such as specialised scientific equipment