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Service Pricing Policy Update Information Report

Report Number: 2018-20

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In accordance with the Procedure By-law, any member of Council may make a request to the Town Clerk that this Report be placed on an upcoming Committee of the Whole agenda for discussion.

Purpose

The purpose of this report is to provide information on updating the Town's Service Pricing Policy.

Background

In 2006, Newmarket endorsed its first Service Pricing Policy to ensure a fair and equitable balance between what users pay for programs and services and how much is drawn from the tax base.

The policy guides the pricing of municipal services to meet cost recovery targets. Cost recovery is the amount of money that the Town will get back from running a program through user fees.

The current policy's focus is to ensure that higher percentage of the costs is recovered through user fees. After a public consultation process, the policy lead to annual prices increase to prevent the softening of services due to inflation. This is an example of the many benefits of the policy.

Discussion

This policy update proposes to shift the focus to using pricing as means to incent the use of services that are desirable to the broader community. It also focuses on using pricing as means to provide a disincentive to behaviour that has a negative impact on the community. This policy continues to support the application of fair and reasonable prices for municipal services.

Staff has drafted four step process to applying the updated service pricing policy. The four steps are: Identify the service, Classify the service, Apply special considerations and evaluate price performance.

Step 1: Identify the Service

The initial step of applying service pricing policy is to identify the service. There are four actions for this step.

1. Identify the services that the Town wishes to evaluate.

A service is an action or set of actions that generates value and whose cash flow is largely independent or separable of other services. The set of actions to be included in one service should be based on materiality.

2. Determine the cost of providing the service to the consumer.

Include all costs related providing the service, both direct costs and indirect costs. The policy will provide a discussion on what type of costing system should be used to determine the cost of providing different services.

3. Determine how customers pay for the service or practical payment methods.

Determine how the service is paid for currently. Identify if there is a membership fee, pay per use, rental payments, etc. If there is no current payment method, identify how the Town could practically charge for the service.

4. Identify the positive and negative public impacts to the service.

A public impact occurs when the use of service provides third party benefits or costs. Public impact is identified through six aspects:

Social

This aspect considers whether the service increases social cohesion. This includes promoting social ties, a sense of Newmarket identity, etc.

Equality

This aspect considers whether the service increases equal access to necessary services. This includes equal learning opportunities, equal access to the democratic process, etc.

Health and Safety

This aspect considers whether the service increases the health and safety of the community. This includes reducing the risk of chronic and acute injuries, implementing preventative measures, etc.

Environment

This aspect considers whether the service increases the environmental health of the community. This could include reducing pollutants released into the air or watershed, preserving natural areas, reducing waste, etc.

Economic

This aspect considers whether the good increases the economic vitality of the community. This could include increasing the number and quality of jobs in the community, ensuring the efficient use of resources, etc.

Cost

This aspect considers whether there are more efficient services either provided by the Town or private sector.

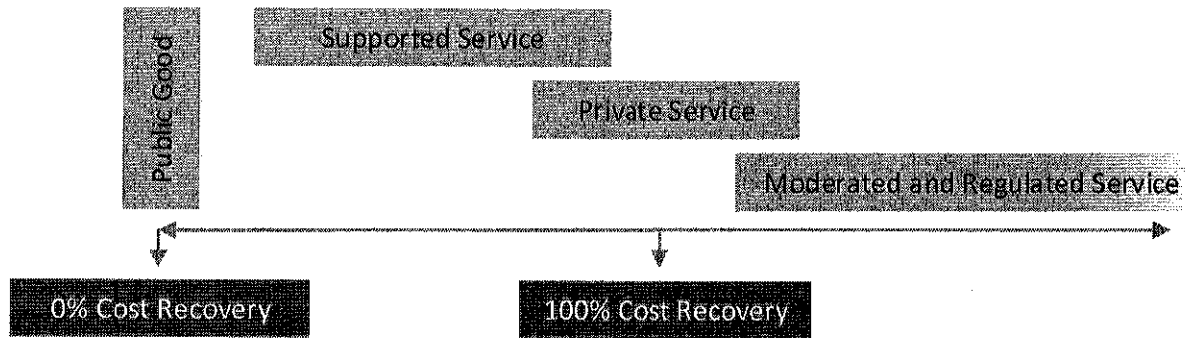
Step 2: Classify the Service

Classification Categories

The Town offers a wide variety of services. This proposed policy update will classify different types of services and how to charge for those services.

The policy proposal places services on a continuum of cost recovery. 0% cost recovery means the service is entirely covered through property taxes or government transfers. 100% cost recovery means the service is entirely covered through user fees.

Figure 1: Service Pricing Continuum



The following subsections describe each of the classifications of services.

Public Good

A public good is a service that is impractical to apply a user fee or regulatory charge against. The first definition of an impractical charge is that it is not technically possible to apply a charge. The second definition is that the public benefit of the service is so great that the service deserves greater public support than provided with supported goods. The third definition is that applying a fee would significantly compromise the social equity provided by the service.

Supported Service

A service within this class provides a net positive impact to the community. The service in this class also provides a benefit for individual users. This service does not have full cost recovery in order to encourage use, provide a gesture of assistance, minimize evasion of fee payments and achieve strategic goals. The default cost recovery in this class is 90%. The greater the net positive impact, the lower the cost recovery target should be.

Private Service

The service is provided for the benefit of specific interested users. There is no broader net benefit or appeal to the community as a whole. This service may contribute to the diversity of amenities and services provided within the community. The fees set for providing a service within this category recover the full cost of providing the service by the municipality. The default cost recovery for this class is 100%. There may be strategic considerations in charging below or above the cost of providing the service.

Moderated or Regulated Service

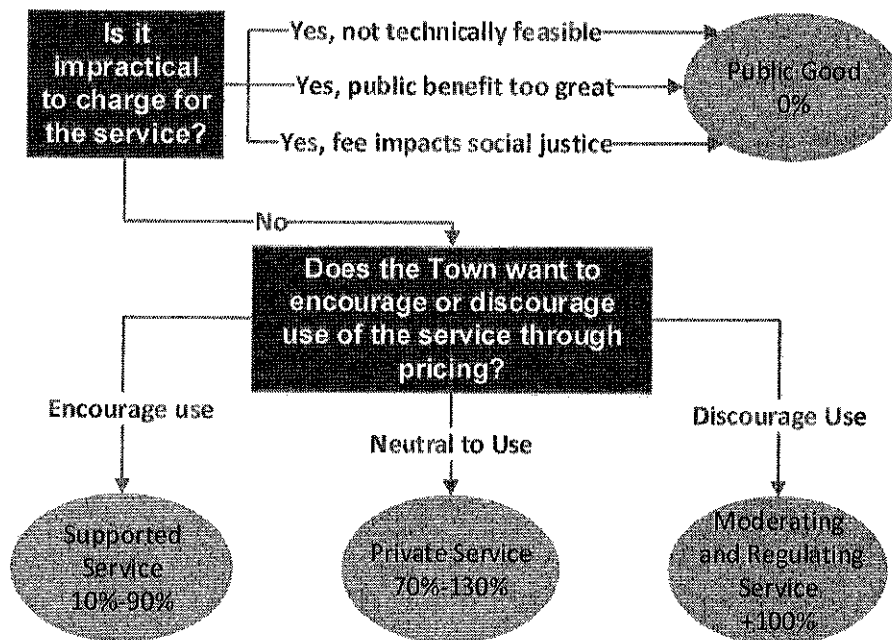
The use of a service within this class provides a net negative impact to the community. The name of this type is controlled good, but sometimes it may be more appropriate to call it a bad. A bad is anything with negative value in the market place.

Goodness and badness are inherently subjective declarations. However, as a general rule, when a good is consumed in excess, it becomes a bad. Therefore, providing pricing can control the level of consumption of a good to prevent it from becoming a bad or reduce the prevalence of a bad.

Classification Decision Tree

The figure below illustrates the questions that need to be asked and answered in order to determine the class of the service in question.

Figure 2: Classification Decision Tree



Step 3: Apply Special Considerations

The classifications provide a band of cost recovery. This step allows for further consideration to reach the optimal cost recovery target.

Step 4: Evaluate Price Performance

1. Does the service hit its cost recovery target?

Determine if the service hits its cost recovery target established through this policy. This is done with the chosen costing system established in step 1. Identify the Service.

2. Does the pricing structure reflect actual costs for individual users?

Determine if there is a rational nexus between the cost of providing the service and the fee that is charged to users.

3. Does the pricing maximize the net public impact of the service?

Determine if the pricing of the service has adverse effects on the use of the service. Pricing may need to be lowered to promote use or pricing may need to be increased to moderate use of the service.

Conclusion

A presentation will be made at the Council workshop on April 30th. Staff would like to hear preliminary feedback on the policy direction. Below is the projected timeline for implementing the service pricing policy update.

Time	Deliverable
April, 2018	Present Draft Concepts to Council
February, 2019	Public Consultation
March, 2019	Propose Draft Policy to Council

Business Plan and Strategic Plan Linkages

The Service Pricing Policy is an initiative that is recognized in the Sustainable Financing Strategy and is in alignment with the key focus area "Well Planned & Managed" of the Community Strategic Plan.

The policy also addresses the Council Strategic priority of "Efficiency/Financial Management" by ensuring effective and efficient services and measuring our performance.

Consultation

Departments most impacted by this policy have been consulted and helped formulate the concepts ion this report.

Human Resource Considerations

None.

Budget Impact

None.

Attachments

None.

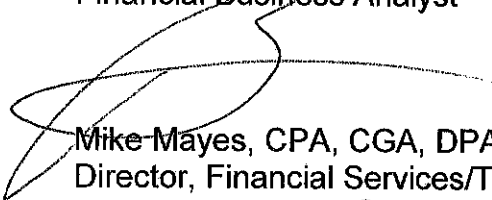
Contact

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Approval



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