



Government of **Western Australia**
Department of **Treasury and Finance**

Costing and Pricing Government Services

Eighth edition

November 2025

Acknowledgement of Country

This report was prepared by the Department of Treasury and Finance (WA DTF) on the traditional Country of the Wadjuk people of the Noongar Nation.

WA DTF respectfully acknowledges the Traditional Custodians of Country throughout Western Australia and their continuing connection to Country, Culture and Community.

We pay our respects to all members of Western Australia's Aboriginal communities and their cultures and to Elders past and present.

We acknowledge and pay tribute to the strength and stewardship of Aboriginal people in sustaining the world's oldest living culture and value the contribution Aboriginal people make to Western Australia's communities and economy.

We recognise our responsibility as an organisation to work with Aboriginal people, families, communities, and organisations to make a difference and to deliver improved economic, social and cultural outcomes for Aboriginal people.

Further information relating to this report may be obtained by emailing
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Preface

This edition supersedes the seventh edition, published in May 2020, and incorporates significant updates to:

- align with the requirements of the *Intergovernmental Agreement on National Competition Policy*, which came into effect on 29 November 2024;
- clarify the role of agencies in the costing and fee-setting process;
- explain the consideration of social costs and benefits in pricing decisions;
- address the implications of cross-subsidisation in service delivery;
- provide greater clarity on the application of fees and charges made under subsidiary legislation;
- update references from the revised Treasurer's instructions and Treasurer's Guidance Handbook; and
- reflect updated legislative references.

1. Introduction

Government agencies play a vital role in delivering services that support the wellbeing, safety, and prosperity of the Western Australian community. To ensure these services are delivered efficiently, transparently, and sustainably, it is essential that agencies understand the true cost of service provision and apply appropriate pricing principles when setting tariffs, fees, and charges. A robust understanding of service costs enhances:

- internal resource allocation within agencies;
- informed decision-making by Ministers regarding policy options;
- the Government's capacity to allocate resources effectively through the budget process;
- the setting of appropriate prices where cost recovery has been approved; and
- benchmarking, where appropriate, against private sector providers or comparable agencies in other jurisdictions

While costing involves identifying all costs associated with delivering a service, pricing refers to the amount charged to customers for that service. A core pricing principle is that unless otherwise approved by Government, prices should be set at levels that reflect the full cost of service provision. In summary, agencies should, by default, apply appropriate pricing principles to set tariffs, fees, and charges that reflect cost recovery to promote efficiency, transparency, and sustainability.

1.1 The purpose of the guidelines

This edition aims to support agencies in developing a clearer understanding of their service costs, the pricing of those costs and the factors that influence them. It serves as an illustrative guide to the key considerations in undertaking a costing exercise, recognising that no single costing methodology is universally applicable. The document also incorporates relevant policy guidance on the treatment of specific cost items. To achieve this, the Guidelines covers:

- roles and responsibilities in setting and authorising tariffs, fees, and charges, including the link between enabling legislation, subsidiary instruments, and cost recovery mechanisms;
- costing government services, with methods for identifying and categorising costs, distinguishing direct and indirect costs, and detailing employment costs and oncosts;
- the treatment of services received free of charge and taxation impacts;
- cost estimation approaches, such as process and job costing, stressing transparent assumptions and documentation for time allocation and shared resource; and
- pricing considerations, including full cost recovery, policy-driven pricing, and key principles like competitive neutrality and cross-subsidisation.

The Guidelines should be read in conjunction with the following documents:

- Treasurer's instruction 6 – *Income and Receipts*, Department of Treasury and Finance;
- *Subsidiary Legislation – Explanatory Memoranda – Premier's Circular 2025/14* Department of the Premier and Cabinet, 1 July 2025;
- *Strategic Asset Management Framework*, Department of Treasury and Finance December 2024;
- *Outcome Based Management: Guidelines for use in the Western Australian Public Sector*, Department of Treasury and Finance, October 2025;
- *Policy Statement on Competitive Neutrality*, June 1996¹; and
- any other relevant principles, policies or pronouncements issued by Government.

¹ This will be updated in 2026.

2. Tariffs, Fees and Charges

2.1 Overview

Government delivers a wide range of services to the public in pursuit of policy objectives and may impose fees or charges for goods and services under an Act or subsidiary legislation (usually regulations) which may provide for:

- specific fees or charges;
- maximum or minimum fees or charges;
- both maximum and minimum fees or charges;
- payment of fees and charges under generally or specified conditions or circumstances;
- fee or charge to be determined in a manner as approved;
- ad valorem fees or charges; and
- the reduction, waiver or refund, in whole or in part, of such fees or charges.

Instances of formula-based pricing in legislation are extremely rare. Legislation typically prescribes fixed prices for goods and services, and even when a formula is included, it generally produces a single fixed value rather than a pricing range.

2.2 The interrelationship with legislation and subsidiary legislation

Where subject to legislation, fees and charges must be set at the level authorised by the relevant Act or subsidiary legislation.

Fees established under subsidiary legislation are subject to scrutiny by the Joint Standing Committee on Delegated Legislation. The Committee may disallow such fees if they are not lawfully authorised, or if they exceed cost recovery. Fees specified directly by an Act are not subject to scrutiny by the Committee.

Agencies should seek legal advice from the State Solicitor's Office if there is any uncertainty regarding the legal authority for a particular fee or charge.

2.3 Annual review of tariffs, fees and charges

Public sector agencies are required under Treasurer's instruction 6 *Income and Receipts Requirement 3 Tariffs, Fees and Charges* to undertake an annual review of their tariffs, fees and charges to ensure they remain appropriate and consistent with government policy. This review should be completed by 31 December each year, primarily to inform the budget process.

In some cases, subsidiary legislation may prescribe a separate review cycle. For example, Regulation 55 of the Planning and Development Regulations 2011 requires an annual review aligned with the anniversary of the relevant regulation, with a report to be submitted to the responsible Minister.

The Process

The review process is designed to ensure that fees and charges provide reasonable assurance that they:

- reflect movements in input costs;
- achieve, or demonstrate adequate progress towards achieving, full cost recovery where appropriate;
- do not exceed the full cost of service provision;
- are fair and equitable, taking into account household capacity to pay;
- remain competitive with comparable services offered locally or in other jurisdictions;
- are comprehensive, with new fees and charges introduced in a timely and considered manner.

Agencies must ensure their review methodology is robust and clearly demonstrates the level of cost recovery achieved. The Consumer Price Index (CPI) should not be used as an automatic indexation mechanism; instead, adjustments should be linked to relevant cost drivers. For guidance in the process, agencies should consult their Treasury and Finance analyst.

Roles and Responsibilities

Parliament

Under section 42(1) of the *Interpretation Act 1984*, all regulations must be tabled before each House of Parliament within six sitting days of their publication. Parliament has delegated the scrutiny of subsidiary legislation to the Joint Standing Committee on Delegated Legislation.

The Joint Standing Committee on Delegated Legislation

The Committee reviews all regulations, by-laws, rules, local laws, major metropolitan region schemes, and other forms of subsidiary legislation made by agencies on behalf of Parliament. To enable the Committee to carry out its function, agencies are required to observe the requirements in Premier's Circular 2025/14 *Subsidiary Legislation – Explanatory Memoranda*, issued 1 July 2025. This includes the preparation of an Explanatory Memorandum and the provision of supporting documentation.

The Committee applies a cost recovery perspective when assessing fees and charges established under subsidiary legislation. Specifically:

- where a fee or charge results in recovery exceeding 100% of the cost of service provision, it may be presumed to constitute a tax; and
- if the enabling legislation does not contain a taxing provision, the agency must demonstrate that the fee or charge is nonetheless valid.

The Department of Premier and Cabinet

The Department of the Premier and Cabinet publishes Premier's Circulars in the Western Australian Public Sector. These circulars communicate whole-of-government policies and strategic directives.

Premier's Circular 2025/14 requires agencies to submit documentation, including an Explanatory Memorandum. Inadequate information may lead to disallowance of subsidiary legislation, rendering it legally ineffective.

Appendix 1 sets out the minimum requirements in relation to fees and charges, including:

- clear articulation of the costing methodology used;
- disclosure of cost recovery percentages; and
- justification for the fee or charge in relation to the cost of service provision.

The Department of Treasury and Finance

Treasury and Finance plays a key role in supporting agencies with the costing and pricing of government services. Its responsibilities include:

- providing advice and assistance to agencies in resolving practical challenges encountered during costing exercises or when determining appropriate prices; and
- offering guidance on relevant government policies and frameworks.

Agencies should refer enquiries to their Treasury and Finance analyst in the first instance.

Agencies

Agencies are expected to maintain costing systems capable of identifying the costs associated with each fee or charge at the lowest practicable and reasonable organisational level. Supporting data must be provided to substantiate cost recovery claims.

Treasurer's instruction 6 – *Income and Receipts* requires all public sector agencies to accurately determine the full cost of their services. In accordance with the requirements, agencies must ensure that:

- their fees and charges are reviewed annually by 31 December, independently of any other legislative obligations;
- proposed fees and charges are submitted to Treasury and Finance by January of the following year to inform the budget process; and
- fees and charges are re-assessed following any changes to Ministerial portfolios or machinery of government arrangements.

3. Determining the Cost of Services

Estimating the cost of a service is the first step in broader cost analysis. At each financial year-end, actual costs should be compared with initial estimates to refine costing methods. In some cases, multi-year costing (e.g. over a full business cycle) may help smooth demand fluctuations and support more stable decision-making.

Before costing, agencies must understand accrual accounting, which recognises revenues and expenses in the relevant period, including non-cash items like depreciation, unlike cash accounting which tracks actual cash flow.

Agencies must also consider the opportunity cost of capital invested in service delivery. As this is an economic concept, it is not captured within standard financial management systems and must be calculated separately (refer to section 3.7).

When undertaking costing exercises, agencies should identify any costs incurred in support of service delivery and ensure these are separately recorded. To maintain transparency, consistency, and accountability, all cost data must be capable of independent verification and supported by clear documentation. This should include the purpose of the costing exercise, the methodology applied, and any assumptions made.

3.1 Defining the service to be costed

Government agencies deliver a wide range of services, some of which are straightforward to define and measure (e.g. land title registrations or student placements), while others are more abstract (e.g. policy advice, regulatory administration). A clear and unambiguous description of the service — or the process by which it is delivered — is an essential prerequisite for any costing exercise. Without a well-defined service scope, it is not possible to verify costs, assess alternatives, or make meaningful comparisons over time.

In developing a clear service definition, agencies should consider:

- the context in which the service is delivered, including relevant policy objectives, government directives, standards, or principles of operation;
- the desired government outcome the service is intended to support;
- whether the service is measurable in a consistent and verifiable manner;
- the process boundaries — where service delivery begins and ends;
- whether the service encompasses an entire function or a component thereof; and
- who holds responsibility for delivering the service.

When undertaking a costing exercise, the focus should be on the service itself, rather than the organisational structure or internal processes. For example, the emphasis should be on “the provision of payroll services” rather than “administering the payroll system”.

3.2 The period over which the service is costed

Costing exercises should clearly state whether the service being costed is intended to be delivered on an ongoing basis or over a discrete period. In some cases, it may be appropriate to undertake the costing over multiple timeframes to reflect different service delivery scenarios.

To determine the full cost of a service, agencies must consider all relevant cost components, including:

- direct costs (e.g. salaries and other inputs directly attributable to the service);
- indirect costs (e.g. overheads and services received free of charge), and
- the opportunity cost of capital.

Depending on an agency's operational circumstances, many cost items may be classified as either direct or indirect, based on their nature and the context in which they are incurred.

Direct costs generally have a higher proportion of variable components than fixed components, as they reflect service demand. In contrast, indirect costs tend to have a more balanced mix of variable and fixed components, as they often relate to broader organisational functions that support multiple services regardless of fluctuations in demand.

A comprehensive approach to costing ensures transparency, supports informed decision-making, and aligns with government cost recovery principles.

3.3 Direct costs

Direct costs are expenses that can be specifically attributed to the delivery of a particular service or activity. They are typically regarded as variable costs, meaning they fluctuate in direct proportion to changes in the volume of services delivered. Within the public sector — where labour is often the predominant input — direct costs are commonly classified into staffing costs and other direct costs, including materials, equipment and consumables directly utilised in service provision.

For the public sector, direct costs are broadly categorised into staff-related and other costs

Direct staff-related costs

Direct staffing costs typically include:

- base salary costs
- overtime
- Allowances
- shift loading
- leave entitlements
- housing
- uniforms and protective clothing
- superannuation
- fringe benefits tax
- workers' compensation insurance premiums
- air conditioning/water subsidies
- travel expenses
- training

To accurately identify staffing costs, agencies must determine a suitable method for allocating staff time to specific services. Where individual time allocations are impractical, it may be possible to identify the extent to which groups of staff are associated with services.

The ease of determining direct staffing costs depends on the nature of the service and its alignment with organisational structure. Costs are more readily identified when an entire unit or function is dedicated to a service. Where staff contribute to multiple services, a rational and verifiable basis for allocation must be established.

In cases of shared service delivery, where the extent a staff member or group is associated with a service is unclear, it may be necessary to estimate involvement. One method is for agencies to conduct short-duration time-use surveys, asking staff to record time spent on defined activities. This approach has been successfully applied across government and can also support performance reporting requirements. It is important that the basis of any estimation of staff involvement in the delivery of different services be verifiable.

Staff time spent on overheads (e.g. administration or training) should be appropriately distributed across services using reliable allocation systems. Cost accounting techniques — such as process costing and job costing — are appropriately employed to allocate direct costs to specific services, production processes, or discrete activities, thereby ensuring accurate attribution of expenditure.

Employment on-costs

While base salary costs are relatively straightforward, employment on-costs can be substantial and vary significantly across roles. Agencies are encouraged to develop tailored models for estimating on-costs, incorporating relevant factors such as those listed below.

Examples of Staff On-costs	
Annual Leave	As a general rule, public sector employees are entitled to four weeks paid leave for each year of service. A loading of 17.5 per cent will be paid in the first pay period in December in the calendar year in which the leave accrues.
Long Service Leave	Employees who have completed a period of 7 years of continuous service in a permanent capacity (or 10 years of continuous service in a temporary capacity) are entitled to 13 weeks of long service leave on full pay.
Overtime	If employees work on more than one service, only include the employees' overtime associated with the service being costed.
Shift Loading	Ensure that the shift penalties reflect the staffing roster that is being proposed for delivery of the service.
Superannuation	Generally speaking, the cost of superannuation in an accounting period, in respect of current employees, is the cost of employer contributions to Gold State, West State, GESB Super and/or other fund providers.
Training	Training costs included here should exclude the costs attributed to wages and salaries paid to staff while they are attending training courses.
Travel Expenses	Include all relevant expenses, especially allowances payable under award provisions.
Housing	If housing is provided to an employee through the Housing Authority then the cost included in the analysis should be an estimation of the net cost to Government of providing the housing (i.e. net of rent paid by the staff but inclusive of the annualised cost of Government providing the housing).
Other	These could include workers' compensation insurance premium, fringe benefits tax, payroll tax, uniform/protective clothing allowance, etc.

Estimating on-costs and variability

When estimating future payments for annual leave and long service leave entitlements, agencies should consider projected wage and salary increases, including non-salary components such as employer superannuation contributions. Historical data on employee departures and service periods should also inform these estimates.

It is important to recognise that the appropriate on-cost factor will vary between costing exercises due to:

- differences in employment arrangements (e.g. award conditions or role-specific entitlements); and
- variations in the extent to which other employment-related costs are already captured elsewhere in the costing model.

Although a standard on-cost factor may offer simplicity, it is the responsibility of each agency to accurately estimate on-costs using cost information relevant to the circumstances in which their services are delivered.

In addition to direct staffing costs, agencies typically apply a loading for indirect costs (e.g. corporate overheads).

As an illustrative example, the full cost of employing a new clerical officer under a general salary or wage agreement could be estimated by applying a 20% on-cost factor to the base salary. This would typically account for immediate employment-related costs such as leave entitlements, superannuation, workers' compensation insurance, overtime, and training.

However, for employees engaged in more complex or diverse service delivery roles, the direct on-cost factor may be significantly higher. Additional elements such as shift penalties, district allowances, uniforms or protective clothing, housing, and relocation expenses may need to be included. For instance, AusIndustry (a division of the Commonwealth Department of Industry, Science and Resources) applies a 30% on-cost rate to reflect the full range of direct staffing costs in its grant funding assessments.

Superannuation costs

Superannuation arrangements for WA public sector employees include a range of schemes, including defined benefits schemes (now closed to new members) and accumulation schemes:

Given the complexity of superannuation, officers undertaking costing exercises should apply professional judgement regarding the level of precision required, based on materiality. For each service being costed, the salary or wage base (excluding allowances such as overtime) should be calculated or estimated for employees in each scheme.

- For accumulation schemes, including West State Super and GESB Super, the cost is the employer contribution. If not known, it may be estimated by applying the current Superannuation Guarantee rate to the base.
- For the Pension Scheme and Pre-transfer Benefits: Where material, actuarially assessed changes in liability should be recognised as a cost.
- For the Gold State scheme, the cost is the employer contribution. If unavailable, it may be estimated using the GSS employer contribution rate, reviewed annually by GESB and its actuary
- For the Fire and Emergency Services defined benefits scheme, the cost is the employer contribution. If unavailable, it may be estimated using the defined benefit employer contribution rate, reviewed annually by the Fire and Emergency Services Superannuation Fund and its actuary.

Although the Pension Scheme and GSS are closed to new members, associated costs may remain significant for some agencies. Where notional liability reports are no longer provided by GESB, agencies may need to prepare estimates.

Other direct costs

Other direct costs are those that can be clearly attributed to the delivery of a specific service. These may include:

- assets expensed at the time of purchase;
- communication services (e.g. telephones, internet and couriers);
- consultant and contractors;
- consumable supplies; and
- inventory consumed in the course of producing a service; and
- materials.

In many cases, staffing costs represent the dominant component of direct costs. As a result, they are often used as a basis for estimating the proportion of indirect costs, which are discussed in the following section.

Case Study

Computer West is a government department responsible for delivering information technology services to other public sector agencies, including those located in remote regions. Its services are categorised in the Budget Statements under two headings: Installation and Training.

The department operates from a large facility in Perth, which includes:

- an underground storage area for vehicles and electronic equipment;
- an electronic security system;
- office space; and
- communication infrastructure to support service delivery across the State.

The department's direct costs associated with service delivery include:

	Installation \$	Training \$	Total \$
Wages and salaries (including leave entitlements)	636,757	569,002	1,205,759
Superannuation	33,000	30,000	63,000
Other staffing costs	1,089	990	2,079
Communication services	16,302	14,820	31,122
Consultants and contractors	15,318	13,925	29,243
Consumables	8,910	8,100	17,010
Materials	19,591	17,810	37,401
Other direct costs	770	700	1,470
TOTAL	731,737	655,347	1,387,084

3.4 Indirect costs

Indirect costs, often referred to as overheads, are those not directly attributable to a specific service. These typically include overheads and shared resources that support multiple services.

Examples include:

- accommodation and property expenses
 - accommodation-related expenses (e.g. repairs and maintenance)
 - local government rates
- corporate and executive services
 - chief executive officer's salary
 - executive administration
 - corporate service costs
 - financial and human resource services
 - records management
 - Information technology support
- depreciation and amortisation of assets used in service delivery
- legal services
- services received free of charge
- taxation services
 - goods and services tax (where no input tax credits are available) and excise
 - state taxes (such as payroll tax)
- valuation services

In line with the objective of reporting the full cost of services, these costs should be allocated to individual services wherever a rational and defensible basis exists. Depending on the agency's structure and circumstances, some costs typically considered indirect may, in certain contexts, be treated as direct.

It is important to note that interest costs associated with borrowings or lease liabilities should not be included as indirect costs. These are accounted for separately in the calculation of the opportunity cost of capital (see section 3.7).

Although indirect costs are more difficult to assign to specific services, they are nonetheless critical to understanding the true cost of service delivery and must not be overlooked in costing exercises.

Depreciation and amortisation

The method of depreciation should reflect the pattern in which the asset's future economic benefits are expected to be consumed. Two commonly used methods are:

- **straight-line (prime cost) method:** Allocates the asset's depreciable amount — the difference between its initial cost (adjusted for any revaluations) and its estimated residual value — evenly over its useful life. This method is appropriate where the asset's benefits are expected to be distributed uniformly over time; and
- **diminishing balance method:** Allocates a larger portion of the depreciable amount to the earlier years of the asset's life. This method is suitable where the asset's benefits are expected to be greater in its initial years of use.

For intangible assets with a finite useful life, amortisation is typically calculated on a straight-line basis over the asset's useful life, which must be reviewed annually. Intangible assets with indefinite useful lives are not amortised but must be tested for impairment annually.

The useful life of an asset is the key determinant in selecting an appropriate depreciation or amortisation rate. While the Australian Taxation Office (ATO) depreciation/amortisation schedules may serve as a useful guide, they should not be relied upon automatically for costing purposes.

The way assets are valued also directly affects how depreciation or amortisation is applied and therefore impacts service costing. When determining asset costs, agencies should use the same valuation methods already adopted for financial reporting to ensure consistency.

- physical assets (AASB 116) are initially valued at cost, then at either fair value or cost depending on policy and asset type;
- intangible assets (AASB 138) are initially valued at cost and subsequently adjusted for amortisation and impairment; revaluation is only permitted if an active market exists; and
- right of use assets (AASB 16) are based on lease cost and adjusted for depreciation, impairment, and lease liability changes.

Methods for estimating indirect costs

The method used to estimate indirect costs needs to be carefully considered and explicitly identified so that independent verification is possible.

The identification and inclusion of indirect costs involves a trade-off between accuracy and the cost of producing the information. Care should be taken to avoid allocating excessive resources to the analysis of relatively minor cost pools at the expense of more significant cost drivers.

Two commonly used approaches for estimating indirect costs are:

- **usage or benefit method:** Allocates costs based on the extent to which a service benefits from shared resources. This method is more precise but may require detailed data collection and analysis; and
- **pro-rata method:** Allocates costs based on a proportionate measure, such as staff numbers, floor space, or expenditure. This method is simpler but may be less accurate in reflecting actual resource consumption.

There are several matters to be considered for each method.

The ‘usage’ or ‘benefit’ method

This approach focuses on measuring (or estimating) the actual usage of resources. Where costs can be reliably quantified, the ‘usage’ or ‘benefit’ approach offers the most precise means of presenting information relating to indirect costs. Actual resource usage may be estimated through various techniques. Common methods for apportioning an indirect cost pool include:

- direct observation;
- time recording (particularly for indirect staffing costs); and
- sampling methodologies, or the assignment of costs to services at the point of incurrence.

Whichever method is employed, it must be clearly documented, verifiable, and operationally efficient.

Activity-Based Costing (ABC) represents a robust and detailed approach to determining the attribution of costs within an indirect cost pool. It involves a thorough analysis of organisational activities, identifying the drivers behind those activities, and allocating costs based on the consumption of resources by each activity. The aim is to disaggregate the resources within the indirect cost pool and assign them to individual services using appropriate cost drivers². The accuracy and reliability of cost allocations under ABC are enhanced when individual activities are costed and subsequently linked to specific services.

² A cost driver is the factor or variable which has the greatest effect on the level of activity.

Case Study

Computer West also incurs a number of indirect costs:

	Total \$
Accommodation	
Repairs and Maintenance	2,772
Cleaning	567
	3,339
Depreciation	
Plant and equipment	6,974
Buildings	35,361
Infrastructure	17,387
Leased plant and equipment	14,167
	73,889
Amortisation	
Licenses	30
Computer software	917
	947
Other indirect costs	25,300
TOTAL	103,475

The Department delivers two services. Assume the delivery of 'Installation' and 'Training' requires 2,000 FTEs and 1,500 FTEs respectively. The indirect costs are to be allocated to those services.

Under an ABC approach, the Department has determined a principal cost driver for the allocation of the following costs:

	Cost Driver
Accommodation	Number of staff
Depreciation and amortisation	Number of deliveries
Other indirect costs	Number of orders

The indirect costs of \$103,475 can be allocated to the two services by analysing known information about the cost drivers associated with each service. So, for example, because it is known that the accommodation costs vary in accordance with the number of FTEs delivering each service, these costs (\$3,339) can be allocated to each service as follows:

Accommodation:

$$\frac{\text{Service-related staff}}{\text{Total staff}} \times \$3,339$$

Therefore, we have:

$$\text{Installation} \quad \frac{2,000 \text{ FTEs}}{3,500} \times \$3,339 = \$1,908$$

$$\text{Training} \quad \frac{1,500 \text{ FTEs}}{3,500} \times \$3,339 = \$1,431$$

Depreciation and amortisation:

Assuming Installation performs 350 deliveries and Training performs 500 deliveries, total 850 deliveries:

$$\text{Installation} \quad \frac{350 \text{ deliveries}}{850} \times \$74,836 = \$30,815$$

$$\text{Training} \quad \frac{500 \text{ deliveries}}{850} \times \$74,836 = \$44,021$$

Other indirect costs:

Assuming Installation has 1,300 orders and Training has 1,200 orders, total 2,500 orders:

$$\text{Installation} \quad \frac{1,300 \text{ orders}}{2,500} \times \$25,300 = \$13,156$$

$$\text{Training} \quad \frac{1,200 \text{ orders}}{2,500} \times \$25,300 = \$12,144$$

The total allocation of the indirect costs (\$103,475) is therefore:

	Installation \$	Training \$	Total \$
Accommodation	1,908	1,431	3,339
Depreciation and amortisation	30,815	44,021	74,836
Other indirect costs	13,156	12,144	25,300
TOTAL	45,879	57,596	103,475

Although more precise, it is important to acknowledge that ABC systems are comparatively more costly and complex to implement and maintain. They require a deeper understanding of organisational processes and cost behaviour than traditional costing approaches.

ABC may not be suitable for all services; considerations such as the materiality of costs and the relevance of the resulting information to decision-making should be carefully evaluated prior to undertaking an ABC exercise. ABC is, however, well-suited to organisations that deliver a diverse range of services and where indirect costs represent a significant proportion of overall expenditure. In such contexts, ABC can provide valuable insights that support more informed resource allocation and strategic decision-making.

The pro-rata approach

This approach may be adopted where it is impractical or too costly to determine actual resource usage from an indirect cost pool. Under this method, costs are allocated proportionately to services using indicators such as the:

- proportion of staff involved in service delivery relative to total staffing;
- share of direct resource usage attributable to the service; or
- service's budget as a percentage of the overall budget.

Pro-rata allocation can be applied consistently across different types of indirect cost pools. A straightforward method involves grouping all indirect costs into a single pool and applying a proportionate allocation based on one or more of the measures outlined above.

However, greater accuracy can be achieved by disaggregating the indirect cost pools — i.e. creating multiple pools based on cost type or function — which increases the likelihood that the results will approximate those derived from the 'Usage' or 'Benefit' method.

This approach is particularly suitable for services with relatively simple production processes, where a proportionate allocation provides a reasonable and practical means of distributing indirect costs.

It is the responsibility of each agency to adopt a methodology that most accurately reflects the specific circumstances under which its services are delivered.

Using the Computer West case study above, the total indirect costs could be treated as one pool and then allocated to each service on a pro-rata basis in accordance with staff numbers involved in delivery of each service (previously identified as 2,000 and 1,500 FTEs respectively). The cost of \$103,475 would then be allocated as follows:

PRO-RATA ALLOCATION OF STAFF COSTS

Installation	$2,000/3,500 \text{ FTEs} \times \$103,475 = \$59,129$
Training	$1,500/3,500 \text{ FTEs} \times \$103,475 = \$44,346$

This differs from the results achieved under the ABC approach (the variation being in the order of 20 per cent – 30 per cent). Estimates of indirect costs can differ significantly depending on the approach taken. As the ABC approach is considered to be more accurate, it should be used wherever practicable.

Under either approach, where staff time is used as the basis for allocating indirect costs, agencies must ensure that non-productive time is appropriately accounted for in the allocation methodology.

More generally, as service levels can change over time, it is essential that the basis for allocating indirect costs reflects current and relevant service levels. Historical service levels may no longer provide a suitable reference point if there have been significant changes in service delivery. Agencies should therefore regularly review and update allocation bases to ensure they remain aligned with actual service conditions.

3.5 Resources received free of charge

Any resources received free of charge from other government agencies should be allocated to each of the services.

Case Study

Computer West is assumed to receive services free of charge (e.g. legal services) in the order of \$3,045. This amount is allocated as follows:

Installation $2,000/3,500 \text{ FTEs} \times \$3,045 = \$1,740$

Training $1,500/3,500 \text{ FTEs} \times \$3,045 = \$1,305$

3.6 Taxation

Only those taxes or tax equivalents that are actually incurred and paid by a government agency in relation to its inputs should be allocated to services. Goods and Services Tax (GST) input tax credits that are refundable from the Australian Taxation Office must be excluded from cost allocations.

Where competitively neutral pricing principles apply, agencies should also estimate and allocate a notional amount of applicable taxes to services, in order to reflect the full cost of service provision (see section 4.3).

3.7 Opportunity cost of capital

Incorporating the opportunity cost of capital recognises that the funds invested in assets used to supply services could have alternative uses. For the purpose of determining the opportunity cost of capital associated with service provision, relevant assets should include both current assets (e.g. cash assets, receivables and inventories) and non-current assets (e.g. land and buildings and intangibles) directly linked to the service being costed. Restricted cash and holding account receivables, which are considered to have no alternative use, are excluded.

When costing existing services, the opportunity cost of capital should be applied to net assets (relevant assets less liabilities such as payables and provisions) to avoid distortions in benchmarking caused by variations in gross asset values.

Borrowings and lease liabilities should not be netted against the relevant assets as it is intended that the opportunity cost of capital includes interest costs. Accordingly, interest costs are not included in indirect costs.

The recommended opportunity cost of capital rate is based on the State's forecast incremental borrowing rate for the budget year, representing the cost savings to Government if the assets were liquidated and the proceeds used to reduce new borrowings. The current rate is available within the [Financial Administration Bookcase \(FAB\)](#).

The case study applies an illustrative rate of 5 per cent. Where net assets are utilised in the delivery of multiple services, the opportunity cost of capital should be allocated across those services using a methodology consistent with the allocation of indirect costs.

Case Study

The rate is applied to the net assets of **Computer West**, as illustrated below:

	Total \$
Assets	
Cash assets	10,900
Inventories	34,670
Receivables	10,705
Property, plant and equipment	1,465,559
Infrastructure	1,233,567
Intangibles	1,463
	2,756,864
Liabilities³	
Payables	4,827
Provisions	45,517
	50,344
NET ASSETS	2,706,520
Opportunity cost of capital = 5 per cent × \$2,706,520 = \$135,326	
Installation	2,000/3,500 FTEs × \$135,326 = \$77,329
Training	1,500/3,500 FTEs × \$135,326 = \$57,997

³ Borrowings and lease liabilities are excluded from liabilities so that the resulting net assets position will effectively incorporate interest costs for borrowings and lease liabilities into the calculation of the opportunity cost of capital.

3.8 Summarising costs

The full cost of a service is determined by aggregating direct costs, indirect costs, and the opportunity cost of capital. While the majority of these costs will typically be incurred by the agency responsible for delivering the service, some may be borne by other agencies.

Cost components may include both actual cash transactions and non-cash items that represent potential future expenditure — such as accrued annual leave and long service leave. The level of detail required in any costing exercise will depend on the nature of the service being costed and the specific purpose for which the costing is undertaken.

Case Study

The full cost of **Computer West's** services is therefore:

	Installation \$	Training \$	Total \$
Direct costs	731,737	655,347	1,387,084
Indirect costs	45,879	57,596	103,475
Services received free of charge	1,740	1,305	3,045
Opportunity cost of capital	77,329	57,997	135,326
TOTAL	856,685	772,245	1,628,930

4. Determining the Price for Services

Costing a service requires identifying all relevant costs (direct, indirect and the opportunity cost of capital) associated with providing the service. Pricing a service, by contrast, refers to the amount charged to the customer for receiving the service.

This section deals with the principles of setting prices that government agencies should charge for the delivery of services.

4.1 When to set prices to recover costs

Decisions regarding whether to charge for services, and whether fees or charges should be set to recover the full cost of service provision, rest with Government. **As a general principle, fees and charges should reflect the full cost of delivering the service, unless an alternative approach has been lawfully approved by Government.** In the absence of any Government decision to provide a discount or free services, charging the full cost is justified on the grounds of:

- allocative efficiency: ensuring resources are neither misallocated nor allocated inefficiently; and
- equity: ensuring taxpayers are not subsidising services they do not personally use.

Advice provided to Government on whether a fee or charge should be set at full cost recovery should reflect the principles discussed below.

4.2 Why the service is being provided?

When considering pricing decisions, it is important to first understand the rationale for government provision of the service. In most cases, this arises from some form of market failure, where the private sector either does not provide the service, or does so inefficiently in terms of price or quantity. Common reasons include:

- **natural monopolies:** where a single provider can deliver services more efficiently than multiple competing providers due to high capital costs, economies of scale, and significant barriers to entry;
- **public good characteristics:** where consumption is non-rival (one person's use does not diminish availability to others) and non-excludable (once provided to one person, it is automatically available to all);
- **positive externalities:** where the benefits of service provision extend beyond the direct recipients — for example, education contributes to a more productive economy; and
- **social welfare objectives:** where services are provided to support equitable outcomes and community wellbeing.

As a basic rule, a natural monopoly is said to exist if, given a level of demand, one organisation or firm can produce required services at a lower cost than two or more other organisations. Where a service is provided solely due to its natural monopoly status, pricing and quantity decisions should aim to replicate competitive market outcomes to avoid distorted price signals and inefficient resource allocation.

While some services may exhibit public good characteristics, few are pure public goods. Therefore, charging may still be appropriate in certain circumstances.

In cases where services generate significant positive externalities or are provided to achieve social welfare outcomes, charging users may result in under-consumption. Pricing decisions should therefore be carefully considered to ensure they do not undermine the intended policy objectives.

Where a service is provided for multiple reasons – such as both natural monopoly and social welfare considerations – the analysis should be adapted to reflect the complexity of the service's purpose.

Social costs and benefits

While the general policy position supports full cost recovery, there may be circumstances where this approach is not appropriate for achieving Government objectives. In such cases, where the social benefits of service provision outweigh the financial costs, agencies must carefully assess the specific circumstances and context to ensure that pricing decisions support the intended social outcomes.

Even where a departure from full cost recovery is justified, agencies should continue to calculate and report the full cost of service provision for transparency and accountability purposes.

Government efficiency

Agencies should set prices in a manner that promotes both efficiency and effectiveness within their service delivery scope. Pricing strategies must reflect sustainable cost recovery, avoid cross-subsidisation of underperforming services and ensure the optimal allocation of finite public resources.

Additionally, agencies are encouraged to foster a culture of continuous improvement. This includes ensuring alignment with Principle 6b of the National Competition Policy Intergovernmental Agreement, which advocates for the maintenance and periodic review of an efficient charging guide. Efficiency measures should be thoroughly explored before considering new or increased charges, rather than relying on price adjustments as a default solution. This approach not only enhances overall efficiency but also helps reduce distortions and supports better long-term outcomes.

However, efforts to improve efficiency must not compromise the broader social costs or benefits associated with the provision of goods or services. Pricing decisions should strike a balance between financial sustainability and the achievement of public policy objectives.

Other considerations

If a substitute is available from the private sector, then any decision not to impose user charges should be reviewed. In the absence of full cost charging the private sector provider could be facing unfair competition, which may violate competitive neutrality.

Where the total cost of charging for a service, including both administrative costs incurred by Government and the consumer's compliance cost, is high relative to the cost of providing the service, a decision to charge for the service should be reviewed.

This discussion is not meant to be exhaustive but is intended to assist agencies to outline all the factors they consider relevant in support of their recommendations regarding charging for services.

4.3 Competitively neutral pricing

Competitive neutral pricing follows the concept of competitive neutrality, which tries to ensure that government-owned businesses do not gain an unfair advantage over private businesses simply because of their public status. In practice, this means that when public sector agencies provide goods or services in markets where they compete with private businesses, they must price those services as if they were a private business, including all costs that a private competitor might incur. The practice eliminates advantages that a public sector entity might enjoy, such as regulatory exemptions, tax exemptions or government guarantees.

Competitive neutrality does not apply to all WA government entities. It specifically applies to “significant government business activities”, as defined under the Competition Principles Agreement and WA’s Policy Statement on Competitive Neutrality. These are activities where the entity sells goods or services in a market and the activity is significant enough to potentially distort competition if advantages (and disadvantages) are not neutralised through measures such as competitive neutral pricing. While it can apply to government entities other than government trading enterprises, it does not apply to non-commercial functions, regulatory activities or activities whose primary aim is to meet social or policy objectives.

If competitively neutral pricing is applicable, then under the [2024 Intergovernmental Agreement on National Competition Policy](#) the prices charged for an agency’s relevant services must not only reflect the full costs faced by Government in providing the service, but must also be adjusted to take account of any competitive advantages and/or disadvantages experienced by the agency as a result of its public ownership.

Agencies for which competitively neutral pricing may be appropriate are likely to comprise those in the public sector which compete, or have the potential to compete, in open markets. Before an agency is required to price on this basis, the following conditions must be satisfied:

- the agency must undertake a review of all the costs and benefits to the general community of removing those competitive advantages and disadvantages arising from its public sector ownership;
- this review must be submitted to the agency Minister and Cabinet for consideration; and
- having considered the review, Cabinet authorises the implementation of competitively neutral pricing.

Governments need to be mindful not to allow for competitive neutrality to be at the expense of social welfare or regional development but they do need to ensure transparency.

Advantages due to Government ownership

An agency may benefit from competitive advantages arising either from operational efficiencies or from its status as a government-owned entity. It is important to emphasise that, for the purposes of developing competitively neutral full cost pricing, only the advantages associated with government ownership should be considered. Common examples of advantages arising from government ownership include exemptions or relief from:

- state taxes (such as payroll tax);
- local government rates;
- commercial rent (or rent charged at a concessional rate);
- certain regulatory requirements;
- insolvency risk, due to government guarantees on debt repayments; and
- exposure to corporate takeovers.

Information about State taxes, including applicable tax rates, can be found in the latest 'Overview of State Taxes and Royalties', available from the Department of Treasury and Finance website.

Details regarding local government rates should be obtained from the relevant local government authority.

This list is not exhaustive. Agencies are encouraged to review their activities to identify any additional advantages specific to their circumstances. Under the competitive neutrality policy, several of these advantages may be challenging to quantify.

Disadvantages due to Government ownership

Any disadvantages due to government ownership must also be accounted for.

Common examples include:

- higher employer superannuation contributions in the public sector (e.g. under the Gold State Scheme);
- additional policy and reporting obligations imposed by government;
- ministerial interventions in operational matters;
- employment terms and conditions determined by government policy; and
- requirements to address social equity considerations.

4.4 Cross-subsidisation

Cross-subsidisation in a public sector context refers to the practice of using surplus revenue from one area of government activity to fund deficits in another.

Cross-subsidisation should be avoided. While it is a pragmatic way to balance budgets and ensure service delivery, it raises issues:

- lack of transparency: the public may not be aware that they are paying more for one service to support another;
- lack of equity and fairness: If one group (e.g. urban residents) pays more for a service to subsidise another group (e.g. rural residents), it may lead to perceptions of unfairness;
- lack of accountability: It can be difficult to assess the efficiency or effectiveness of individual services;
- misallocation of resources: Funds may be diverted from high-performing or high-need areas to support less efficient ones; and
- obscures financial performance: It becomes harder to evaluate the sustainability of individual services.

Where agencies deliver services that are subject to differing policy decisions regarding pricing — such as full cost recovery for one service and no charge for another — or where competitive neutrality principles apply to at least one service, the potential for cross-subsidisation becomes more pronounced. In such circumstances, it is particularly important to allocate indirect costs appropriately, as discussed in section 3.4.

Generally, activities should be priced in a manner that appropriately reflects their costs, except where there are specific grounds for cross-subsidisation.

In the absence of a clear directive, agencies should take all reasonable steps to avoid cross-subsidisation, thereby promoting transparency and accountability in their pricing practices.

Case Study

Prices are set by **Computer West** to recover the full cost of services as follows:

	Installation	Training
Full cost of services	\$856,685	\$772,245
Estimated number of orders to be delivered	320	240
Price per order	\$2,677	\$3,218

5. Credit and Debit Card Administration Fees

In the context of increasing transparency and accountability in public sector financial practices, it is essential that agencies apply card payment administration fees in a manner that reflects actual costs incurred. The Reserve Bank of Australia's (RBA) regulatory reforms have enabled agencies to pass on merchant service fees to customers, subject to specific conditions. This section outlines the principles and requirements for determining and applying administration fees for credit, debit, and prepaid card transactions, ensuring compliance with legislative provisions and cost recovery standards.

Credit, debit, and prepaid card payment systems are regulated by the RBA. In 2001, the RBA formally designated several major credit card schemes as payment systems. Designation is the initial step in the possible establishment of standards and/or an access regime for a payment system.

In 2003, the RBA introduced standards to remove restrictions preventing merchants from passing on credit card merchant service fees directly to customers. Similar reforms were subsequently applied to debit and prepaid card transactions. The aim of these reforms is to increase competition and transparency between cards and other payment systems such as EFTPOS, BPAY, and Australia Post.

Most agencies within the Western Australian public sector are authorised to charge an administration fee for accepting card payments under section 5A of the *State Trading Concerns Act 1916*. This authority is subject to the condition that the fee does not exceed the amount determined in a manner approved by the Treasurer.

The Treasurer has approved the maximum rate for a credit or debit (or prepaid) card administration fee to be set at 1% of the card payment amount.

The card administration fee is subject to cost recovery principles. Accordingly, when applying such a fee, an agency must determine whether its 'average cost of acceptance' falls below, matches, or exceeds the prescribed maximum rate.

For example, if an agency's average cost of acceptance is calculated at 0.5%, it may only charge 0.5%, even if the maximum allowable rate is 1%. Conversely, if the average cost of acceptance is 1.5%, the agency remains bound by the 1% cap.

Agencies should apply differentiated administration fees for accepting debit and prepaid cards compared to credit cards, reflecting the lower cost of acceptance associated with debit and prepaid transactions.

All debit and prepaid cards issued after 1 July 2017 include a Bank Identification Number (BIN), which enables agencies to identify such transactions. Agencies should utilise BIN data to distinguish debit and prepaid card payments and apply a correspondingly lower administration fee.

Alternatively, agencies may opt to apply a uniform administration fee across different card payment systems, provided that the fee does not exceed the average cost of acceptance of the lowest-cost system included. For example, if the average cost of acceptance for credit cards is 0.9% and for debit cards is 0.5%, the agency may charge a common fee of 0.5%. However, it would not be permissible to blend the costs and charge a fee of 0.7%, as this would result in overcharging for debit card transactions.

Agencies may elect to reset the administration fee periodically, based on evidence of their average cost of acceptance over the most recent 12-month period. However, as a minimum, agencies should review the administration fee annually upon receipt of the annual statement detailing their payment processing costs.

The cost of acceptance typically comprises merchant service fees, terminal fees and other charges associated with processing card payments. In certain circumstances, agencies may incur additional costs that are specific to a particular card type that may wish to include these in the administration fee. Where such costs meet the eligibility criteria and can be substantiated with appropriate evidence, agencies may incorporate them into the total fees charged by their payment service provider over the preceding year. Based on this total cost, agencies should determine the average percentage cost for that card payment system.

Agencies must not charge administration fees exceeding the average cost of acceptance.

Additional costs that may be included in the calculation of the administration fee are:

- gateway fees paid to a payment service provider;
- costs associated with fraud prevention services supplied by an external provider;
- terminal-related costs incurred through a provider other than the agency's primary payment service provider;
- fees arising from fraud-related chargebacks (excluding the cost of the chargebacks themselves); and
- insurance premiums relating to forward delivery risk.

In all cases, these additional costs must be directly attributable to the specific card type for which the administration fee is being charged. These costs must not reflect general expenses associated with all payment systems accepted by the agency. Only costs incurred through external service providers are eligible, and must be evidenced by formal documentation such as contracts, statements, or invoices. Internal agency costs are not permitted to be included in the administration fee calculation.

By adhering to cost recovery principles and applying administration fees that accurately reflect the average cost of acceptance, agencies can promote fair and transparent pricing practices. It is essential to differentiate fees by card type, substantiate any additional costs, and undertake regular reviews of fee structures to ensure ongoing compliance and maintain public confidence. Agencies should monitor RBA policy developments to ensure regulatory alignment, respond to changes in payment system governance, and uphold best practice in financial management and pricing integrity.

Glossary of Terms

Accrual Accounting	Recognises the financial impact of transactions in the period when economic value is created or changed, regardless of when cash is received or paid.
Activity Based Costing	An approach to costing which focuses on identifying activities required to produce services.
Competitive Neutrality	The nullification of any net competitive advantage to an agency arising purely from its ownership by Government.
Cost Driver	The factor or variable that has the greatest effect on the level of activity.
Depreciation (and amortisation)	The systematic allocation of the cost of a tangible or intangible asset over its expected useful life, reflecting the pattern in which the asset's economic benefits are consumed.
Direct Costs	Expenses that can be specifically attributed to the delivery of a particular service or activity.
Fair Value	The estimated price that would be received to sell an asset, taking into account its current use and any restrictions affecting its present or future use.
Fixed Costs	Costs that remain unchanged in total for a given time period despite fluctuations in service level.
Full Cost	The total value of all of the resources used in the production of a service over a period.
Indirect Costs	Costs that are related to a service but cannot be directly attributed to it.
On-Costs	Labour-related costs which are incurred in addition to direct salary or wage costs.
Opportunity Cost of Capital	The value forgone by investing in an asset rather than using those funds for alternative purposes, such as reducing debt or investing elsewhere.
Overheads	The fixed and variable costs of an organisation which are not directly attributable to a particular service.
Variable Costs	Costs that fluctuate in direct proportion to changes in the level or volume of service.