

State Government Entities Directions Paper -

Recreational Vehicle Overnight Camping Services

September 2012

**State Government Entities Directions Paper –
Recreational Vehicle Overnight Camping Services, September 2012**

© Government of Tasmania, 2012

Excerpts from this publication may be reproduced, with appropriate acknowledgment, as permitted under the Copyright Act.

For further information please contact:

Department of Treasury and Finance

GPO Box 147

Hobart Tasmania 7001

Telephone: +61 3 6233 3100

Website: www.treasury.tas.gov.au

Published October 2012

ISBN 978-0-7246-5187-0

Contents

Introduction..... 4

Scope of the Directions Paper 4

Principles of Competitive Neutrality 5

Role of the Tasmanian Economic Regulator 5

Key Issues for State Government 6

Sites in competition 6

Cost-benefit analysis..... 6

Pricing Principles..... 7

Rest Stops 7

Attachment A: Full Cost Attribution Checklist 8



Introduction

In 2010-11, the Office of the Tasmanian Economic Regulator received four complaints from private caravan site owners about councils providing free or low priced overnight recreational vehicle (RV) camping services. The premise of the complaint in each case was that the pricing (or lack of pricing) for these council-provided services was in breach of competitive neutrality (CN) principles under the National Competition Policy that all government organisations are required to follow. Each of these complaints were upheld by the Economic Regulator.

In May 2012, the State Government and the Local Government Association of Tasmania jointly released a *Statewide Directions Paper – Review of Council Recreational Vehicle Overnight Camping Services* which sets out a state-wide policy and uniform pricing methodology for overnight RV camping services provided by councils.

The review of council overnight RV camping services found that councils must adhere to the principles of competitive neutrality and should apply a "full cost attribution model" approach when operating these services. The Regulator found each council-owned service in Tasmania is likely to be competing with a privately-owned caravan park, either within its own municipality or in surrounding municipalities, and needs to price its services to reflect the costs of providing the service.

In order to ensure consistency and fairness between state government and local government, a review has been undertaken of overnight RV camping services made available by state government entities with the aim of developing a set of guidelines that are consistent with the Directions Paper issued to councils and the principles of competitive neutrality.

Scope of the Directions Paper

This Directions Paper relates only to overnight RV camping services in areas and sites where facilities are provided, such as toilets or rubbish removal. RVs are defined as campervans or motorhomes that have in-built eating, sleeping, food storage and preparation facilities, and also contain a toilet, shower and holding tanks for both grey water and black water, clean water storage, deep cycle batteries and a hot water service. This definition was provided by the Campervan and Motorhome Club of Australia and has been adopted by the Tasmanian Economic Regulator.

This Directions Paper does not cover freedom or wilderness camping which are sites inaccessible by RVs or most cars, or sites only accessible by foot or four wheel drive vehicles.

A distinction has been made between the terms "parking" and "camping" for the purposes of this Directions Paper. "Camping" refers to sleeping in, or utilising, a vehicle's facilities overnight. It also includes camping in a tent or similar structure nearby to a vehicle. "Parking" involves leaving a vehicle unattended and uninhabited for any period of time. This Directions Paper specifically refers to camping activities associated with the use of RVs. It must be recognised, however, that in providing a place to "park" rather than "camp", a State Government entity may inadvertently be providing an overnight RV camping service as often there is nothing to stop RV users from camping overnight in a designated parking area.

Principles of Competitive Neutrality

The competitive neutrality principles are designed to ensure that all government bodies involved in significant business activities compete on fair and equal terms with private sector businesses, where it is in the public benefit to do so.

The objective of the competitive neutrality principles is to prevent inefficiency in the use of resources arising from unfair competition between publicly owned and privately owned businesses. It is also inequitable, and a discouragement to future investment, if a private sector business is established, such as a caravan park, and that business subsequently faces losses or closes as a result of a subsidised government business or activity in the same market.

The *Competition Principles Agreement*, signed by all Australian jurisdictions in 1995, requires significant government businesses, or significant business activities of government businesses, to abide by the competitive neutrality principles:

- significant government business enterprises (such as Hydro Tasmania and Metro Tasmania) are subject to the corporatisation model; and
- significant business activities are subject to the corporatisation model where appropriate and, if not appropriate, the full cost attribution model is to apply.

The application of "full cost attribution" means that the total cost of the resources used in providing the activity are to be accounted for by the government body in setting prices for the goods or services provided. These include direct and indirect costs and competitive neutrality costs, which are costs that would be incurred if the business were a private sector business, including tax equivalents, rates and also loan guarantee fees, which reflect the (higher) cost of debt that would ordinarily be incurred by a private operator.

Full cost attribution requires entities to identify all costs of providing a significant business activity and reflect those costs in their pricing as if they were operating a stand-alone business that does not enjoy any subsidisation derived from its public ownership. This would include costs that an entity does not actually incur, but which private businesses do incur in the provision of the same service, such as insurance, rates and relevant taxes.

For example, for the purposes of competitive neutrality, when determining the "cost" of insurance in the provision of a particular service, rather than apportioning a percentage of the overall insurance costs that are attributable to that service, full cost attribution would generally require that an entity seek advice as to the cost of taking out separate insurance as if it were a private operator. A full cost attribution checklist is provided as Attachment A.

Role of the Tasmanian Economic Regulator

The Tasmanian Economic Regulator investigates whether the pricing of a significant business activity meets the competitive neutrality principles on receipt of a complaint from an affected person or business. If the complaint is upheld, the Regulator may recommend what actions the entity is to take to ensure the entity complies with competitive neutrality principles and also advises the Shareholding Ministers of the findings.

The onus is therefore on government entities to be able to demonstrate that pricing meets the competitive neutrality principles if a complaint is made. As the Regulator will ultimately determine any complaint, the State Government is unable to ensure that any approach will guarantee compliance; however, use of the checklist in Attachment A will assist in demonstrating compliance, in the event that a complaint is made.

Key Issues for State Government

State Government entities are required to apply competitive neutrality principles to overnight RV camping sites that are in competition with private operators. This includes charging prices which reflect the costs associated with providing services at the site.

Sites in competition

Competitive neutrality is viewed in the context of other competitors and the competitive market. This means that it is not relevant whether an activity is a significant proportion of the business carried on by the entity, but rather whether the activity represents a significant share of the market for that activity. Any overnight RV camping sites operated by state government entities are potentially competing in the same market as private operators and may be considered to be a significant business activity.

Caravan and RV camping sites vary across municipalities and different environments throughout the State and it can be difficult to determine which sites are competing in the same markets as private operators. However, it is likely that all sites which offer overnight RV camping facilities are competing in the same market, and therefore with private operators, even if they are some distance from the nearest privately operated site, due to the mobile nature of the consumers. All operators of State-owned sites should therefore apply competitive neutrality principles to any sites which provide any facilities. A list of facilities includes:

- rest stops;
- grey water disposal points;
- rubbish removal and general waste disposal;
- water supply;
- toilet facilities, including decomposing non-flush toilets;
- shower and laundry facilities;
- picnic facilities; and
- recreational facilities such as pools, tennis courts and playgrounds.

Costs to be charged at these sites must be reflective of the facilities provided on the site which include costs associated with constructing or installing these facilities, maintaining the facilities, cleaning, removing rubbish and waste products and other associated costs together with costs that a private operator would incur, such as insurance, rates and relevant taxes. These costs should then be reflected in the pricing for the use of the site.

Cost-benefit analysis

There will be exceptional cases where it is not cost effective to collect the site fee, or where there is no feasible method of charging. In these circumstances it may be acceptable to not charge a fee for the use of this site. However, a cost-benefit analysis must be provided as evidence to demonstrate this if a complaint is raised against this site.

Site operators must consider all means available for collection of this fee, including agreeing with councils/parks and wildlife/community groups to collect the fee on behalf of the operator. It is envisaged that only exceptional cases will arise where there is no fee charged for the use of the site, such as the case of very remote sites.

In cases where an agency or government business considers that fees cannot be charged without prohibitive costs being incurred, a draft cost-benefit analysis must be submitted to the Department of Treasury and Finance for review. If the Department is not satisfied that there is sufficient evidence in the cost-benefit analysis to justify the absence of a fee, the entity must set a fee under the pricing principles below.

Pricing Principles

Full cost attribution requires State Government entities to identify all costs of providing a significant business activity and reflect those costs in their pricing as if they were operating a stand-alone business that does not enjoy any subsidisation derived from its public ownership. This would include costs that an entity does not actually incur, but which private businesses do incur in the provision of the same service e.g. insurance, rates and relevant taxes.

Government businesses should be reflecting the true costs of overnight RV camping sites so a potential private operator can review existing sites in an area and gauge the actual and true cost of setting up a business. If the pricing is too low for public sites and this deters a private operator, this fails to meet the CN objectives.

Along with the facilities provided, the entity must consider the depreciation, capital costs and financing costs associated with the site and include these costs in the pricing. Even where there is no alternative use for the land, the entity must calculate the costs a private operator would incur if they owned the site and reflect this in the pricing.

Site operators must also look at other costs and reflect this in their pricing schedule. This includes rates and insurance that a private business would incur if they owned or leased that piece of land.

Current insurance rates paid by state government entities on all land and facilities can be much cheaper than a private operator's insurance for the site for the same insurance cover. The insurance cover required would depend on the facilities and the associated risks and would include a valuation by an insurance company. Entities must consider the level of insurance and the cost that would be incurred by a private operator and reflect this in the price.

It is recognised that it may be unduly costly to set different prices for each site for which an agency or government business is responsible. It is acceptable to set uniform prices for sites of a particular type, which reflects the average cost of providing the services at those sites.

Government entities and businesses should document the process by which the prices for camping services are determined and review prices periodically, such as every two to three years or if there are major changes in costs or in the facilities provided.

The Office of the Tasmanian Economic Regulator can provide general advice to government agencies and businesses on how to determine prices that adequately reflect the necessary costs. However, the Regulator is not able to provide specific advice on whether prices adequately reflect the costs of providing a service. This question is resolved only if a valid complaint is lodged and the Regulator conducts an investigation to determine the appropriateness of the price charged for the service.

Rest Stops

State government entities are encouraged to ensure that there is effective regulation of RV parking in rest stops designed for day use only.

Where there are rest stops for day use only that provide facilities and there are concerns that they may be used for overnight parking or camping, it is strongly recommended that prominent and clear signage is installed to notify the public of the correct usage for the sites. It is also necessary to ensure that there is sufficient monitoring of the use of the sites to allow action to be taken if they are used for overnight parking or camping.

Attachment A: Full Cost Attribution Checklist

NOTE: The Full Cost Attribution Checklist is not exhaustive, but rather an indicative listing of the types of costs that a public sector entity may need to consider. Depending on the nature of the services being provided, some entities may identify additional costs to be taken into account whilst for other entities some of the listed costs will not apply.

Full cost attribution checklist for provision of self-contained RV camping services

Cost item	Total annual cost associated with the site (\$)	Proportion attributable to camping activities if the site is used for other activities (%)	Annual cost attributable to camping at the site (\$)
<u>Operating costs</u>			
Salaries direct (including on-costs such as payroll tax, workers compensation and superannuation)			
Salaries indirect (i.e. proportion of salaries and on-costs of corporate services staff including HR, Finance and Administration staff)			
Repairs and maintenance			
Insurance (include general property and public liability)			
Power			
Rubbish collection			
Water and sewerage			
Rent			
Gardening			
Consumables			
Advertising/Marketing			
Corporate supplies			
Signage			
Administration			
Other (detail)			
<u>Capital costs</u>			
Financing costs ¹ (i.e. interest on borrowings to finance the construction of assets such as amenity blocks)			
Depreciation			
Opportunity Cost of Capital			

¹Full cost attribution requires public sector entities to identify all costs of providing a significant business activity and reflect those costs in their pricing as if they were operating a stand-alone business that does not enjoy any subsidisation derived from its public ownership. This would include costs that an entity does not actually incur, but which private businesses do incur in the provision of the same service e.g. insurance, rates and taxes.

<u>Competitive neutrality costs</u>			
Taxation e.g. land tax Rates			
Guarantee fees			
<p>Tax equivalents²</p> <p>1. Financing costs</p> <p>The market rate of interest should be based on the Reserve Bank of Australia's 90-day Bank Accepted Bill Rate / Small Business Loan Rate</p> <p>2. Tax equivalents</p> <p>Tax equivalents are competitive neutrality costs as entities are not liable for Commonwealth income tax; i.e. to ensure that the entities are operating on a 'level playing field' with private operators, a tax equivalent amount must be calculated and accounted for when identifying the costs of providing the self contained RV camping facilities. Tax equivalents are calculated by multiplying the net profit from providing the self contained RV camping facilities by the Commonwealth corporate tax rate (currently 30%) as follows:</p> <p>Revenue Less: operating costs Less: capital costs Less: competitive neutrality costs.</p> <p>= Net profit before tax equivalent expense</p> <p>Less: Tax equivalent expense (30% of net profit before tax equivalent expense)</p> <p>= Net profit after tax equivalent expense</p> <p>The net profit after tax equivalent expense must be equal to or greater than 0; if less than 0 it means that the price being charged is less than cost and, the price, therefore, breaches the competitive neutrality principles.</p> <p>It is likely that for some sites there will be no site usage data because they have either not monitored usage of the site or, for a new site, the entity does not have any history of usage.</p> <p>Entities will need to estimate revenue to arrive at the net profit and calculate the tax equivalent expense as, in the absence of site usage data, revenue can only be estimated on the basis of the expected number of site visits in a financial year.</p>			