

Calculating the costs and revenues of the alcohol licensing system

Guidance for Territorial Authorities

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[New Zealand Government](#)

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Introduction

Aim of this guidance

Regulation 19 of the Sale and Supply of Alcohol (Fees) Regulations 2013 (the Fees Regulations) requires Territorial Authorities (TAs) to report annually on costs and revenues of alcohol licensing functions.

The use of this guidance is not mandatory. It has been developed to assist TAs to determine the costs and revenues relating to their alcohol licensing functions and activities, which include issuing licences, monitoring licensees and undertaking enforcement action relating to licence holders.

The Ministry of Justice has developed this guidance material through a process of close consultation with the local government sector. We would like to thank the working group for their engagement on this guidance.

Why is cost recovery important?

The legislation aims for TAs to recover the costs incurred in administering the alcohol licensing system. The Fees Regulations may do anything reasonably necessary to ensure that, as far as practicable, costs are recovered out of the fees paid to TAs under the Act.¹ The Regulation 19 report is a valuable tool to help determine whether this is being achieved.

Regulation 19 reporting provides information for TAs and for central government to use to review the cost of the activities and whether these costs are being recovered. It is also important for other stakeholders, such as licensees and communities, to have access to this information for improved transparency and accountability.

Applying this guidance to Regulation 19 reporting would help improve cost and revenue information that will be useful for determining whether costs are being recovered. Clear, consistent data is necessary when considering whether fee settings are appropriate, or whether they may need to be adjusted either by amending the Fees Regulations or at TA level through bylaws or by discounting fees in accordance with Regulation 6(4).

¹ Section 402(1) of the Sale and Supply of Alcohol Act 2012 refers.

Sale and Supply of Alcohol (Fees) Regulations 2013

Background to the Fees Regulations

Under the Sale and Supply of Alcohol Act 2012 (the Act) the Fees Regulations introduced a national risk based licensing fees framework for alcohol licensing. The intention of the regime is that local TAs' costs related to licensing are fully recovered from the fees received.

The Fees Regulations set default fees for on-licences, off-licences and club licences. They distinguish between application and annual fees, and that different TAs will have different costs, by allowing for a TA to set or adjust its own fees through a bylaw or through fees discounts.² The Fees Regulations set fees for other licence types including manager certificates, temporary authorities, special licences, temporary licences and permanent club charters.

Regulation 19 reports should provide a TA and other stakeholders with useful information on costs, income and levels of cost recovery, and improve transparency and accountability. It will also provide good data for the Ministry of Justice review of the fees, which is required to be undertaken every five years.

Findings from the Ministry's Fees Review 2017

The fees review in 2017 identified that TAs use a range of methods to estimate their costs. This guidance material is designed to assist TAs to undertake calculation of cost recovery levels on a consistent and comparable basis. This is important when considering where fee settings are appropriate, or whether they may need to be adjusted.

With consistent data, it will be easier to clearly assess whether:

- the default fees are appropriate;
- the default fees are too high or too low, and consequently need to be adjusted up or down,
- some individual TAs may be over or under-recovering, and should consider whether they should set or adjust fees for their district.

Further information on the fee system for alcohol licensing and the 2017 Fees Review is available on the Ministry of Justice website.

² Regulation 6(4) of the Fees Regulations refers.

Reporting under Regulation 19

Structure of reporting under Regulation 19

The reporting required by Regulation 19 will reflect the costs of the alcohol licensing system and the revenues received by a TA from licence application fees and annual fees.

Generally, TAs receive two types of fees: licensing application fees and annual fees. Application fees are intended to cover activities relating to licence applications and decisions. Annual fees are intended to cover costs incurred during the life cycle of the licence.

Licence application fees

Generally, licence application fees are intended to cover the costs associated with processing licence applications (Regulation 19(1)(a) activities). These include the TA's costs of assessing and making decisions on such licences and any appeals that go to the Alcohol Regulatory and Licensing Authority (ARLA).

Annual licence fees

Annual fees are generally intended to cover the costs of monitoring and enforcement of licence holders throughout the life cycle of the licence. This includes any enforcement related costs for issues that need to be considered by the ARLA (Regulation 19(1)(b) and (c) activities).

Regulation 19 requires

Each TA must, each year, prepare and make publicly available a report showing its income from fees payable in relation to, and its costs incurred in,

- (a) The performance of the functions of its licensing committee under the Act; and*
- (b) The performance of the functions of its inspectors under the Act; and*
- (c) Undertaking enforcement activities under the Act*

Some fees do not differentiate between application fees and annual licence fees

Some fees such as special licences, managers certificates and temporary licences do not differentiate between application fees and annual fees. For these, we recommend that TAs simply account for all costs associated with these licences. This is so that the TA can make an accurate assessment of the overall costs against the revenue from these types of licences.

Requirements of Regulation 19

Regulation 19 requires that TAs report on three different activity areas:

The performance of the functions of the licensing committee (Regulation 19(1)(a))

The District Licensing Committee (DLC) costs of the DLC secretariat processing applications and DLC Chairs/Commissioners/members deciding on licence applications (including renewal applications). In practice, this means all the costs involved up to the point the final licence decision is made.

The performance of the functions of inspectors (Regulation 19(1)(b))

The alcohol licensing inspector costs of activities relating to licensees. This includes inspecting, assessing and supporting compliance and monitoring activity.

Undertaking enforcement activities (Regulation 19(1)(c))

Costs of enforcement action activity relates primarily to infringements and to enforcement applications taken to ARLA. Overall, enforcement activity is likely to represent a relatively small proportion of the total alcohol licensing system cost for TAs.

The distinction between activities under regulation 19(1)(b) and (c) is not always clear. The important thing is to ensure that all costs are included somewhere and that they are not counted twice.

When to publish the report

We recommend completing the Regulation 19 report at the same time as the Annual Report prepared under section 199 of the Act. It may help streamline processes to complete both reports at the same time.

Regulation 19 requires that the report be publicly available. Usually this is achieved by publishing the report on the TA's website. We would appreciate if you could also email a copy to alcohol@justice.govt.nz.

Examples of reporting formats for Regulation 19 reporting can be found in Appendix One.

Costing methodology

Types of costs to be included

This section identifies which costs should be included for each of the three main categories under Regulation 19.

Personnel costs: The costs of people, including DLC members, inspectors or other staff. This includes salaries, allowances, leave (annual and wellness), ACC costs, kiwi saver contributions, training and development, stationery, printing, equipment (computers / IT etc) and any other staff-related costs.

Disbursements to ARLA: TAs should include their disbursements to ARLA within costs. This disbursement should be offset by TA licence revenue, which includes the amount which is remitted to ARLA.

Overhead costs: Finance, corporate services, human resources, IT, legal, accommodation (rent, maintenance, utilities).

Overhead allocation: The allocation of overheads is generally applied in relation to full-time equivalent staff (FTE) or unit expenditure. Different TAs might apportion costs relating to staff groups and elected members in specific ways. TAs should take relevance and contribution factors into account when apportioning costs.

Indirect and overhead costs which are included require a demonstrable connection between the costs allocated and alcohol licensing activities.

Categories of costs

For the purposes of this guidance, costs relating to the alcohol licensing system have been categorised as they have been in Regulation 19.

For reporting purposes, the important thing is to get accurate data on whether the total application costs are being recovered by the application fees, and whether the monitoring and enforcement costs are being met by the annual fees.

Regulation 19(1)(a): Costs of District Licensing Committee functions

- ❖ The direct costs of people and entities (including the DLC, Secretariat staff and inspectors) involved with the receipt, collection, assessment, analysis and decision-making on alcohol licence and managers' applications.
- ❖ Costs and activities include:

DLC Chair, Commissioners and members costs, including remuneration, travel costs, training, ACC
Support for DLC through DLC advisors, DLC secretaries, administration and hearings staff, rooms for meetings, access to computers, telephones etc plus training for all staff relating to their DLC work
Other Secretariat activities, including administration of receiving applications and public objections to licences, and issuing of licences and maintaining of the licensing register
Transcribing hearings
Inspectors' involvement/appearance at DLC meetings or ARLA appeals
Inspectors enquiring into and preparing reports for DLC
Legal advice sought by DLC or Inspectors
Employment of interpreters

- ❖ The indirect and/or overhead costs of people involved in these activities need to be identified, and appropriately apportioned and recorded.

Regulation 19(1)(b): Costs of inspector functions

- ❖ The direct costs of people employed or otherwise engaged by the TA to undertake tasks relating to the inspection, assessment of compliance and monitoring of holders of alcohol licences and manager certificates. The time spent on inspection, assessment and support of compliance and monitoring of licences need to be appropriately costed and recorded.
- ❖ Compliance activities may include non-enforcement activities that support licensees and managers to achieve and/or maintain compliance consistent with inspectors' obligations under the Act.
- ❖ Costs and activities include:

Activities of inspectors that deal with alcohol licence monitoring and administrative staff that deal with annual fee administration (including remuneration, ACC, travel, training)
Controlled Purchase Operation activities
The cost of any others (eg consultants, contractors or other TA staff) who are involved with inspector monitoring of licensees

- ❖ The indirect and/or overhead costs of people involved in these activities need to be identified, and appropriately apportioned and recorded.

Regulation 19(1)(c) - Costs of enforcement activity

- ❖ The direct costs of TA staff who undertake enforcement activity. These include the costs associated with enforcement activities that may incur a penalty such as applications to ARLA or issuing of an infringement notice.
- ❖ Other costs of undertaking enforcement action (including applications to ARLA for suspension, variation or cancellation of a licence or manager's certificate).
- ❖ Costs and activities include:

Applications to ARLA for suspension, variation or cancellation of a licence or certificate, including time that inspectors may need to appear at an enforcement hearing
Inspectors' time preparing for and/or attending hearings
Exercising infringement powers under the Act and issuing fines
Costs of admin staff and inspectors in relation to suspending a licence due to non-payment of annual fees and other inspector enforcement activity

- ❖ The indirect and/or overhead costs of people involved in these activities need to be identified, and appropriately apportioned and recorded.

Annualising costs

TAs should calculate the total costs for each activity on an annual basis to the most accurate level possible. A TA might identify costs separately for on-licence, off licence, club licences, temporary authorities, special licences etc. It can then compare these to relevant revenues, to identify levels of cost recovery for different licence types in different licensing processes.³

It is important to note that the costs applicable may vary somewhat from one year to the next. This may be due to changes in staff as well as some costs not always recurring at the same level each year (eg training and development). Similarly, revenues may vary from one year to the next depending on a range of factors.

³ Under Regulation 19 these activities, revenues and costs can be aggregated.

We recommend that the Regulation 19 report includes any other information that can account for over- or under-recovery for the reporting period.

Costs that should not be included

Below are examples of costs that should not be included in reporting on alcohol licensing activities.

Costs that should not be included

Costs of Policy, Strategic and Community Development teams in TAs

Local Alcohol Policies

The local alcohol policy is an opportunity for a community to develop an approach to alcohol management and licensing. It is not a licensing cost, although its content will influence licence decision-making by the DLC

Development of bylaws for alcohol licensing fees

Development of bylaws for liquor bans

General harm reduction activities carried out by the TA

Local Government Official Information and Meetings Act 1987 requests

Calculating personnel costs

We have identified two potential approaches to calculating the staff and employee related costs of alcohol licensing, where staff time needs to be estimated. We recommend these approaches as being reasonably clear, simple and auditable. TAs should choose one approach and use it consistently where possible.

Approach 1: Estimating the time needed by staff to do tasks

Costing allocation by describing processes (such as the process for receiving, assessing and deciding on a licence application) with variations for different licence types and allowing for variation.

This approach requires that for each type of application, and for its treatment (perhaps whether opposed or not, the ratio between the two types for each risk group, and the time allocated) an estimate of the time of people involved is made.

Time spent by each person in the TA can then be estimated and multiplied by the number of that category of licences, per annum. This would also include time spent by staff on licence decisions that are appealed to ARLA.

Approach 2: Costing through time recording and activity recording

Some TAs have time recording and activity allocation systems to identify work related to alcohol licence applications, tasks which relate to monitoring on licence-holders, and enforcement activities.

If TA staff and DLC members are on a time recording system, this can be designed to provide the total time taken for each specific activity. For the purposes of Regulation 19 this can be divided into those activities that relate to considering and decision-making on a licence application, activities of

inspectors relating to monitoring, and activities related to enforcement.

A combination of both the above approaches may be preferred, with time recording for a period to provide data. The data can then be used to supports or modify time estimates.

For the purposes of Regulation 19 reports, a simple description recording activities in the appropriate category is sufficient.

Determining costs that are not exclusive to alcohol licensing activity

If a staff member is working a certain proportion of time on alcohol licensing activity, then that proportion of their costs could be attributed to that activity. For example, where training relates to alcohol licensing functions, the full cost is included. For general training, costs should be applied in the proportion represented by alcohol licensing work as far as possible.

Indirect and Overhead costs

There are various additional costs that need to be added to the direct costs. These include:

- the hierarchy of managers or team leaders that oversee the alcohol licensing activity
- others in the wider Regulatory Compliance Group or TA who may have Secretariat delegations (eg signing of licences, authorising refunds, signing off ARLA reports)
- other overhead costs for accommodation or IT services, and
- corporate costs that are spread across all activities.

Manager or team leader costs are sometimes calculated as a share of total organisational overhead. However, it is usually more appropriate to put the immediate manager, or managers of the alcohol licensing team as direct costs. The proportion of the manager or team leader costs assigned to alcohol licensing can be done according to a ratio determined by relative number of staff working on alcohol licensing as a proportion of total reports to the manager.

Similar issues might arise for higher levels of management. In many cases a TA puts all its CEO cost (plus second tier managers) into indirect costs and apportsions these according to a formula (often linked to FTE counts in operational activity areas). These may be included as a share of the general corporate overhead. It is important that they not be either double counted, or missed entirely.

If you have calculated the FTE equivalent that your alcohol licensing inspectors have spent over the year on, for example, DLC/licence application activity, then that ratio can also be multiplied by the FTE overhead cost.

Corporate overheads should be examined for the extent to which they relate specifically to the alcohol licensing function, to ensure that only relevant indirect costs are included.

Reporting on indirect costs

Although we recommend reporting on indirect costs separately, this is not required by Regulation 19. The minimum required for Regulation 19 reports is to aggregate all costs into a single figure for licence application processes and a separate figure for monitoring and enforcement processes.

We acknowledge that some stakeholders may consider that indirect costs allocated to alcohol related functions are excessive and/or inappropriate. Reporting indirect costs separately can support transparency, accountability and comparability across TAs.

Worksheets have been developed to assist a TA to record and calculate staff costs relating to alcohol licensing. These can be found on the Ministry of Justice website.

Calculating revenues

Revenue from fees income

The balance of costs and revenues is the overall level of cost recovery.

To get the best possible data, the TA would ideally identify and report all revenues from alcohol licensing divided into two general fee types:

1. revenue relating to applications for on-licences; off-licences and club-licences
2. revenue relating to monitoring and enforcement activities for licensees holding on-licences, off-licences and club licences

A third category of fees are not divided into application and annual fees. For these, what is being assessed is whether the cost of administering these licences is recovered by the fees for these licences.

This third category includes:

- Special licences
- Managers certificates
- Temporary authorities
- Temporary licences

The report should identify any reduced revenue due to TA decisions to reduce the risk rating level for any individual licensee (under Regulation 6(4)). It should also advise whether there are bylaws in place that change the default fees.

The objective is to gather good data on the revenues for each category of licence. Over time, this will help identify which fees are set at the right levels, and which ones may need to be adjusted.

Appendix 1: Example reporting formats

Example 1

Total revenue from fees:

Breakdown of fees received

Fee type	Revenue (GST inclusive)
On-licence and club licence application fees	
Off-licence application fees	
On-licence and club licence annual fees	
Off-licence annual fees	
Other licence types (include as required)	
Special Licences	
Managers Certificates	
Other	
Total	

Total costs:

Breakdown of costs

Cost type	Expenditure (GST exclusive)
Disbursements to ARLA	
DLC / licence decision making functions	
Inspector functions*	
Enforcement functions*	
Estimate of overhead costs (<i>optional</i>)	
Total	

*these two categories can be combined for reporting purposes

Example 2

This template breaks down costs in more detail than is required to comply with Regulation 19. We recommend using this since it would provide useful data to determine whether particular licence fees are set appropriately.

Total revenue from fees:

Breakdown of fees received

Fee type	Revenue (GST inclusive)
On-licence and club licence application fees	
Off-licence application fees	
On-licence and club licence annual fees	
Off-licence annual fees	
Other licence types (include as required)	
Special Licences	
Managers Certificates	
Other	
Total	

Total costs:

Breakdown of costs

Cost type	Expenditure (GST exclusive)
Disbursements to ARLA	
DLC / Licence decision making functions	
On-licences and club-licences	
Off-licences	
Special Licences	
Managers Certificates	
Other	
Inspector functions*	
On-licensed and club premises	
Off-licensed premises	

Special Licences	
Managers Certificates	
Other licences	
Enforcement functions*	
On-licensed and club premises	
Off-licensed premises	
Special Licences	
Managers Certificates	
Other licences	
Overheads (delete if not used)	
Estimate of overhead costs	
Total	

*these two categories can be combined for reporting purposes

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