



CITY OF HOBART

AGENDA

Finance Committee Meeting

Open Portion

Tuesday, 11 April 2017

at 5.00 pm

Lady Osborne Room, Town Hall

SUPPLEMENTARY ITEM

ORDER OF BUSINESS

11	REVIEW OF CREDIT CARD SURCHARGE	2
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11 Review of Credit Card Surcharge
File Ref: F17/28582

Report of the Group Manager Rates and Procurement and the Director Financial Services of 7 April 2017.

Delegation: Council

The Acting General Manager reports:

“That in accordance with the provisions of Part 2 Regulation 8(6) of the *Local Government (Meeting Procedures) Regulations 2015*, this supplementary matter is submitted for the consideration of the Committee.

Pursuant to Regulation 8(6), I report that:

- (a) information in relation to the matter was provided subsequent to the distribution of the agenda;
- (b) the matter is regarded as urgent; and
- (c) advice is provided pursuant to Section 65 of the Act.”

REPORT TITLE: REVIEW OF CREDIT CARD SURCHARGE

REPORT PROVIDED BY: Group Manager Rates and Procurement
Director Financial Services

1. Report Purpose and Community Benefit

- 1.1. The purpose of this report is to review whether Council should continue to recover merchant fee charges on credit card transactions via a credit card surcharge.
- 1.2. Community benefit arises from Council continually reviewing and improving its processes.
- 1.3. A review of the credit card surcharge in place at the Tasmanian Travel and Information Centre (TTIC) is not considered necessary at this time and is excluded from consideration in this report.

2. Report Summary

- 2.1. Council introduced a 1 percent credit card surcharge at its meeting on 24 May 2010 and it was introduced at Council on 20 September 2010.
- 2.2. While the surcharge was introduced at Council on 20 September 2010, credit card surcharges at the TTIC had been in place for many years prior and continue to be in place. The credit card surcharges in place at TTIC are different to that in place for the rest of Council. The TTIC arrangements were not included in the scope of the 2010 Council report on this matter and are not included in this review.
- 2.3. As a business decision, the TTIC intend to continue applying their credit card surcharges. This would mean that, in the event Council decides to remove the credit card surcharge for the rest of the business, that TTIC would have a credit card surcharge and the rest of Council would not. The TTIC will need to ensure that their credit card surcharges comply with the new Reserve Bank of Australia reforms.
- 2.4. Two issues have recently arisen that have prompted Officers to review the credit card surcharge – one is the Reserve Bank of Australia's recent reforms of credit card surcharging and the other is Council's business systems transformation project – project Phoenix – which will create a more customer centric business model for the City of Hobart.
- 2.5. It is proposed that given these issues the credit card surcharge be removed in all areas of Council except the Tasmanian Travel and Information Centre (TTIC) from 1 July 2017.

3. **Recommendation**

That:

- 1. The report titled 'Review of Credit Card Surcharge' be received and noted.***
- 2. The 1 percent credit card surcharge currently applied to payments made by credit card, including point of sale transactions, in areas of Council except the Tasmanian Travel and Information Centre be discontinued, effective from 1 July 2017.***
- 3. That a credit card payment limit for the payment of Council rates be re-introduced at the level of \$3,000 per transaction.***

4. **Background**

- 4.1. In August 2002 the Reserve Bank of Australia (RBA), under *Standard No. 2 Merchant Pricing for Credit Card Purchases*, announced reforms to credit cards whereby merchants could, as from 1 January 2003, recover from cardholders the cost of accepting credit cards.
- 4.2. At its meeting on 24 May 2010, Council resolved to introduce a 1 percent credit card surcharge to be applied to all payments made by credit card including point of sale transactions.
- 4.3. The 1 percent credit card surcharge was introduced at Council on 20 September 2010 and has been in place ever since, except when making payments at multi-storey car parks, the Doone Kennedy Hobart Aquatic Centre (DKHAC) point of sale and during the Taste Festival at bars, help desk and merchandise booth, which have ongoing exceptions granted.
- 4.4. The 1 percent credit card surcharge was introduced to recover the merchant service fees charged by Council's bank from those that chose to pay using a credit card. In 2009 this amount was \$193K. Council does not make a profit on the 1 percent credit card surcharge; the amount charged recovers Council's merchant service fees and costs.
- 4.5. Previously merchant fees and charges were included in Council's budget contributing to the cost of Rates for all residents and businesses, not just those that choose to pay by credit card. By Council recovering merchant fees and charges charged by the bank, the resultant cost savings were used to fund new or improved services of benefit to all residents and businesses.
- 4.6. The 1 percent surcharge is applied when payments are made via Council's internet or telephone payment system or if paying by credit card payment over the counter at the Customer Service Centre. Advice

in relation to the credit card surcharge is included on Council's telephone and internet payment systems, both of which provide an opportunity to cancel the transaction prior to processing.

- 4.7. Details of the 1 percent credit card surcharge are printed on the back of rates notices, parking infringement notices and all Council tax invoices, together with information regarding the other payment options that do not incur the surcharge. Details are available from Council's website and Council's fees and charges booklet.
- 4.8. Council offers a range of payment methods that do not incur the surcharge, such as BPay using a cheque or savings account, direct debit, cheque/money order, in person, eftpos using a cheque or savings account or Council rates can be paid at any Australia Post outlet. Hobart residents and businesses continue to enjoy convenient and flexible payment options.
- 4.9. Credit card surcharging continues to be common practice and implemented by many organisations including councils, particularly interstate. It has become an acceptable way of doing business.
- 4.10. Initially when it was introduced, the credit card surcharge was unpopular amongst residents and ratepayers. However, the number of formal complaints received was relatively low and, while Council still receives verbal complaints at point of sale, the credit card surcharge has become understood and largely accepted by ratepayers and perhaps less so for those payment parking infringements for instance.
- 4.11. The number of people paying using a credit card option has declined relatively and the surcharge has had the effect of pushing people to use alternative (and cheaper for Council) payment methods that don't incur the surcharge. Albeit, it is noted that all payment methods incur a charge to the Council.

Drivers for Change

- 4.12. Two issues have recently arisen that have prompted Officers to review the credit card surcharge – one is the Reserve Bank of Australia's recent reforms of credit card surcharging and the other is Council's business systems transformation project – Project Phoenix – which will create a more customer centric business model for the City of Hobart.

RBA Credit Card Surcharging Reforms

- 4.13. The Reserve Bank of Australia has recently undertaken a review of credit card payment regulations and as a result has amended its *Standard No. 2, Merchant Policy for Credit Card Purchases*.
- 4.14. The changes are targeted at eliminating instances of excessive surcharging, through improved transparency and stronger enforcement. The changes prohibit merchants from profiting from credit card surcharges.

- 4.15. As part of the changes, Council will be provided by its bank with easy to understand information about their costs of card acceptance (merchant surcharging percentages). Council will be able to charge a surcharge but only up to the average percentage cost of accepting payment by that particular card type as prescribed in their statement from the bank. Other prescribed costs of accepting credit cards such as terminal fees can be also be included in the calculation of the surcharge, however, Council can't surcharge above the average cost of such.
- 4.16. The changes mean that where merchants do decide to impose surcharges, consumers can be confident that these represent the actual costs to the merchant. Consumers will be able to make a complaint to the ACCC if they consider that a surcharge is excessive.
- 4.17. The changes took effect from 1 September 2016 for larger merchants and will take effect from 1 September 2017 for all other merchants.
- 4.18. Council's bank, the Commonwealth Bank of Australia, has not yet commenced providing Council with its merchant surcharging percentages for its card types, but will do so for 1 September 2017 implementation.
- 4.19. Council's 1 percent surcharge remains reasonable for payment received by credit card.
- 4.20. An impact on the City of Hobart, however, is the changes with respect to payment via debit card. The RBA changes mean merchants can choose to set the same surcharge for a number of different payment systems, provided that the surcharge is no greater than the average cost of acceptance of the lowest cost system.
- 4.21. Because surcharging needs to be priced separately by card brand i.e. Visa, MasterCard, and also separately for debit and credit cards, any surcharge that applies to multiple categories i.e. Visa credit and debit cards, or Visa credit, MasterCard credit and debit cards, etc, must be set based upon the lowest cost card category that the surcharge applies to.
- 4.22. While generally the City of Hobart does not charge a surcharge when paying by a debit card, Council's BPoint telephone and internet payment system and eftpos 'tap and go' system do not distinguish between credit and debit cards, recognising only that the payment is Visa or MasterCard and hence assumes it is credit and applies the surcharge. While the BPoint system provides an opportunity to cancel the transaction prior to processing, applying a 1 percent surcharge on debit card payments will exceed the allowable surcharge amount under the changes.
- 4.23. The Commonwealth Bank of Australia, who provides Council's BPoint telephone and internet payment system, has advised that BPoint is

unable to be modified at this time to recognise whether the card being used is a debit or a credit card.

- 4.24. Hence, Council's credit card surcharge would need to be reduced to ensure it didn't exceed the allowable surcharge amount under the changes. While Council hasn't yet received these details from its banker, it is estimated at 0.59 percent, which is less than Council's current 1 percent credit card surcharge.

Business Systems Transformation – Project Phoenix

- 4.25. The Council is currently undertaking a review of its processes and systems under the project name of 'Phoenix'. Central to Council's business systems transformation is having the customer as central in the City's business model, ensuring that it is easy and simple for our customers to do business with us.
- 4.26. The vision for Phoenix is a new customer portal that will enable customers to more easily interact, seek and provide information and importantly make payments to Council. It is therefore expected that the number of payments made by electronic means will increase.
- 4.27. A practice of surcharging payments made by credit card is perhaps inconsistent with this vision. Furthermore, while the City tendered its core business systems on the potential need for credit card surcharging functionality, a policy position on continuing credit card surcharging in the new environment will determine whether that functionality is included in the implementation of Phoenix or not.

Tasmanian Travel and Information Centre

- 4.28. While the surcharge was introduced at Council on 20 September 2010, credit card surcharges at the TTIC had been in place for many years prior and continue to be in place. The TTIC arrangements were not included in the scope of the 2010 Council report on this matter and are not included in this report.
- 4.29. The TTIC charge a 1.1 percent fee on all Visa and MasterCard payments, 2.2 percent on Union Pay and 3 percent on American Express. It is noted that the rest of Council does not accept Union Pay or American Express.
- 4.30. Some of the credit card surcharge fees at TTIC are from overseas customers. At point of sale the TTIC explain the fee to customers giving them the opportunity to use a savings or cheque option, or to change from American Express to another credit card. The TTIC rarely have any complaints from customers as they are widely accepted in the tourism and travel industry.
- 4.31. TTIC as a business operating on a small commission of only 15 percent absorbing a charge between 1 percent to 3 percent would cost the TTIC \$28,000 per year. If the TTIC was not to charge the surcharge they

would need to introduce a booking fee meaning that customers paying by cash or eftpos would be penalised.

- 4.32. As a business decision the TTIC intend to continue applying their credit card surcharges. This would mean that, in the event Council decides to remove the credit card surcharge for the rest of the business, that TTIC would have a credit card surcharge and the rest of Council would not. The TTIC will need to ensure that their credit card surcharges comply with the new Reserve Bank of Australia reforms.

5. Proposal and Implementation

- 5.1. It is proposed that the 1 percent credit card surcharge currently applied to payments made by credit card, including point of sale transactions, in areas of Council except the Tasmanian Travel and Information Centre be discontinued, effective from 1 July 2017.
- 5.2. The table overleaf outlines the pros and cons of credit card surcharging in light of the above drivers for change.

Pros	Cons
Council can recover the merchant fees associated with the more expensive credit card payment method directly from those customers who choose to pay using this payment method.	Because of payment system constraints Council won't be able to continue to have a 1 percent surcharge; it will need to be lower thus not fully recovering merchant fees and costs.
By having a user charge to recover merchant fees, the cost isn't being subsidised by all ratepayers, only those that choose to pay by credit card.	It's not uncommon for front line Officers to receive negative comments from customers in relation to the 1 percent surcharge. This is often the case for parking infringements where the customer may already be frustrated.
Ratepayers will have to pay more in rates, albeit the impact will be minor at the individual property level if the merchant fees are paid from general rates.	The majority of payments received are for considerable amounts i.e. for rates payments and 1percent on top of that adds up.
It removes residents / benefits benefitting from card reward programs at the expense of Council.	With the popular use of 'tap and go' with credit/debit cards, Customer Services has to constantly explain that this method goes through the eftpos machine as 'credit' and attracts the 1 percent surcharge. People find it

	difficult to understand when they don't have a 'credit card' and are using their own money.
The surcharge has pushed people to pay using cheaper payment methods for Council, such as BPay and direct debit.	Council's eftpos machines are not integrated into Property and Rating, so cashiers have to manually enter the amount into the terminal creating risk of error.
A user pays system for credit card payments allows Council to utilise this money to fund programs and services of benefit to the whole community.	The eftpos machine at McRobies is not integrated either. The cashier needs to manually enter the amount into the terminal. This also causes problems with end of day balancing when they process a payment as a 'debit' on iweigh and then proceed to put it through the eftpos machine as 'credit'.
	Customer Service Officers and other front line staff have to explain to customers that if they are paying by credit card there is a 1 percent surcharge.
	If a surcharge is applied to customers using new online payment functionality under Phoenix, customer may be less likely to use the new functionality and hence Council may not fully realise its benefits.
	It is not always clear if GST applies to the surcharge and it becomes complex in the system to assign GST to the surcharge for some transaction types, but not others.
	There will be a small financial impact on Council as the income forgone from no longer charging the surcharge will need to be replaced by general rate income.

- 5.3. Some of the system issues identified above will be addressed via the Phoenix Project.
- 5.4. While there are benefits in credit card surcharging, there are costs, complexity and consistency issues with it and a number of drawbacks as outlined in the table above.

- 5.5. Having the credit card surcharge may actually cost Council in the long-term. Project Phoenix is being implemented on the premise of having the customer as the centre of Council operations and making it easier and more efficient for the customer to do business with Council.
- 5.6. If under Phoenix more functionality transfers online with Council encouraging people to do business online, unless multiple payment options are offered it may be considered unfair to charge a surcharge if Council is only offering business via an online portal.
- 5.7. Furthermore, if we continue to charge the surcharge under Phoenix customers may be put off using the automated process to using a more expensive and time consuming process of issuing an invoice or EFT transfer and receipt. This would seem counter intuitive to the automation and efficiencies in payments Council is attempting to achieve.
- 5.8. One of the issues Phoenix has been considering is charging customers at point of sale rather than issuing a tax invoice. Customers will be more willing to pay immediately using a credit card if the option doesn't incur a surcharge. If the customer declines to pay by credit card because of the surcharge, Council will have to issue a tax invoice resulting in additional costs such as Officer time, printing and posting of invoice and potential debt recovery actions. These costs far outweigh the merchant fee on the credit card transaction.
- 5.9. It is noted that the new parking meters Council has recently issued a tender for allow payments to be made for on-street parking by phone app, credit card and cash. It is expected (benchmarking against other councils who have implemented similar smart parking meters) that 60% of persons using the new parking meters will pay using a credit card. \$200K has been budgeted for credit card fees for the new parking meters in 2017/2018.
- 5.10. The credit card surcharge is complex to administer, particularly in relation to GST. In any event Council's credit card surcharge will need to be reduced from 1 percent to a figure that wouldn't be rounded. This in itself will increase the complexity to administer and explain to the customer.
- 5.11. There are administrative and system costs to Council in having the credit card surcharge, which would be removed if there was no longer a credit card surcharge.
- 5.12. It should be noted that all Council payment methods incur costs. Council for instance offers payment through the post office at Australia Post. The cost to Council per transaction is \$2.23 irrespective of the amount paid.
- 5.13. Council therefore charges a surcharge on payments made by credit card but not on other methods of payment that may also be considered

expensive. To some this may look inconsistent and difficult to understand.

- 5.14. Council could do nothing and simply continue to apply the credit card surcharge. The percentage applied would need to be revised downwards in line with the RBA changes meaning that Council would not recover 100% of its merchant fees.
- 5.15. All Council stationery such as rate notices, parking infringement notices and Council tax invoices, including the website would need to be amended accordingly in any event.
- 5.16. The cons outlined above would continue to be the case, except the system constraints would be addressed under the Phoenix Project.
- 5.17. There is a risk that Phoenix benefits may not be entirely realised if a surcharge applies to online payments and the costs, complexity and consistency issues would remain.
- 5.18. Should Council decide to discontinue the credit card surcharge it is suggested that this take effect from 1 July 2017. Given the issues outlined above, this would be the simplest option for Council and allow the change to occur for the new financial year.
- 5.19. Council would need to budget approximately \$100K in the 2017/2018 budget for merchant fees, funded from Council rates and more in future years.
- 5.20. Council stationery such as rate notices, parking infringement notices and Council tax invoices, including the website need to be amended accordingly. Council's point of sale and receipting systems would need to be altered as would Council's BPoint system and BPay payment systems. There is little cost to Council in making the stationery and system changes. The Rates Team order rate notice stock on a yearly basis and has deliberately held off ordering 2017/2018 notice stock pending this decision. Parking infringement notices and Council tax invoices are similarly easy to modify at little cost.
- 5.21. Previously Council capped credit card payments for rates at \$2,500 per transaction per property due to the cost of the merchant fees on this transaction. It is suggested that such a limit would need to be reintroduced. It is, however, suggested that the limit is lifted to \$3,000 which will ensure that the average residential ratepayer who wished to pay their annual rates in full could do so via credit card. This will impact few ratepayers as most residential ratepayers pay by instalment rather in full. It is most likely to impact a few commercial ratepayers who may choose to pay by credit card because of the benefits of doing so.
- 5.22. It is likely that discontinuing the credit card surcharge will over time increase the number of people using this payment method. It is envisaged that the \$100K needed to be factored into the 2017/2018

budget will grow in future years and quickly exceed the \$193K cost at the time the surcharge was introduced in 2010.

6. Strategic Planning and Policy Considerations

- 6.1. There are no direct strategic planning or policy considerations arising from this report.

7. Financial Implications

7.1. Funding Source and Impact on Current Year Operating Result

- 7.1.1. There are no implications on the current year operating result.

7.2. Impact on Future Years' Financial Result

- 7.2.1. If Council was to discontinue the credit card surcharge, the cost of merchant fees from the bank, not already budgeted, will need to be included in Council's forward estimates. This is estimated at \$100K for 2017/2018 and forecast to grow in future years as people migrate back to paying by credit card over time.
- 7.2.2. It is envisaged that these costs may be recovered to some extent in the efficiency and effectiveness gains expected from Council's business system transformation and vision for faster and more efficient payments to Council.
- 7.2.3. There are also administrative and system costs to Council in having the credit card surcharge, which would be removed if there was no longer a credit card surcharge.
- 7.2.4. It should be noted that \$200K for merchant fees has already been budgeted for in 2017/2018 for the new parking meters which allow payment by credit card.

7.3. Asset Related Implications

- 7.3.1. Not applicable.

8. Legal, Risk and Legislative Considerations

- 8.1. There are no specific legal or legislative considerations in this report.
- 8.2. Risk issues have been considered elsewhere in this report.

9. Social and Customer Considerations

- 9.1. These have been considered elsewhere in this report.

10. Delegation

- 10.1. This matter is to be delegated to the Council.

As signatory to this report, I certify that, pursuant to Section 55(1) of the Local Government Act 1993, I hold no interest, as referred to in Section 49 of the Local Government Act 1993, in matters contained in this report.



Lara MacDonell
**GROUP MANAGER RATES AND
PROCUREMENT**



David Spinks
DIRECTOR FINANCIAL SERVICES

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