

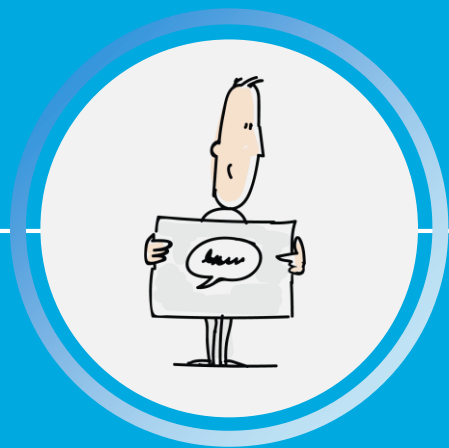


# Pricing for value

*A guide for government services*

## Overview

# Contents



Key messages



The pricing  
principles



The pricing  
playbook



# Key messages



# Pricing for value delivers benefits for the community ...



More equitable access to services



Services better tailored to user needs



Promotion of desired behaviours



Reduced red tape and delays



T.O.C.



Previous



Next



... as well as  
for government



Achieve strategic objectives



Consistent rationale for – and  
communication of – price levels



Sustainable funding



Administrative simplicity and cost  
savings



Development of capabilities  
to undertake pricing reviews

‘We feel constrained by the current cost recovery guidelines. They limit our ability to be innovative’

Stakeholder feedback



# The pricing principles





# The pricing principles can be used to set fees and charges, noting there may be competing rationales to balance

## How much does the service cost?

1 Agencies should aim to recover the full costs of service provision to promote efficient consumption

2 The cost of service provision should be borne by those who benefit from the service

## Who benefits from the service?

3 Services creating broad benefits for the community should be priced to support efficient consumption

4 The cost of interagency services should be borne by the user agency

5 The price of services should not limit access to those with a lower ability to pay

## How do different users value the service?

6 Users should pay for differentiated service based on the value created by that differentiation

7 The public should share in the value generated by pricing based on user differentiation

## How will the price of the service impact behaviour?

8 Pricing should support positive behaviours

9 Pricing should ensure sustainable usage of public services and reflect the value of natural resources

## Are there alternatives to this service?

10 Where services are in competition with the private sector, pricing should be relative to market prices

## How many different prices are there?




11 Pricing structures should be easy to understand and simple to administer

## Are prices up to date?

12 Pricing arrangements should be monitored annually and reviewed periodically

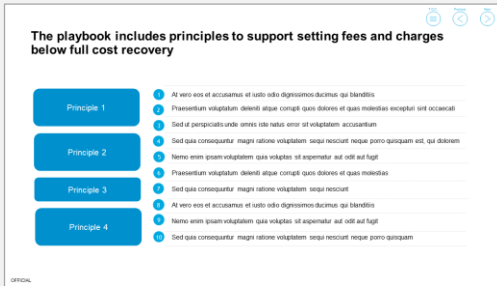


# The principles support prices at different cost recovery levels

	Principles	Examples	When it might be appropriate
<b>Above 100%</b> cost recovery 	<p>Pricing should promote positive behaviours</p> <p>The public should share in the value created through service or user differentiation</p>	<p>The Victorian Commission for Gambling and Liquor Regulation administers liquor licence fees which include a 'risk fee' to promote compliance</p> <p>The Victorian Registry of Births, Deaths and Marriages offers a range of commemorative birth certificates.</p>	<ul style="list-style-type: none"> <li>Fines targeting negative behaviour are not having the desired impact</li> <li>Demand for value added goods or services</li> </ul>
<b>100%</b> cost recovery 	<p>Entities should recover full cost of delivery to promote efficient usage</p> <p>Cost of service should be borne by those who benefit from the service</p>	<p>Practicing certificate fees for barristers, corporate and government practitioner classes have been set at cost recovery levels</p> <p>The Melbourne Convention and Exhibition Centre offers a range of event services, on a fee for service basis</p>	<ul style="list-style-type: none"> <li>Users derive private benefit from the good or service</li> <li>Beneficiaries can be clearly identified and charged a fee for the good or service</li> </ul>
<b>Below 100%</b> cost recovery 	<p>Services creating broad community benefits should be priced to support efficient usage</p> <p>The price of services should not limit access to those with a lower ability to pay</p>	<p>Public transport fares are set below cost recovery, in part to alleviate road congestion and pollution</p> <p>Discounted fees for vehicle registration are available to certain concession card holders</p>	<ul style="list-style-type: none"> <li>Service provides benefit to the community, not just to direct users</li> <li>Basic service that low income users are heavily reliant upon</li> </ul>

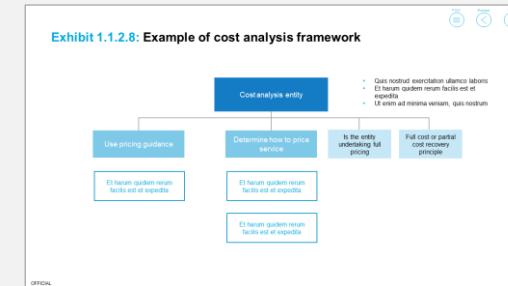
# Cost analysis continues to play an important role

## A broader set of principles



- Cost recovery remains one principle among a broad range of principles
- The playbook includes principles to support setting fees and charges below full cost recovery
- It also includes other principles, some of which support setting fees and charges above cost recovery
- Tensions between some principles will need to be balanced

## A different emphasis on cost analysis



Cost analysis should be targeted at the appropriate level of detail for different steps in the process

- High level analysis (e.g. to a division level) is typically all that is needed early on
- More detailed analysis may be required for specific ideas, particularly where they are based on the cost recovery principle

**Cost analysis continues to play a critical role in effective financial management more broadly**

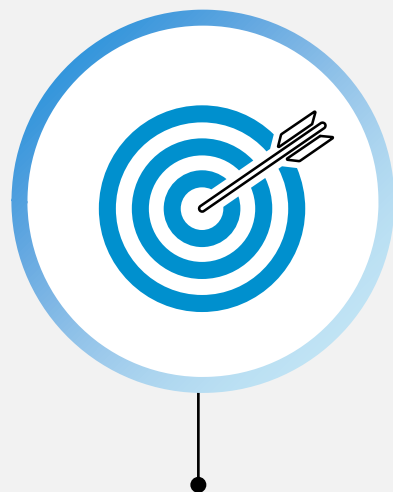


# The pricing playbook





## The playbook helps different stakeholders in an entity to review their prices; it will continue to be updated based on experience



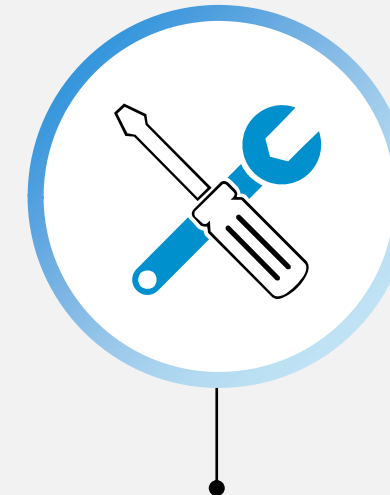
Step-by-step  
'how-to' guide for  
undertaking a review  
of an entity's fees  
and charges



Structured for  
use by both senior  
executives and  
policy officers



Outlines approaches  
for identifying  
ideas and provides  
techniques for  
setting prices



Please contact  
the Department of  
Treasury and Finance  
with feedback  
and ideas

# The playbook provides a comprehensive methodology for pricing reform, but it can be used in a flexible way



## 0. Prepare

0.A Identify focus areas

0.B Prepare for review



## 1. Baseline

1.1 Define entity's strategic objectives and operating model

1.2 Identify revenue and cost drivers, and benchmark fees

1.3 Define user segments, their needs and challenges



## 2. Discover

2.1 Capture existing price reform ideas

2.2 Develop initial pricing, volume and service innovation ideas

2.3 Generate additional ideas through workshops and user engagement

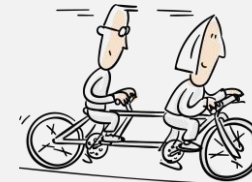


## 3. Decide

3.1 Shortlist ideas

3.2 Evaluate shortlisted ideas

3.3 Present key trade-offs and recommendations for decision



## 4. Implement

4.1 Detail required tasks to implement the idea

4.2 Develop implementation plan

4.3 Finalise implementation plan and commence delivery



## 5. Monitor

5.1 Establish baseline performance metrics and reporting frameworks

5.2 Monitor initiative performance

5.3 Refine initiatives based on reporting results



Entities may wish to use some but not all aspects of the methodology.  
It should be applied in an iterative way, focusing on the areas of greatest importance for that entity

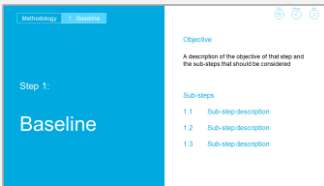
# Each step in the methodology has four types of material; staff in agencies can interact with the steps that are most relevant to them



## Methodology

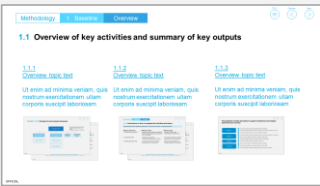
The overarching approach that can be taken to reviewing and reforming fees and charges.

Each step in the methodology has a separate chapter with the following information:



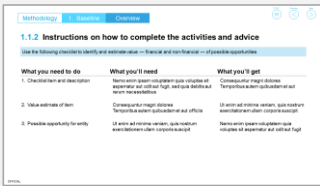
## Introduction

A description of the objective of that step and the sub-steps that should be considered



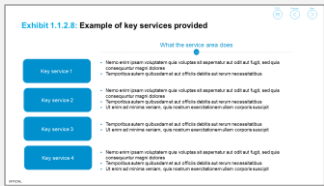
## Summary

A high level overview of the key activities in the sub-step and a summary of some of the key outputs that could be created in the review



## Guidance

User friendly instructions on how to complete the activities in each sub-step, as well as advice for future review teams based on the pilot and subsequent reviews. These pages also identify required inputs and the outputs that will be created

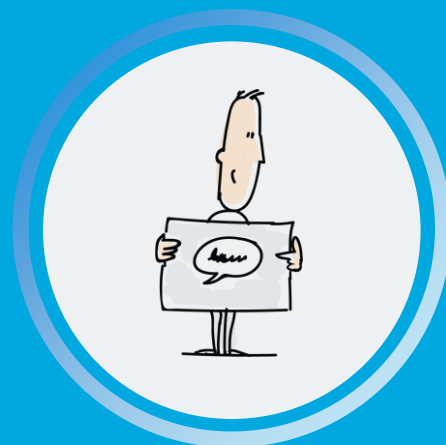


## Illustrative outputs

Examples of what inputs and outputs might look like, with illustrations of the type of information needed. The playbook includes examples generated during reviews with selected government entities



# Further information



## Pricing for value

- The guidance materials include:
  - the overview (i.e. this document);
  - the pricing principles;
  - the pricing playbook;
  - a quick reference guide; and
  - frequently asked questions.
- These are available at [dtf.vic.gov.au](https://dtf.vic.gov.au)

## Contact details

- For further information about the guidance materials, please contact Economic Policy, Department of Treasury and Finance:
  - website: [dtf.vic.gov.au](https://dtf.vic.gov.au)
  - email: [pricing@dtf.vic.gov.au](mailto:pricing@dtf.vic.gov.au)
  - phone: 03 9651 5111.



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