

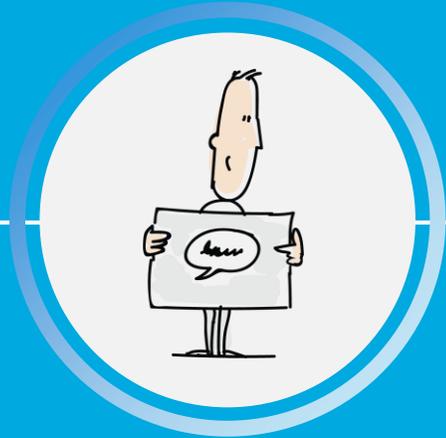


# Pricing for value

*A guide for government services*

**Pricing principles**

# Contents



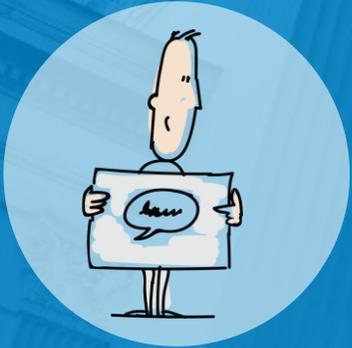
About the principles



The principles



Applying the principles



# 1. About the principles

# Purpose of the principles

The Cost Recovery Guidelines focused on cost considerations...



- The Cost Recovery Guidelines were a useful framework for setting prices, but in reality there is significant variation in the extent to which Victorian Government agencies recover their costs.
- Further, some agencies reported that the Guidelines ‘limit innovation in how we price and provide our services’.

...whereas the pricing principles go beyond cost recovery...



- The pricing principles build upon the Cost Recovery Guidelines.
- Cost recovery remains one principle among a broader range of principles.
- Some principles support setting prices below cost recovery.
- In addition, some principles support setting prices above cost recovery.

...leading to a range of potential benefits

- The purpose of the pricing principles is to promote efficiency, equity and fiscal sustainability.

## Benefits for the community include:

- more equitable access to services;
- services better tailored to user needs; and
- promotion of desired behaviours.

## Benefits for government include:

- achieving strategic objectives;
- consistent rationale for, and communication of, price structures;
- sustainable funding; and
- administrative simplicity.

# Scope of the principles

- The pricing principles are for use by agencies across government.
  - The term ‘pricing’ is used to refer collectively to regulatory fees, user charges, and prices.
  - The term ‘agencies’ refers to Victorian Government entities subject to the Standing Directions issued by the Assistant Treasurer under the *Financial Management Act 1994* which are available at [dtf.vic.gov.au](http://dtf.vic.gov.au)
- The principles apply to the following government activities:
  - regulatory services;
  - commercial services;
  - public infrastructure services; and
  - State-controlled natural resources and entitlements.
- They do not apply to:
  - general taxation; and
  - fines or penalties\* (see table).
- Nor do they apply to local government.



In-scope	Out-of-scope	Examples
Regulatory services		Applications, registrations, licences, permits, compliance, enforcement
Commercial services		Sale of publications, sale of data, provision of specialist expertise or advice, advertising, sponsorship
Public infrastructure services		Education services, health services
State-controlled natural resources and entitlements		Rights to access public land or use natural resources such as wild stocks of fish and game
	General taxation	Payroll tax
	Fines and penalties*	Traffic fines, parking fines, court fines

\* While the former Cost Recovery Guidelines did not apply to fines, some of the pricing principles can be used to support fines design.



## 2. The principles

# Pricing principles

## 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?

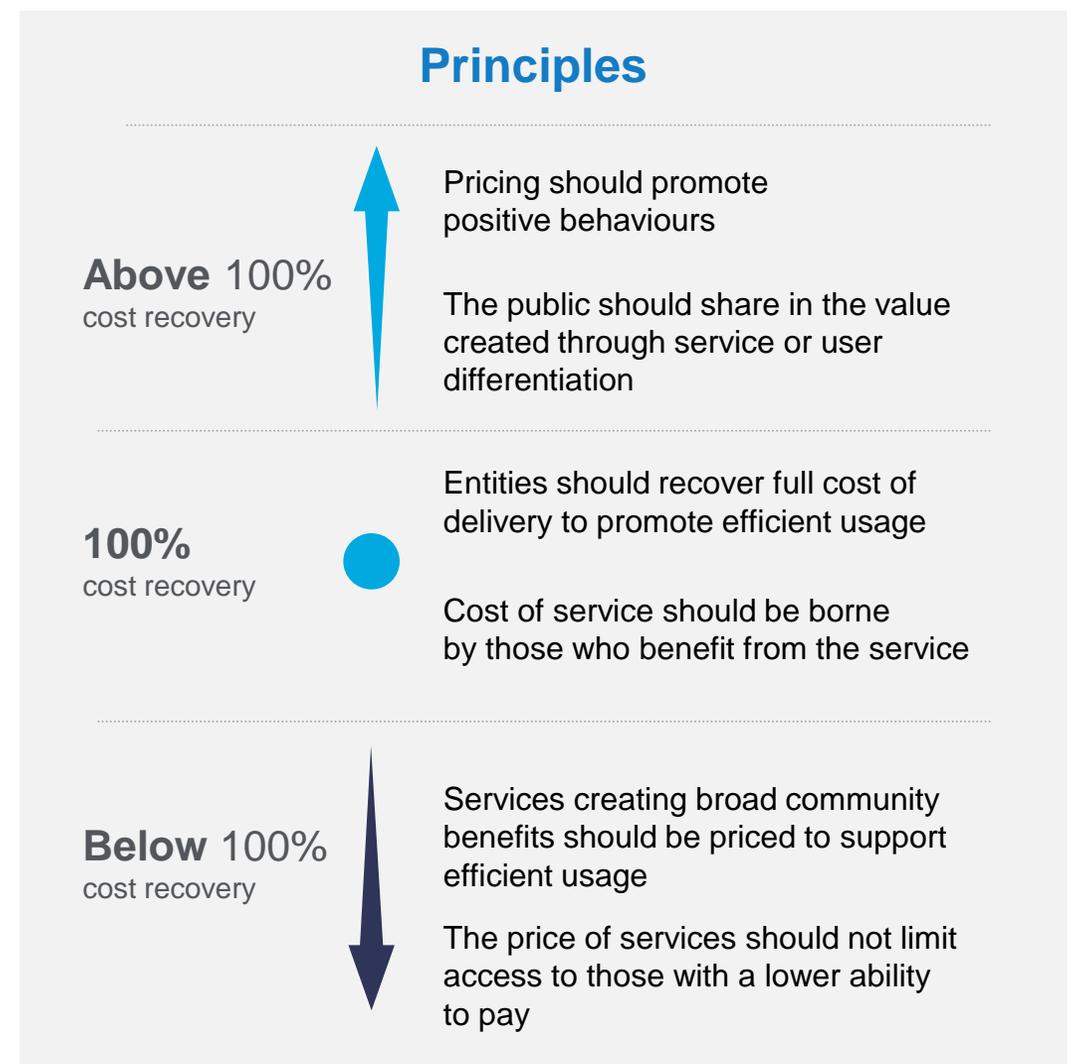
11 Pricing structures should be easy to understand and simple to administer

## Are prices up to date?

12 Pricing arrangements should be monitored annually and reviewed periodically

# The principles support different levels of cost recovery

- The following pages step through the pricing principles, outlining:
  - underlying rationales;
  - where they may be appropriate; and
  - examples.
- The principles have different rationales and support prices at different levels of cost recovery (see figure).
- There are tensions between some principles, and agencies may need to balance competing rationales.
- In examining prices, agencies will need to:
  - determine which principle is most appropriate to each individual good, service or resource; and
  - select an appropriate price-setting technique.
- Some of the principles relate to pricing structures as a whole, rather than to a particular price.
- Further guidance is provided in the supporting materials, which are available at [dtf.vic.gov.au](http://dtf.vic.gov.au)



# Principle 1

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

## Rationale

- Full cost recovery promotes the efficient consumption of services and, in turn, the efficient allocation of resources by sending appropriate price signals about the value of resources that are required to provide the good or service.
- Full cost recovery also provides a transparent way for government agencies to identify and fund the cost of undertaking their activities without the need to rely solely on general taxation revenue. This can relieve fiscal pressures, reduce the need for taxation and ensure general taxation revenue is used for more appropriate uses.
- Prices should reflect efficient or minimum costs. Agencies should ensure that goods or services are provided efficiently.

## Where appropriate

- Where users derive private benefit from government goods or services.
- There are circumstances where full cost recovery may not be possible or appropriate:
  - when full cost recovery is not practical or legal to implement; and
  - where charging full cost could undermine other policy objectives.
- Where agencies provide advice to government on how to best implement government policy, this should be fully cost recovered. Where the advice is aimed at informing broader government policy (and government, rather than the regulator, is the final decision maker), this should be taxpayer funded.

## Examples

- Practicing certificate fees for barristers, corporate and government practitioner classes have been set at cost recovery levels.
- Land Use Victoria’s fees for registrations, plans of subdivisions and searches have been set at cost recovery levels.
- The Essential Services Commission amended its industry codes to implement government policy to include family violence hardship provisions and these are recovered as part of industry licence fees.

# Principle 2

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

## Rationale

- The efficient consumption of services and, in turn, the efficient allocation of resources generally require users to pay the full cost of the goods or services they consume.
- By ensuring that those who trigger the need for the good or service meet the relevant costs, those individuals and entities are sent a clear signal regarding the full cost of their activity.
- This principle promotes efficiency but also supports equity as those who create the need for a government activity, rather than the general community, bear its costs.

## Where appropriate

- Where users derive private benefit from government goods or services.
- Where users or beneficiaries can be clearly identified and directly charged a fee for the good or service.

## Examples

- The Melbourne Convention and Exhibition Centre offers a range of event services, on a fee for service basis.
- The Geelong Cemeteries Trust provides a range of interment products and services such as graves, burials, cremations and memorial plaques.
- Owners of large infrastructure assets pay Energy Safe Victoria a fee to assist in measuring and minimising network leakage caused by electrolysis.

# Principle 3

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

## Rationale

- Pricing of some goods or services at full cost or market rates may conflict with other public policy objectives that the Government supports.
- Pricing below cost or below market rates can encourage consumption of certain goods or services, which generates broad benefits for the community.
- This principle promotes efficiency and the achievement of other public policy objectives.

## Where appropriate

- Where the consumption of government goods or services generates broader benefits for the community, not just to the direct users of the good or service.

## Examples

- Public transport fares are set below cost recovery, in part to encourage road users to take public transport to decrease road congestion and pollution.
- The Environment Protection Authority proposes to introduce free registrations which will be simple to obtain and suited to low-to-medium-risk activities (intended to commence 1 July 2021). The Authority will use this as a tool to engage with a broad range of businesses, from drycleaners to small-scale waste and resource recovery facilities, that may cause environmental harm.
- Some Heritage Victoria permit fees have been set below full cost recovery, in part to reflect community benefits from cultural heritage values.

# Principle 4

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

## Rationale

- Free provision of goods and services to other government agencies may cause those entities not to properly value these products and encourage overuse.
- Government agencies that create the need for a good or service should meet the relevant cost through fees or charges.
- While this principle will give rise to intergovernmental transfers, it will promote efficient consumption of services.

## Where appropriate

- The applicability of this principle will need to be determined on a case by case basis.
- There are circumstances where fees may be discounted or waived, such as for general policy development, ministerial support, law enforcement, defence and national security.

## Examples

- The Victorian Registry of Births, Deaths and Marriages provides data services to a number of organisations, such as government departments and agencies, research organisations, and universities. Data requests may involve an application fee and data fee.
- A number of Victorian agencies apply a licence fee when data is provided to other jurisdictions.

# Principle 5

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

## Rationale

- Pricing at full cost or market rates may conflict with the objective of providing equitable access to government goods and services to the community.
- Pricing below cost or market rates can enhance access to government goods or services for some user groups, such as low-income groups, who may not otherwise be able to afford these goods or services.
- This principle promotes equitable access to government goods and services.

## Where appropriate

- The applicability of this principle requires analysis of government policy objectives and the characteristics of user groups.

## Examples

- Discounted fees for vehicle registration are available to certain concession card holders. The concession rate applies to vehicles registered for private use.
- Concession fares for myki are available to certain groups in the community such as children, students and pensioners.
- Certain concession card holders receive free clinically necessary ambulance coverage in Victoria.

# Principle 6

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

## Rationale

- Pricing that is solely based on cost considerations can limit innovation and the creation of value for users, government and the community.
- Where appropriate, pricing should be based on willingness to pay for differentiated products and services.
- This principle encourages innovation and creates value for users, government and the community.

## Where appropriate

- Where there is demand for value-added goods and services.
- Where there is potential for government agencies to innovate and offer additional value to users, through the provision of goods or services differentiated on the basis of quality or speed or mode of delivery.

## Examples

- The Victorian Registry of Births, Deaths and Marriages offers a range of commemorative birth certificates.
- The Department of Transport offers value-added services such as customised and special interest number plates.
- Some agencies offer a fast-track service for registration approvals and expedited applications.

# Principle 7

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

## Rationale

- Many government goods and services have a single or uniform price for all users or regulated parties.
- Where appropriate, pricing of some government goods and services should be differentiated by willingness to pay, ability to pay, risk profile or other relevant characteristic.
- This principle promotes innovation and creates benefits for some groups of users, government and the community. At the same time, it can increase the complexity of pricing structures.

## Where appropriate

- Where there are significant differences in willingness to pay, ability to pay, risk profile or other relevant characteristic across users.

## Examples

- The Supreme Court, County Court and Victorian Civil and Administrative Tribunal have fees differentiated by user group (i.e. corporate, standard and concession fee payer).
- The Victorian Building Authority has introduced company registrations in addition to registrations offered to individual practitioners.
- Electricians pay to apply for and renew the licences needed to practice in Victoria, with specialised licences attracting a higher fee.

# Principle 8

Pricing should support positive behaviours

## Rationale

- Some negative behaviours by regulated parties or service users can generate extra costs, delays and poor compliance.
- Prices should be structured to encourage users or regulated parties to engage in desired behaviours, such as improved punctuality, timeliness, accuracy and compliance.
- This principle promotes positive behaviours and supports efficiency.

## Where appropriate

- Where negative behaviours by regulated parties are observed, such as failure to comply with regulatory obligations.
- Where fines targeting negative behaviours are not having the desired impact.
- Where the application of other principles (e.g. full cost recovery) could result in undesired behaviours such as evading regulatory obligations and illegal activities.
- Where the application of this principle will result in over-recovery, agencies will need to ensure the fee is related to the service and is not a tax. Where there is doubt, legal advice should be sought.

## Examples

- The Victorian Commission for Gambling and Liquor Regulation administers risk-based liquor licensing fees which encourage licensees to adopt practices to reduce their level of risk.
- Fees for some Heritage Victoria permits, relating to smaller value works, have been set below full cost recovery in part to minimise incentives for non-compliance.

# Principle 9

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

## Rationale

- Provision of government goods and services for free or well below cost may cause users not to properly value these products and encourage excessive consumption and result in an inefficient allocation of resources.
- Those users or entities that create the need for a good or service should meet the relevant cost through fees or charges.
- The State should obtain an appropriate return for the community from allowing private entities to access and use public land and natural resources.
- In allocating rights to use State-controlled resources or entitlements, pricing should be set by a competitive mechanism or establishing a minimum price.

## Where appropriate

- Where government goods or services are provided free of charge or below cost of provision and there is no valid public policy justification.
- Where there is excess demand for access to State-controlled public land, natural resources or entitlements, a competitive allocation mechanism with a reserve price should be used.
- Where there is little demand for access rights, a minimum price should be established reflecting the efficient costs borne by government in making the resource available and the value of the resource to the community.

## Examples

- The County Court of Victoria introduced a new fee for the review of a decision by a judicial registrar, providing a stronger signal to users regarding the cost of this service.

# Principle 10

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

## Rationale

- Pricing arrangements should be consistent with Victoria’s Competitive Neutrality Policy (which is available at [betterregulation.vic.gov.au](http://betterregulation.vic.gov.au)), so that government agencies do not enjoy any net competitive advantage over private sector competitors.
- Victoria’s Competitive Neutrality Policy indicates that full cost-reflective pricing is a means of achieving competitive neutrality.
- In setting prices, agencies may have regard to economic factors such as the level of demand for the good or service, the level of competition between providers, and short-term pricing strategies.

## Where appropriate

- Where the government agency is providing goods or services on a commercial or discretionary basis, in competition with the private sector.
- Where agencies operate a ‘significant business’ as stated in Victoria’s Competitive Neutrality Policy.
- Even where the business is not significant, it may be prudent to apply the pricing approach in the Competitive Neutrality Policy. The policy does not apply to non-business, non-profit activities of government.

## Examples

- State Trustees recently restructured its fees based on cost and risk, and with reference to the competitive environment.
- Appliance manufacturers pay a fee to Energy Safe Victoria to measure and assess the safety of new appliances before sale.
- Sustainability Victoria applies a fee for certificates issued to designers and thermal performance assessors that use its FirstRate 5 house energy rating software.

# Principle 11

Pricing structures should be easy to understand and simple to administer

## Rationale

- Some government agencies have large and complex pricing schedules often driven by fees specified in legislation and regulations. Such schedules, however, can result in costs and confusion for those agencies and service users.
- Simpler pricing structures are preferable to overly detailed and precise arrangements. Pricing structures should be simple enough to understand and administer.
- This principle encourages simplicity and efficiency in pricing arrangements.

## When appropriate

- Where there are large numbers and/or types of fees and charges.
- Where pricing structures are complex, difficult to interpret and/or hard to administer.

## Examples

- The Environment Protection Authority proposes to simplify application fees for permits to transport reportable priority waste by charging a single flat fee to applicants (intended to commence on 1 July 2021).

# Principle 12

Pricing arrangements should be monitored annually and reviewed periodically

## Rationale

- Pricing should be monitored annually to determine whether any changes are necessary.
- Prices should be reviewed periodically to ensure they are current and reflect changes in technology, processing and/or demand.
- Fees and charges set under regulations are required to be reviewed when the regulations sunset, which is every ten years in most cases.

## Where appropriate

- As required by the Standing Directions (i.e. annual monitoring) issued by the Assistant Treasurer under the *Financial Management Act 1994*.
- Where relevant, apply indexation to fees in line with the Treasurer’s annual rate.
- When fee regulations are approaching expiry or earlier if there have been significant changes in circumstances.
- Where new and/or significant changes to pricing arrangements are being proposed, appropriate stakeholder consultation should occur, including consideration of transitional measures.

## Examples

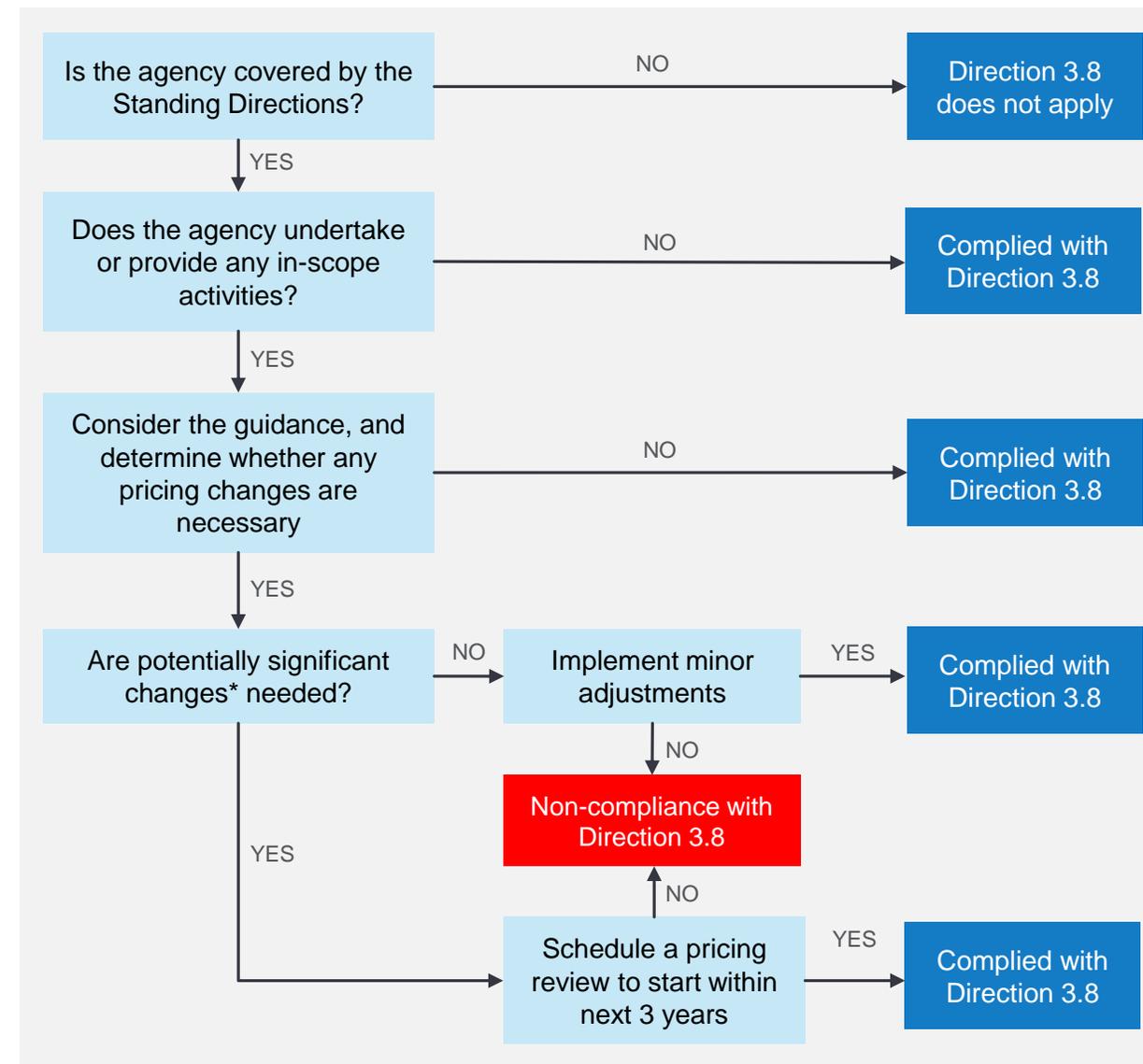
- The Environment Protection Authority (EPA) and Department of Environment, Land, Water and Planning recently reviewed the EPA’s fees prior to the introduction of new primary legislation and propose to update the EPA’s fees (intended to commence on 1 July 2021).



# 3. Applying the principles

# Compliance with the Standing Directions

- There will be a transition period, ending on 30 June 2021, during which agencies will be able to apply:
  - the Cost Recovery Guidelines; or
  - the Pricing for Value Guide.
- From 1 July 2021, agencies will be required to apply the Pricing for Value Guide.
- Agencies are expected to comply with the Standing Directions, including Direction 3.8 on pricing, issued by the Assistant Treasurer under the *Financial Management Act 1994*.
- The flowchart (see opposite) will help agencies determine whether they comply with Direction 3.8.
- In addition to the Cost Recovery Guidelines or Pricing for Value Guide, agencies should also be aware of other policy and regulatory requirements and undertake any necessary complementary analysis.



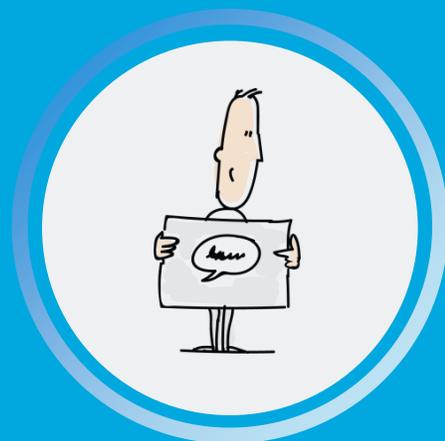
\* Changes that are likely to impose a significant economic or social burden on a sector of the public.

# Pricing reviews

- Agencies should use the pricing playbook as a guide for undertaking pricing reviews. The playbook provides a comprehensive methodology for pricing reform, and can be used in a flexible way. The playbook is available at [dtf.vic.gov.au](http://dtf.vic.gov.au)
  - Where new or significant pricing changes are being proposed, agencies should ensure that the appropriate legal authority and authorisation process are available to implement the changes:
    - enabling powers are often in acts of Parliament or in supporting subordinate legislation (such as regulations); and
    - the authorisation process that sets prices may involve an Order in Council, a Ministerial determination, or publication of the prices in the Government Gazette after approval from the responsible Minister.
  - Agencies should seek legal advice on these matters.
- 
- For any proposed new prices or price increases, set under regulations, that will impose a significant economic or social burden on a sector of the public, preparation of a Regulatory Impact Statement (RIS) will be required, unless exemptions apply. Further information on when a RIS is required is contained in the Victorian Guide to Regulation which is available at [betterregulation.vic.gov.au](http://betterregulation.vic.gov.au) and agencies can contact Better Regulation Victoria for advice on preparing a RIS.
  - For any proposed new prices or price changes that will have a revenue impact exceeding \$500 000\* a year, agencies will require the Treasurer's approval. In such cases, agencies should notify the Department of Treasury and Finance at least six months before the price changes are scheduled to take effect.

\* The revenue threshold will be adjusted annually using the Treasurer's annual rate, commencing on 1 July 2020.

## Further information



## Pricing for value

- The guidance materials include:
  - the overview;
  - the pricing principles (i.e. this document);
  - the pricing playbook;
  - a quick reference guide; and
  - frequently asked questions.
- These are available at [dtf.vic.gov.au](https://www.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://www.dtf.vic.gov.au)
  - email: [pricing@dtf.vic.gov.au](mailto:pricing@dtf.vic.gov.au)
  - phone: 03 9651 5111.

# Glossary

Term	Definition
Ability to pay	Ability to pay is generally determined by the income, wealth or net worth of a service user or regulated party (e.g. an individual, business or organisation).
Agencies	Victorian Government entities that are covered by the Standing Directions under the <i>Financial Management Act 1994</i> .
Efficiency	Efficiency has multiple dimensions. Definitions of most relevance to the pricing principles include: where resources are allocated in a way that maximises the net benefit to the community (also known as allocative efficiency); where it is the minimum cost of providing a good or service at the required quality or of undertaking a regulatory activity (also known as technical or productive efficiency); and where innovation and/or investment improves service provision and the service offering over time (also known as dynamic efficiency).
Efficient allocation of resources	Resources are allocated in a way that maximises the net benefit to the community. Also see 'efficiency'.
Efficient consumption	Services are consumed at levels reflecting the costs of production and externalities where they present and material. This in turn drives the allocation of resources. Also see 'externalities', 'efficient allocation of resources' and 'efficiency'.
Efficient cost	The minimum cost of providing a good or service at the required quality or of undertaking the regulatory activity. Also see 'efficiency'.
Equitable access	It is where users with a lower ability to pay are able to afford government goods and services. Also see 'ability to pay' and 'equity'.

# Glossary (continued)

Term	Definition
Equity	Equity has multiple dimensions. Definitions of most relevance to the pricing principles include: where users or entities that benefit from a good or service, or that give rise to regulation, pay for it; and where users with lower abilities to pay are able to afford government goods and services.
Externalities	The consumption of certain goods and services by users may generate broader (external) benefits or costs for unrelated third parties (also known as spillovers).
Fiscal sustainability	The ability of government to manage the State's finances in a responsible manner to provide capacity to fund services and infrastructure at levels consistent with maintaining a strong credit rating.
Pricing	Refers collectively to regulatory fees, user charges, and prices.
Sustainable usage	The volume consumed of a good or service, such as access to Victoria's natural resources, at a level which can be maintained over time and does not lead to overuse.
Willingness to pay	The highest price that a user will pay for a good or service, which may vary considerably across different users.



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