

Efficiency, cost recovery and pricing: examples of approaches

Revenue Policy Development Board

30th April 2019



Purpose

- Set out strategic approaches to costing, pricing and charging
- Illustrate a framework for developing a strategic approach
- Take steer and direction from the Board on next steps

Structure

- Set out approaches to costs and pricing (20 mins)
- **Group discussion** (20 mins)
- Next steps (5 mins)

Approaches elsewhere

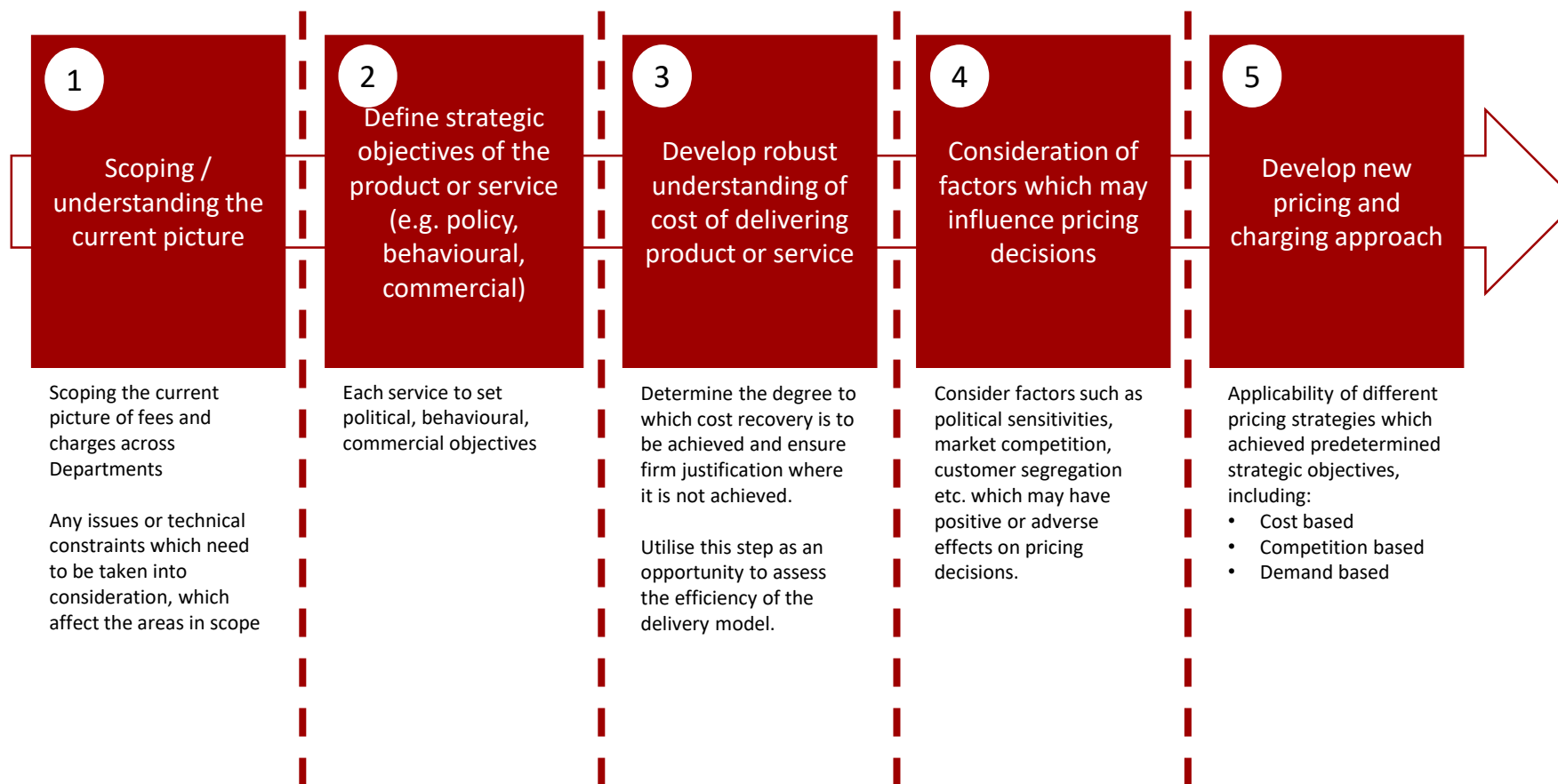


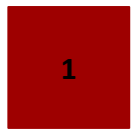
Cost, price and charging framework

Our Approach & Methodology



A five-staged approach





STEP 1 SCOPING PRODUCTS & SERVICES

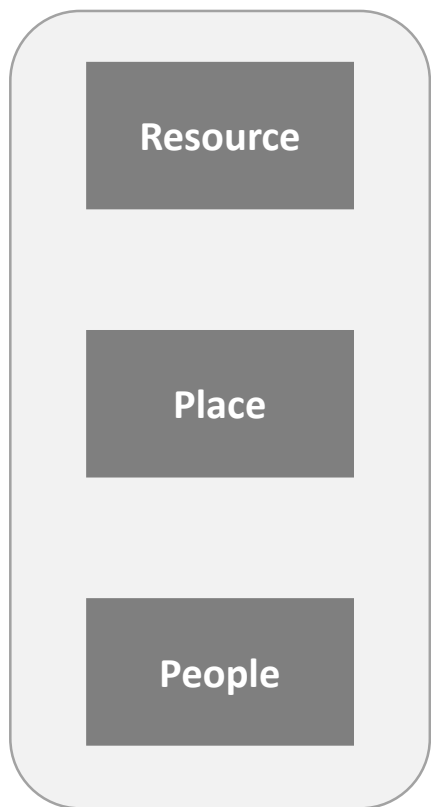
Cost, price and charging framework

STEP 1: Scoping products & services

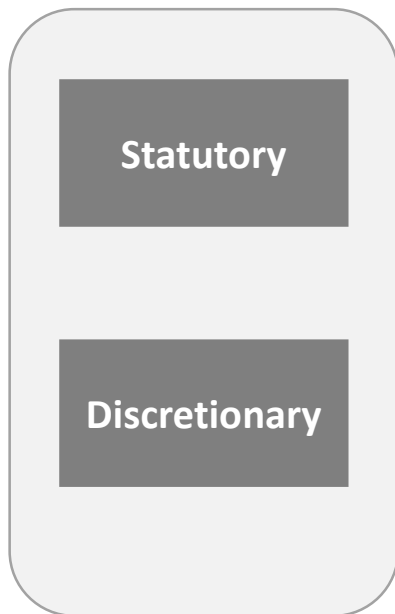


Product/Service X

Categorising current charges by function



Type of product/service



Outcome



Issues for consideration and technical constraints

Appropriate benchmarking

Law/legislative

Financial Direction

Customer impact



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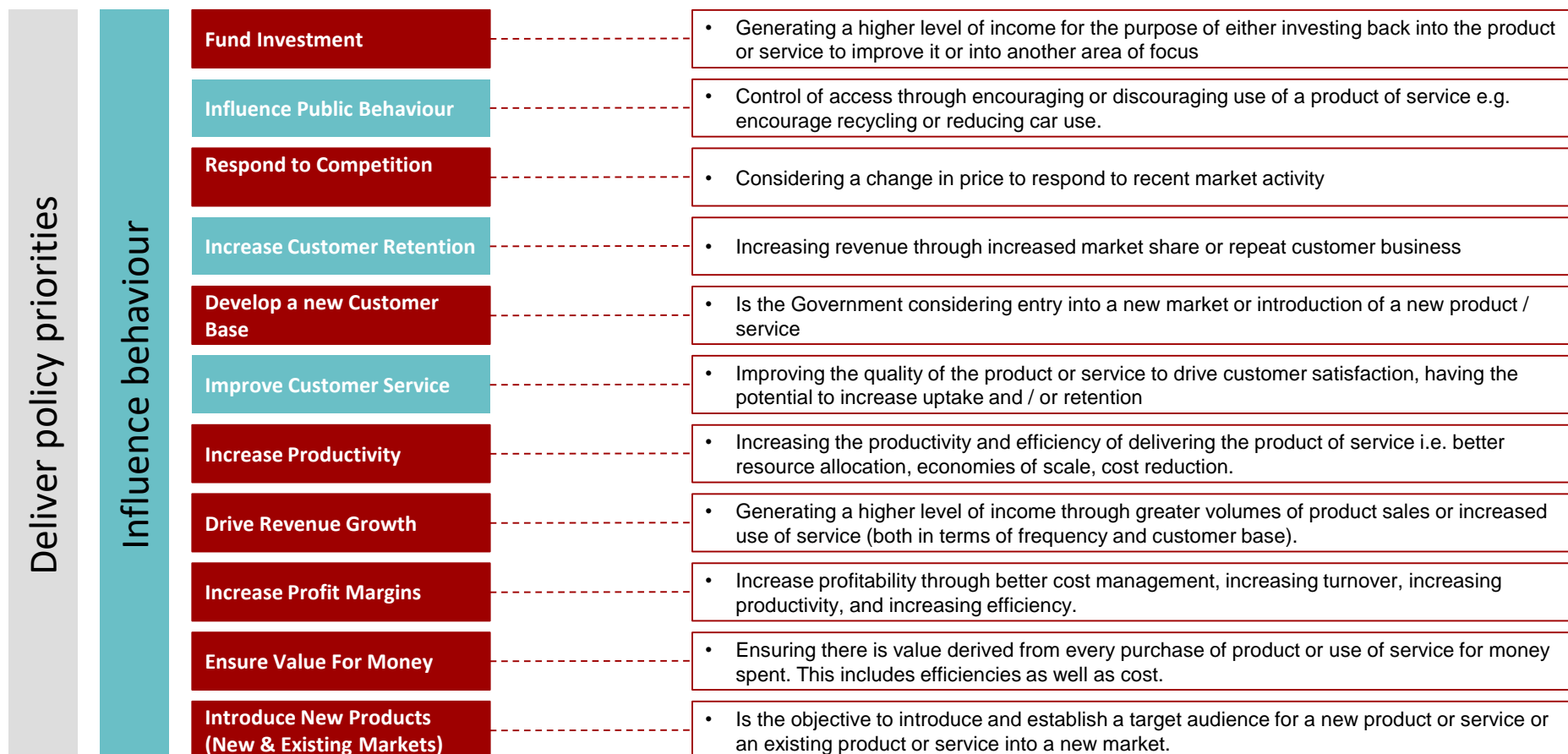
STEP 2 DEFINE STRATEGIC OBJECTIVES

Cost, price and charging framework

STEP 2: Define Strategic Objectives



Strategic discussion about policy, behavioural and commercial objectives for (a) Government as a whole (b) particular service. Note – basket of objectives may apply; not necessarily mutually exclusive





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STEP 3: EXPLORE COSTING METHODOLOGIES

Cost, price and charging framework

STEP 3: Exploring Costing Methodologies



Many approaches to derive costing – appropriateness will be determined by the product/service in question

1. Activity based costing

- Matching overhead costs as closely as possible with organizational activities

2. Target costing

- Costs that are expected to be incurred and how this will impact the viability of the product or service

3. Direct costing

- Costs that are directly associated with changes in production volume

4. Standard costing

- Creation of predetermined costs to approximate actual costs

5. Job costing

- Production costs attributable to specific units or groups of units

6. Process costing

- Costs for processes, which involves homogenous products or services



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STEP 4 & 5: PRICING INFLUENCES & STRATEGIES

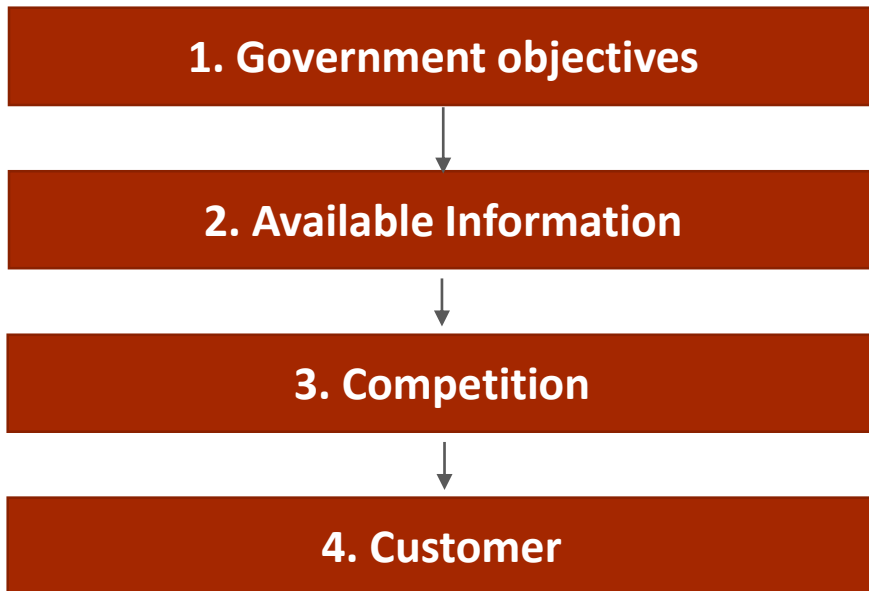
Cost, price and charging framework

STEP 4 & 5: Pricing influences & Strategies



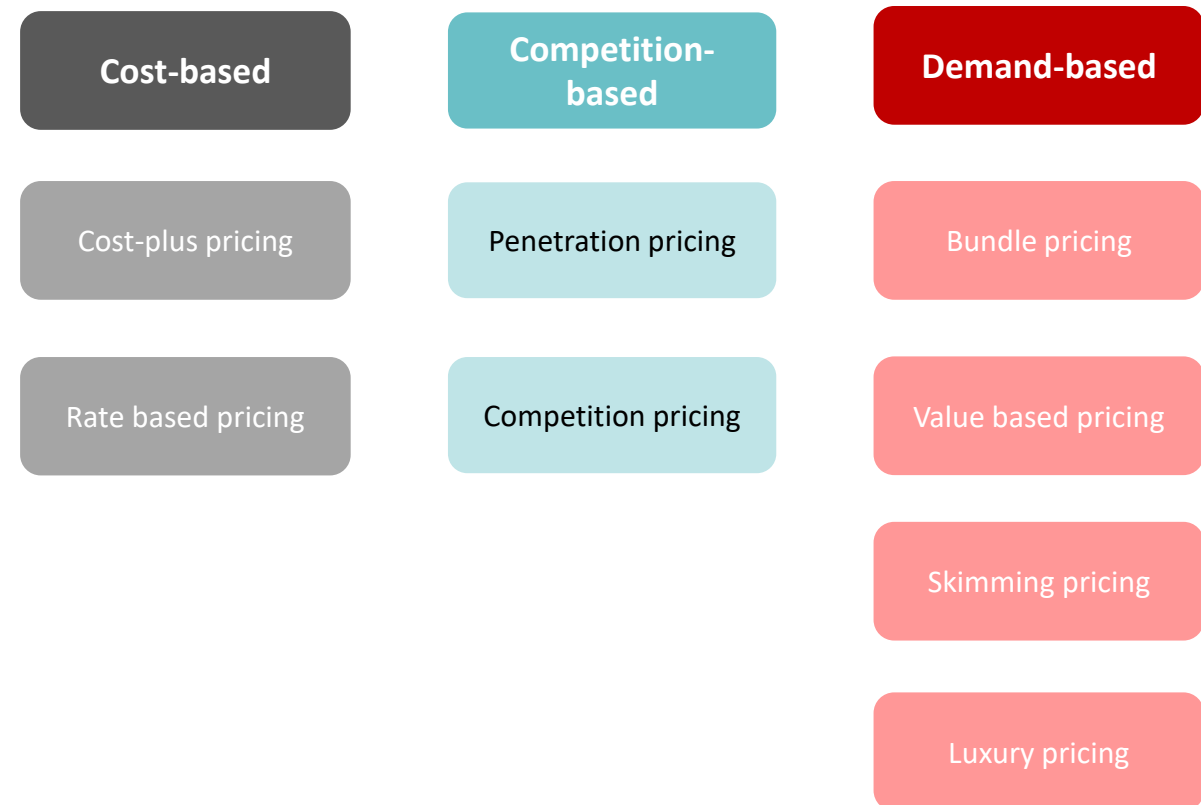
Many factors influence pricing – some are more within our control than others

Examples of pricing influences



There are various strategies for pricing, depending on the commercial and strategic objectives

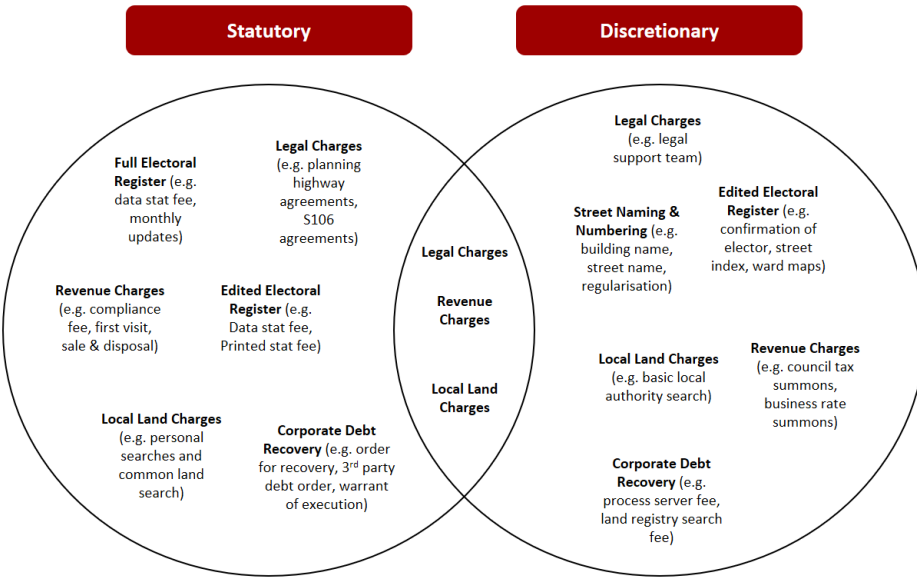
Examples of pricing strategies



Group discussion



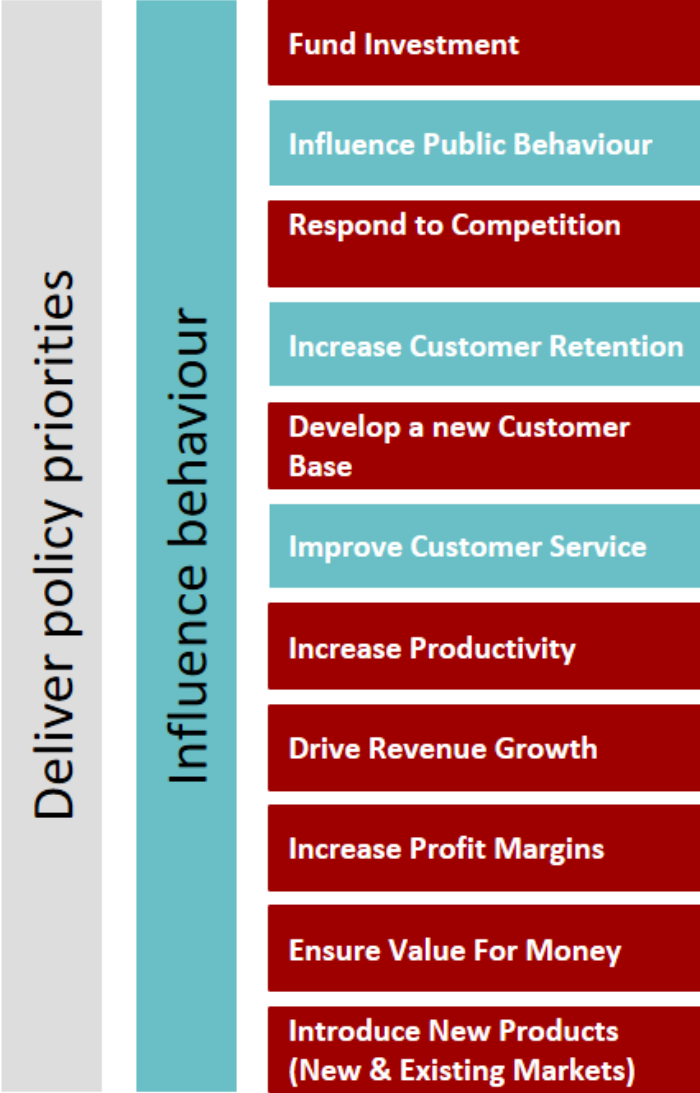
What's your view on...



Services in scope?

Priority areas?

Strategic objectives?



Other next steps?



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