



# **A Social Services Pricing Framework**

Consultation Paper



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**VICTORIA**  
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# Introduction

Pricing, as part of a suite of policy tools, is a key enabler for government to support better ways of delivering services.

The way we price services is an important lever in:

- shaping and reinforcing the structures and incentives of the service response
- growing the capacity of the system to meet changing needs
- lifting the quality and sustainability of the service response.

Recent social and justice services reviews and reform initiatives in Victoria, including the *Royal Commission into Family Violence*, the *Roadmap for Reform: Strong Families, Safe Children* and *Youth Justice Review and Strategy: meeting needs and reducing offending*, have called for more integrated, person and family-centred services and improvements to the way government purchases services.

The *2017/18 Victorian Budget* committed \$13.3 million to support greater integration and flexibility of services, including the development of a consistent pricing framework to underpin the implementation of new funding approaches.

That's why we are developing a Social Services Pricing Framework (the pricing framework), to provide a consistent approach to pricing that can help guide government decision making in setting a price for services delivered across the social and justice sectors.

A pricing framework is guided by government principles for purchasing services, as outlined in Box 1. Using these principles, we have developed a proposed pricing framework which aims to bring consistency and transparency to the way we purchase services, and better meet the need for flexible and person and family-centred services. This supports a focus on achieving outcomes for people, rather than the activities or outputs delivered, and is one step in achieving a more coordinated system that is focused on the outcomes of meeting individual needs.

**This consultation paper outlines a proposed pricing framework, and is your opportunity to provide feedback to inform the approach presented in this framework. It is expected that the pricing framework will continue to be updated and refined over time to ensure it remains current.**

**The pricing framework is one part of the reform agenda across social and justice services. It will form part of a suite of policy tools to support better service delivery and improve client outcomes.**

## BOX 1

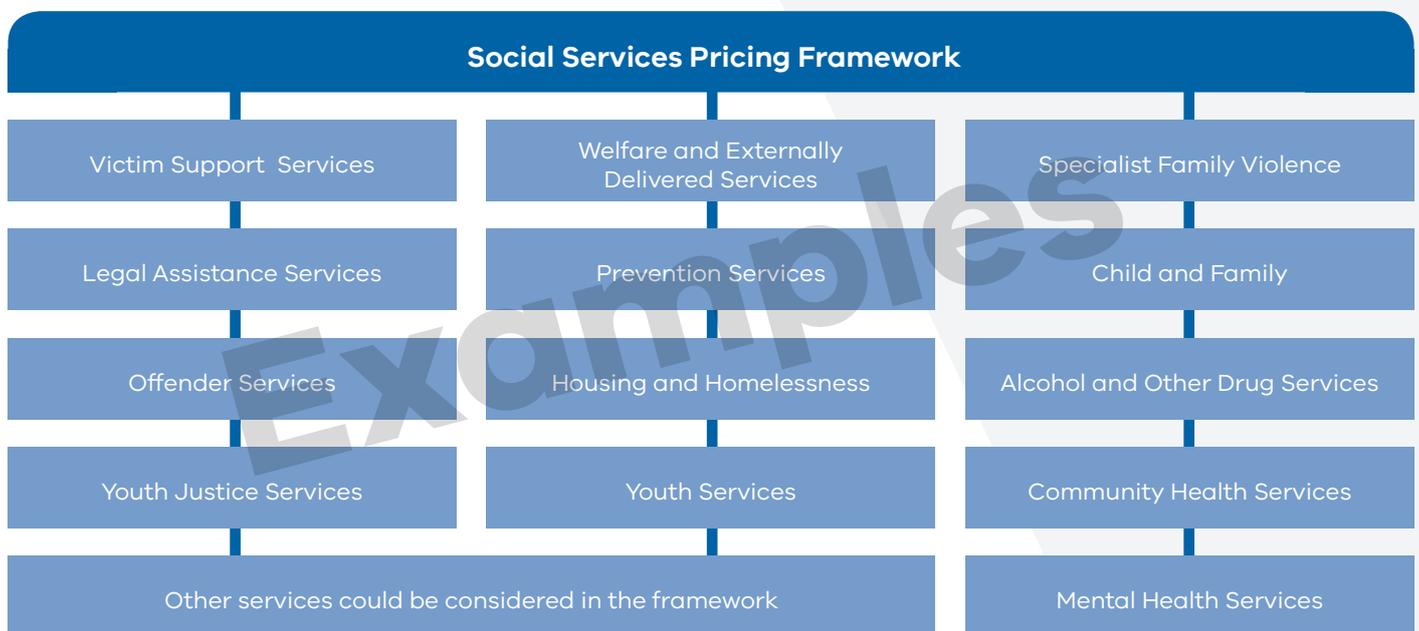
### PRINCIPLES FOR PURCHASING SERVICES

- Person and family-centred support – directing services towards need to ensure tailored, coordinated and timely responses across providers
- Flexible – types and levels of service are tailored to needs
- Efficient and effective – the best use of resources to generate the greatest outcome
- Transparent and accountable – providing predictability for investment and planning
- Equitable – access based on assessed needs
- Simple – clarity in the approach
- Evidence-based – evaluation and knowledge transfer to contribute to an evidence base that can underpin service design and continuous improvement

## The role of a consistent pricing framework

A consistent pricing framework across social and justice services can set broad questions, apply across a broad range of individual service sectors and support the flexibility for service providers to cater for individual needs. We have outlined some examples of the range of services that could be informed by the pricing framework over time in Figure 1.

Figure 1: Examples of services that could be informed by the pricing framework



The pricing framework can apply to different social and justice service sectors at different times, and take into account the unique features of each service sector. The application of the pricing framework, along with the appropriate funding methods, units of measurement, targets and performance monitoring expectations will be considered under departmental arrangements, together with relevant sectors. The pricing framework may also need to consider the funding method, for example, outcomes-based funding, social impact bonds, fee for service or block funding, in its application.

**The pricing framework will guide prices rather than set them.**

**The pricing framework does not prescribe particular funding methods or an individualised funding approach.**

## Consistent pricing can support new funding models

Introducing a consistent approach to pricing across similar services can support more flexible funding models tailored to each sector, which are in turn designed to enable service providers to continue to direct resources to the services that people need most. The benefits of implementing a consistent pricing framework are outlined in Table 1.

**Table 1: Why a Social Services Pricing Framework?**

What have we heard	What the Social Services Pricing Framework can support
<ul style="list-style-type: none"><li>• Highly complex and inconsistent</li><li>• Limited transparency</li><li>• Resources directed to crisis-end supports</li><li>• Need to improve evidence base</li><li>• Data is highly fragmented</li></ul>	<ul style="list-style-type: none"><li>• Streamlined and simple pricing of like services</li><li>• Transparent funding for like services</li><li>• Clarity for the sector to enable person-centred service delivery</li><li>• Evidence base to enable improved understanding of cost and effectiveness</li></ul>

## Supporting outcomes-focused service delivery

Under an outcomes-focused pricing framework, complex, inflexible pricing for a range of individual activities can be brought together into broad support categories with common units of measurement. Our approach to improved pricing is a key enabler to support a transition towards outcomes-focused service delivery, incentivising high quality, innovative and efficient services. Consistent pricing and flexible funding models allow service providers to structure services towards achieving client outcomes.

This approach also enables collaboration between service providers towards common outcomes, supporting a simple but effective service system.

**The next section outlines the proposed pricing framework. Throughout the framework, we have included a number of questions for you to consider. We encourage you to respond to these questions, or provide us with a submission that includes your own additional feedback and comments.**

**Developing a simple and consistent approach to pricing is one of the first steps in moving towards outcomes-based funding over time. Reforms to funding models, performance systems and accountability arrangements will also be needed to support outcomes-based funding models in the future.**

# A Social Services Pricing Framework

A pricing framework aims to present a transparent and consistent approach for government to use when determining a price for services. It does this by proposing a set of questions to be considered across three phases illustrated in Figure 2 and considered in more detail through this section. An overview of how we developed the proposed pricing framework for consultation is illustrated in Figure 3.

Figure 2: Overview of the pricing framework

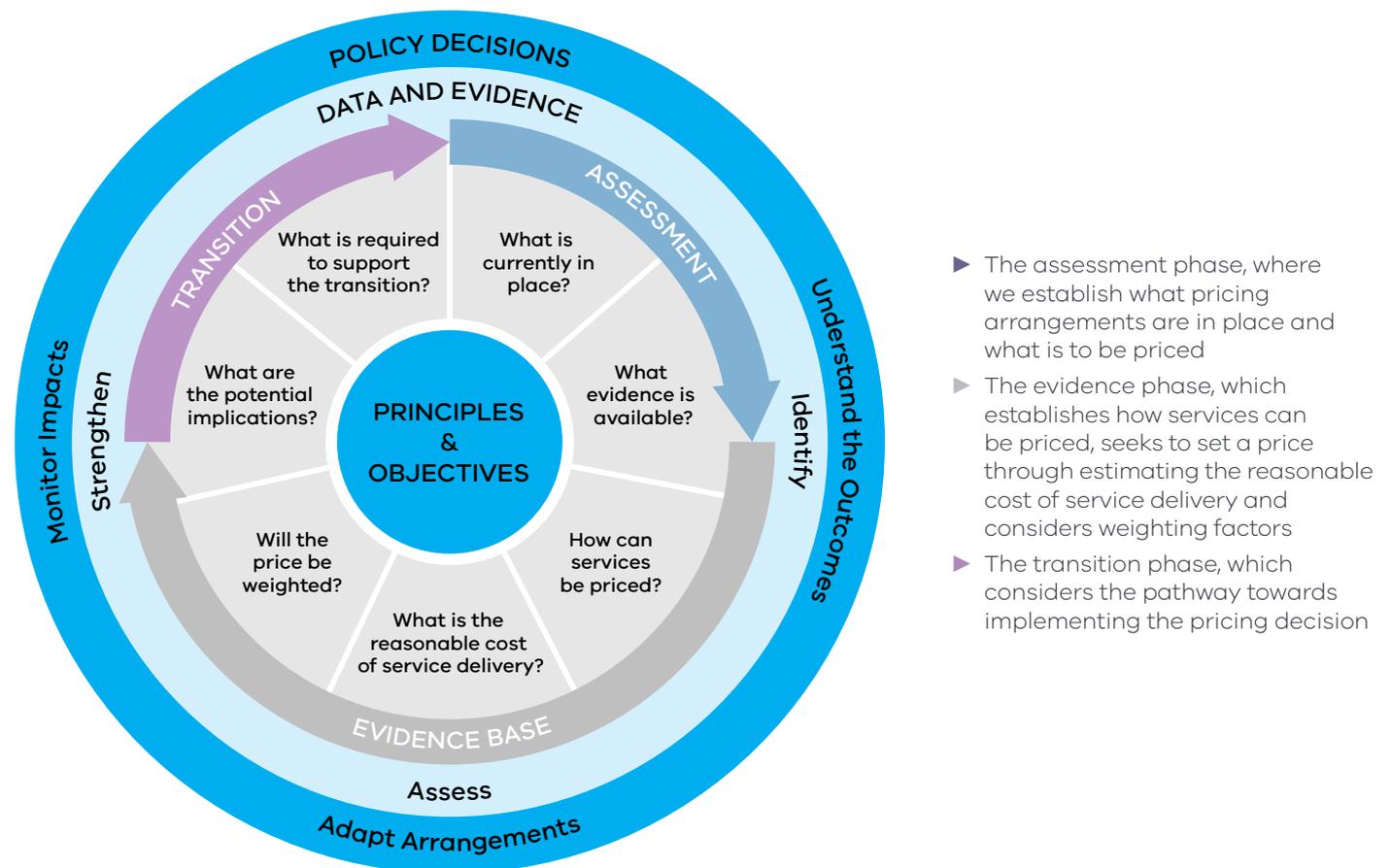


Figure 3: How the proposed framework was developed for consultation



# Phase 1: Assessment

This phase aims to compare and contrast current pricing arrangements in place across the sector, and assesses how services can be defined and compared to like services. This phase proposes two questions:

1. The first assesses the current pricing arrangements to help us to identify potential issues, reflect on lessons learnt or build on similar successful initiatives or arrangements.
2. The second aims to group services into broader groups of similar services to support a simple and transparent approach to pricing.

## 1.1 What arrangements are currently in place?

Our first step in using the pricing framework is to develop a comprehensive understanding of what arrangements are currently in place and how these arrangements are working in practice. This includes understanding the characteristics, target clients and delivery settings of current funded activities, as well as how they are currently priced. This involves reviewing policy documents from across government, analysing funding, performance and outcomes data, and consulting with the sector.

## 1.2 What is to be priced?

After we have a good understanding of what arrangements are currently in place, our next step is to assess how these services can be grouped into broader groups of similar services. The proposed pricing framework does this to enable a simpler, consistent and more transparent approach to pricing.

Grouping services helps to ensure that funded programs and initiatives with similar service types, cost structures, delivery settings and objectives, are treated in the same way so that a single, consistent price can be assigned to a group.

For example, the pricing framework defines a simplified set of categories as outlined in Table 2. These categories can be refined should funded activities sit across multiple supports, or sector specific evidence suggests an alternative set of categories or identifies services that cannot be grouped together.

Table 2: Examples of a simplified set of support categories

Counselling & Social Work	Case Management	Access & Assessment	Accommodation Support
Rehabilitation	Assessment	Assessment	Residential rehabilitation
Therapeutic counselling	Screening	Referral	Transitional support
Counselling	Risk assessment		
	Care coordination		

**Question 1: To what extent would pricing services by grouping like services impact your organisation's service delivery? Why?**

**Question 2: Are there services your organisation delivers that overlap with two or more support categories? Are there services that should not be grouped together?**

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The categories outlined in Table 2 are one example of how activities could be grouped into broader support categories. Activities may be grouped differently in different sectors.

## Phase 2: Developing the evidence base to support pricing decisions

This phase allows us to develop the evidence base to support pricing decisions by considering:

- how a service should be priced
- what cost categories should be included in a price, and whether it is appropriate to use weightings.

We consider these questions for each support category or group, rather than for each individual activity.

### 2.1 How will the service be priced?

Different units of measurement can be used to price the support categories identified in Phase 1. Choosing one unit of measurement for the service category we are examining supports transparency of pricing arrangements, and contributes to more simplified funding arrangements. In turn, this supports a simpler service system and aims to give service providers more flexibility to structure their support categories to tailor services to meet clients' needs.

A range of potential units of measurement are outlined in Table 3. The units of measure in Table 3 are quantity measures, and focus on establishing consistent measurement of comparable units of service delivery. As the pricing framework matures and the system transitions to outcomes approaches, additional measures to assess the quality and impact of services will be incorporated into the pricing framework. This will enable pricing to reflect the value of the services delivered towards achieving client and community outcomes in addition to the volume of services.

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**The pricing framework has identified the most appropriate unit of measurement for short term application. In the longer-term, further testing can help to shift to a system focused on outcomes rather than inputs and outputs.**

**Table 3: Potential units of measurement**

<b>Unit of measurement</b>	<b>Key considerations</b>
Number of hours	<ul style="list-style-type: none"> <li>• Provides flexibility to scale up or down based on client need</li> <li>• Current price builds do not allow flexibility, as the number of hours merely determine the cost of packages for individual clients</li> <li>• As the evidence base is strengthened over time, the reliability of using this measure will increase</li> </ul>
Number of daily clients	<ul style="list-style-type: none"> <li>• This measure is non-cumulative, and does not measure the length of service required by clients on any given day</li> </ul>
Number of clients	<ul style="list-style-type: none"> <li>• Funding may not allow the flexibility to scale service delivery up or down based on the needs of the clients</li> </ul>
Number of referrals that receive contact from the provider	<ul style="list-style-type: none"> <li>• Funding may provide skewed outcomes in favour of providers who make a large number of contacts with clients who drop out of service delivery, meaning that the full cost of service delivery is not incurred</li> </ul>
Number of annualised placements	<ul style="list-style-type: none"> <li>• Provides an annual cost for delivering the service that can be converted to the number of days or weeks of accommodation provided</li> <li>• Flexible measure which allows providers to deliver services outside the length of support periods, meaning it can be scaled up or down based on client need</li> </ul>
Number of new support periods	<ul style="list-style-type: none"> <li>• The length of the support period may not align with the needs of the client, and providers may be forced to withdraw support from clients before they have achieved the outcomes of the service</li> <li>• Service providers may continue to provide services at a cost to the provider which is not recovered</li> </ul>
Number of clients exiting the service	<ul style="list-style-type: none"> <li>• This does not adequately measure whether objectives for the client are achieved, or the level of quality</li> <li>• There is limited data, and the measure is not closely aligned to policy direction and the pricing objectives</li> </ul>

Balancing the key considerations of each unit of measurement, we have identified two units of measurement which are currently appropriate for service delivery:

- ‘Number of hours’ - This measure has the flexibility to be scaled up or down to tailor services to an individual’s needs. It also provides a more accurate measurement of the quantity of service delivery than measures such as the number of daily clients, or total number of clients.
- For accommodation-based supports, ‘Number of annualised placements’ – This has the flexibility to allow service providers to deliver services outside the length of support periods, meaning the service can be scaled up or down based on client needs.

Beyond this, an outcomes-based approach to pricing would help create better incentives to improve outcomes for people. Further work will need to define and test individual outcomes to enable a viable alternative to the proposed units of measurements, and this will need to be refined overtime.

## 2.2 What is the reasonable cost of service delivery?

After identifying the most appropriate unit of measurement for each support category, we develop an understanding of the reasonable cost of service delivery. This supports a comparison between current cost estimates, best available evidence, and helps inform future pricing decisions for services.

**Question 3: To what extent do you agree with the two proposed units of measurement? Why?**

**Question 4: To what extent does your organisation use outcomes to promote innovation and shape service delivery? How?**

**An outcomes-based approach to pricing can remunerate providers based on an agreed improvement in an individual’s outcomes as a result of the service. This approach promotes innovation by prioritising the delivery of the desired outcome in the most effective way. It encourages providers to find more productive and innovative ways to deliver services, rather than rewarding greater volumes of services.**

### BOX 2

#### KEY CONSIDERATIONS FOR ESTIMATING THE REASONABLE COST OF SERVICE DELIVERY INCLUDE:

- **drawing the distinction between fixed and variable costs** to determine the impact on cost from an increase in the unit of measurement
- **showing where higher levels of service lead to higher cost efficiency**, for example, due to the efficiency of service provision by highly specialised providers
- **distinguishing between the costs of service delivery in individual and group settings** to account for potential higher costs associated with delivery of services in a group setting
- **determining the needs of the client**, for example, clients with higher levels of need may require more intensive supports in order to achieve outcomes.

Table 4 outlines proposed cost categories to estimate a reasonable cost of service delivery. These categories do not overlap, to ensure costs are not counted twice.

**Table 4: Proposed cost categories**

<b>Salaries for service delivery staff and supervisors</b>	<b>Non-Wage Labour Costs</b>	<b>Management Costs</b> (salaries and corporate costs associated with leadership and strategic operation)	<b>Operational Costs</b>
Wages & skills mix (including allowances, overtime and wage adjustments)	Superannuation	CEO & Corporate Costs (including interagency collaboration)	Payroll services
Staffing Ratio	Long service leave	Governance & Registration	Information & Technology
Hours Worked	WorkCover	Human Resources and Finance teams	Overheads (such as utilities, rent, mortgage repayments)
	Leave loading and other leave entitlements	Training and learning and development	Fleet costs
	Taxes	Research, evaluation and innovation	Insurance
			Office equipment

### 2.3 Will the price of the service be weighted?

Weighting factors are typically used to reflect differences in reasonable costs of service delivery due to the characteristics of individual clients or populations, or policy decisions by government. For example, to reflect differences in costs for providing services in regional areas compared to metropolitan areas, the Independent Hospital Pricing Authority and the National Disability Insurance Agency use weightings for services in remote and very remote areas in an attempt to control for differences in costs.

There are a range of benefits and limitations that need to be considered before weighting factors are included in any pricing decision, and we have outlined some of these in Table 5. There are also a range of alternatives to using weightings. For example, differences in costs can be accounted for in the price of support categories.

**Table 5: Benefits and limitations for using weighting**

Benefits	<ul style="list-style-type: none"> <li>• Directs service provision to areas with minimal available support services</li> <li>• Incentivises service provision and data collection for certain communities e.g. gender-diverse people</li> <li>• A simple way to reflect the differences in costs</li> </ul>
Limitations	<ul style="list-style-type: none"> <li>• Data limitations mean differences in costs may not be accurately attributable to client characteristics</li> <li>• May not be precise when there are multiple drivers of service delivery costs</li> <li>• Can be used perversely</li> </ul>

**Question 5: Are the proposed cost categories useful to describe the cost of service delivery? Why/Why not?**

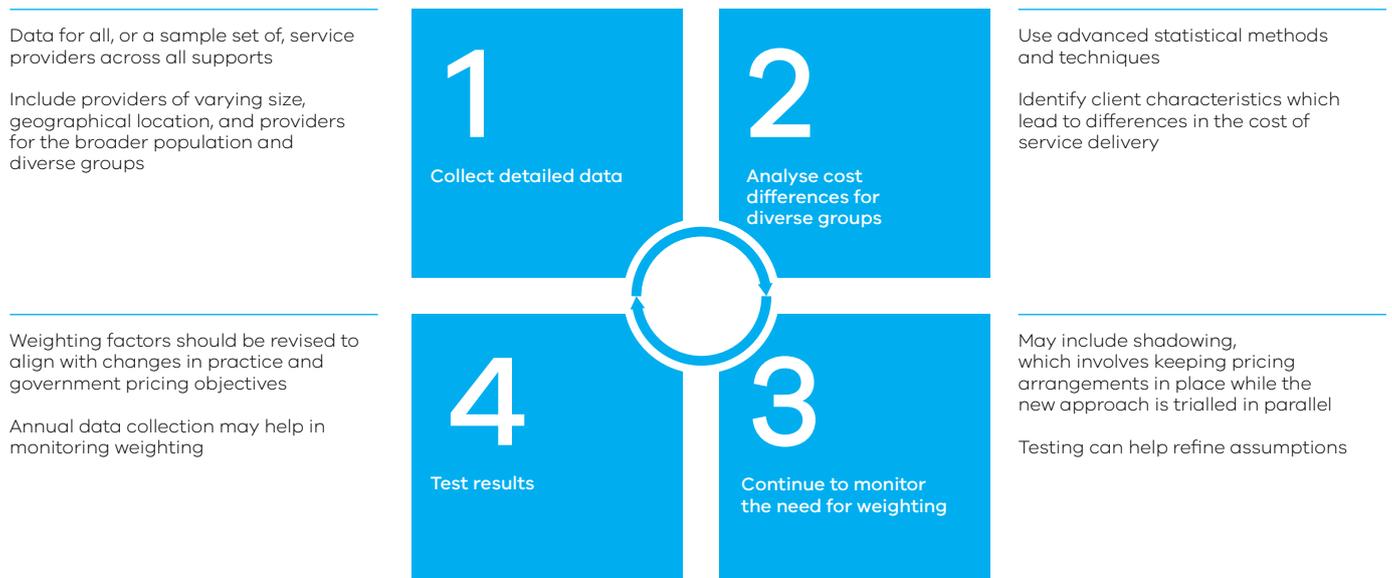
**Question 6: Are there additional cost categories which should be included in calculating the reasonable cost of service delivery?**

As established through the previous steps, the definition of support categories, and how they are priced, is central to determining the appropriateness of weightings. This means that it is important that units of measurement are flexible enough to be scaled up or down.

For example, additional fuel costs associated with providing services to clients in regional areas could be accounted for under 'fleet costs' as categorised earlier in Table 4. In this case, a weighting factor may not be needed as the increase in cost can be accounted for by increasing the number of hours funded. In applying this approach, it is important to account for any cost offsets that may arise when providing services for clients.

Any appropriate weighting needs to be based on the best evidence available. Figure 4 outlines a high level process that can be used to develop weighting factors.

**Figure 4: Process for developing weighting factors**



**Question 7: Are weighting factors needed? Are there different approaches that can be used?**

**Question 8: How can pricing be fair and consistent, while also reflecting the uniqueness of services, sectors and clients?**

## Phase 3: Transition considerations

Having established the arrangements in place, what is to be priced, how they are priced and the reasonable cost of service delivery, it is important to consider how to transition to the new pricing arrangements. The key to this phase is to develop a strategy to manage the transition from current to future arrangements by considering the potential implications and the key decisions required to support transition. This phase may not be extensive if no significant changes occur as we apply the pricing framework.

### 3.1 What are the implications of transitioning to new pricing arrangements?

At this point, analysis and consultation are necessary to help understand the potential implications of pricing decisions on individuals, service providers and services, for example, financial impacts, incentives and disincentives. It may also be necessary to consider potential implications across other sectors, where relevant. There are also general workforce implications to consider, such as whether organisations have the appropriate infrastructure to deliver services in an integrated and collaborative way.

### 3.2 What are the key decisions to support transition?

Given the identified implications, we now consider the key decisions required to support transition and the options available to support new pricing arrangements.

The aim of considering options to support transition is to ensure the continuity of services and minimise disruption to organisations and the people who need services. A transition strategy should consider the following questions:

- How do pricing decisions interplay with other government strategies and reforms?
- What are the risks and opportunities associated with different options for implementation of pricing decisions for both individuals and service providers?
- How and what data should be captured? What data is needed to inform transition?
- How can transition timing or grandfathering approaches help to alleviate risks of transition? Transition timing or grandfathering approaches could include consideration of sequencing the rollout of new arrangements with the expiry of current contractual arrangements in place across the sector and linking pricing decisions with pricing and funding reforms in adjacent sectors in order to achieve consistency across policy decisions and use of resources.
- Do service providers require transition supports?

Transition decisions will be based on detailed testing processes, data analysis and through extensive consultation with the relevant sector. Evaluations of supports and the pricing arrangements will also be required to strengthen the evidence base to inform decision-making in both government and the sector, and enable future improvements to pricing arrangements.

**Question 9: What are the key transition considerations in changing pricing approaches? Are there other transition factors that should be considered?**

**Question 10: How will our approach to pricing be impacted when better data becomes available?**

## Next steps

This is your opportunity to provide initial feedback on the proposed pricing framework, and we encourage your submissions via the Engage Victoria platform at [engage.vic.gov.au](https://engage.vic.gov.au) or via email at [framework.consultation@dpc.vic.gov.au](mailto:framework.consultation@dpc.vic.gov.au). Submissions close on Friday 10 August 2018.

We are also partnering with the Victorian Council of Social Service to undertake a series of consultations and workshops with regional and metro community service organisations during the consultation period to gather further feedback from a range of sectors.

Feedback from submissions and consultations will inform the development of the pricing framework throughout 2018 and early 2019. Staged implementation of the pricing framework will occur over the coming years as reforms progress across relevant sectors. Government will work closely with service providers to manage the transition to the new pricing framework.

### List of consultation questions

**Question 1:** To what extent would grouping impact your organisation's service delivery? Why?

**Question 2:** Are there services your organisation delivers that overlap with two or more support categories? Are there services that should not be grouped together?

**Question 3:** To what extent do you agree with the two proposed units of measurement? Why?

**Question 4:** To what extent does your organisation use outcomes to promote innovation and shape service delivery? How?

**Question 5:** Are the proposed cost categories useful to describe the cost of service delivery? Why/Why not?

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**Question 8:** How can pricing be fair and consistent, while also reflecting the uniqueness of services, sectors and clients?

**Question 9:** What are the key transition considerations in changing pricing approaches? Are there other transition factors that should be considered?

**Question 10:** How will our approach to pricing be impacted when better data becomes available?

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**We encourage submissions from individuals or organisations across the breadth of the social and justice sectors, such as specialist family violence services, child and family services, community health services, homelessness and accommodation support, mental health services, alcohol and drug rehabilitation, general youth services, community legal services, youth justice and rehabilitation services, prison support services, and others.**

# Case Study: Applying the Social Services Pricing Framework

This case study examines the activities related to Case Management to demonstrate how the pricing framework may be used in practice. Case Management services ensure clients receive required support services through screening, assessment, risk identification and planning, care coordination, monitoring and evaluation.

## PHASE 1: Assessment

Consultations across government and the sector find that in 2015-16 there were 15 activities with case management policy objectives that were funded across the family violence and related service system. These activities were from child and family services, drug treatment services, mental health services, and homelessness accommodation and support.

Historical data analysis suggests there is little difference in the cost of delivering these services across the system. Nevertheless, review of government funding, performance and outcomes data and consultations with the sector find there are a variety of unit prices and funding mechanisms for activities.

Activities are grouped into broader support categories following consultation with the sector, and a standardised price is applied. This ensures consistency across this wide field and prevents perverse incentives, such as skilled workers moving between case management fields for the higher pay created by inconsistent funding arrangements.

Assessment identifies a clear need to ensure consistency in the funding received by providers across different areas of the service system.

## PHASE 2: Developing the evidence base

As a client-facing field, a possible unit of measurement for case management is the number of hours of service delivery. This will enable case managers to flexibly tailor their services to clients' needs, ensuring a person-centred approach to service delivery. We may consider opportunities to test outcomes as a longer-term option for pricing arrangements.

To estimate the reasonable costs of service delivery, we collect the best available evidence and assumptions about costs. Cost are broken down into four categories: salaries, non-wage labour, management costs, and operational costs. The specific factors used to inform each of these cost categories are highlighted in the cost category table on page 9. A weighting is considered, however, it is found that the ability to scale the hours of service for diverse clients ensures the right price for the service.

## PHASE 3: Transition Considerations

In transitioning towards applying the new pricing arrangements to case management supports, we will need to consider:

1. Sequencing the rollout of new arrangements
2. Developing contract arrangements
3. Determine the required transition supports

An evaluation framework is put in place to monitor transition and adjust the application of the pricing framework to maintain the best outcomes for individuals and families.

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