

Pharmaceutical Benefits Scheme Cost Recovery

Review of the PBAC Activity-Based Cost Model –

Executive Summary

August 2022

Department of Health and Aged Care

Executive Summary

Background

The Department of Health and Aged Care (Health) is required to recover the costs of undertaking regulatory services associated with processing applications, evaluating submissions and listing of medicines, vaccines and other products on the Pharmaceutical Benefits Scheme (PBS) and the National Immunisation Program (NIP¹). Health requires a cost model that meets the policy requirements, business needs, risks and challenges of its operating environment.

The current Strategic Agreement² between Health and Medicines Australia requires ‘the Commonwealth of Australia (the Commonwealth) to engage an independent entity to undertake a review during 2022 of the Pharmaceutical Benefits Advisory Committee Model (PBAC cost model) to assess the appropriateness of the list of cost recovered activities in the administration of the PBS and the cost allocations to them having regard to the Australian Government Charging Framework (AGCF) and the Australian Cost Recovery Guidelines (CRGs).

Key Steps to the Review

The PBAC cost model review was guided by an assessment through three lenses:

1. Cost model assessment – Assessment of all the components of the cost model including the service catalogue, effort recording and volume data, direct and indirect costs and the parameters and assumptions used in the cost model. In addition, the review included an assessment for duplication of activities and a sampling exercise that considered staff effort recording against activities and task data from the PBAC cost model.
2. Technical assessment – Technical assessment of the cost model against ‘modelling better practice principles’ of fit-for-purpose; simplicity; clarity; design and consistency.
3. Application of the AGCF to the cost model - A maturity assessment of the PBAC Cost Model, against the requirements of the AGCF (including the CRGs).





Assessment Scale and Summaries

The elements of the PBAC cost model were rated against the requirements of the AGCF. These requirements are considered either a ‘must’ or ‘better practice’. The assessment undertaken considered the criteria across the two requirements and offers a sliding scale of assessment as outlined in Table 1.

¹ For the purposes of this review, NIP activities (ATAGI fees and charges) were out of scope.

² Strategic Agreement in relation to reimbursement, health technology assessment and other matters agreed between the Commonwealth of Australia and Medicines Australia Limited, (2021), paragraph 6.9.2.




Table 1: Sliding Scale of Assessment

Element	Evidence Assessment
	No evidence of meeting criteria
	Partially meets criteria – Documentary evidence
	Mostly meets criteria – Documentary evidence and regular review
	Meets criteria – Documentary evidence, regular reviews and stakeholder engagement

Risk Ratings

In addition, the scope of this review required that a risk assessment was conducted on all elements of the cost model including, design, structure, and governance. The risk assessment considered the materiality of the element and is designed to inform Health on components of the model that require attention and potential impacts of not addressing the component, including alignment with the AGCF and CRGs, as shown in table 2.

Table 2: Risk Rating Scale

Rating	Assessment
	Low risk - Regular monitoring required
	Medium risk - Requires attention to understand potential impact and whether mitigating strategies are required
	High risk - Requires immediate attention to mitigate potential impact

The assessments against the three lenses are summarised below:

Cost Model Assessment

The cost model assessment included assessing all the components of the PBAC cost model. This included the service catalogue, effort recording and volume data, direct and indirect costs and the parameters and assumptions used in the model. The review also included assessing the expense and revenue components of the cost model and the alignment of expenses to revenue.

It was found that the PBAC cost model is materially aligned with the requirements of the AGCF. The alignment of expenses to revenue is materially accurate even though prices in 2021-22 have increased by an amount reflective of indexation and appear to be set below the unit cost of the output³. Health should consider validating staff effort timings through the PBS Program Review proposed for 2022-23. In addition, documentation governing the cost model could be improved or developed.

³ The review considers that a difference between expenses and revenue of more than 5 percent would be material.

The model was reviewed for duplicated tasks, business processes and effort. The level of granularity in the model enabled scrutiny. Where tasks and/or business processes had similar titles, a closer assessment was undertaken. This closer assessment identified that all tasks and processes were unique and form part of the required business processes to deliver a specified regulatory output. The assessment found that there were no duplicative tasks.
























For example, contacting a sponsor is necessary at multiple stages of the PBAC Application process, however it is not efficient to delay this contact until a near final stage of a process. Similarly, preparing for a meeting is a necessary task and multiple committee meetings require these tasks throughout the review of an application.

The review also identified that tasks are replicated across application types where the same process is necessary. The same effort for these tasks is applied where suitable as the program can harness economies of scale and drive business efficiencies. For example, receiving an application, invoicing, and allocating an application are repeated across different application types and the same effort is applied, showing that efficient business processes are utilised across the program.

The review also considered an exercise to assess the staff effort recording against a sample of activity and task data from the PBAC cost model. Current effort estimates applied in the model were considered materially accurate after undertaking this exercise. To verify the accuracy and currency of the data in the cost model, the validation exercise was undertaken with Health SMEs to review staff effort recording against activities and business processes and the corresponding FTE calculation generated by the cost model. The sampling exercise was conducted on approximately 30% of overall FTE for the program. The processes in relation to the management of PharmCIS data (including data entry and finalising) have been affected by enhancements to the system (introduction of Health Products Portal), which has enabled greater efficiencies in data management. As a result of this, there have been some redeployment of staff to other PBAC related tasks, primarily building and testing of new system functionality.

A summary of the assessment is described in Table 3.

Table 3: Summary of Cost Model Assessment

Cost Model Operational Elements	Assessment	Risk Rating
Program Business Process Mapping		
Staff Effort Recording		
Cost Allocation Methodology		
Volume Data, Information and Assumptions		
Expense Model		
Revenue Model		
Alignment of expenses to revenue		
Program Cost Model – policy consistency and proportionality		
 No Evidence;  Partially;  Mostly;  Meets Criteria -  Low Risk;  Medium Risk;  High Risk		

Cost Model Technical Assessment

The technical assessment included assessment of the PBAC cost model against ‘modelling better practice principles’ of fit-for-purpose; simplicity; clarity; design and consistency. The assessment included data inputs and assurance, model purpose and articulation⁴ and how the risk is managed for both cost model inputs and outputs. The model has met the policy and legislative objectives, and the program owners can influence the inputs or outputs of the model through engagement with the cost recovery team. Although the PBAC cost model’s design, functionality and technical consistency is assessed as sound, a number of minor suggested improvements were identified:

- model consistency (consistencies with data, formula validations, formatting and table structures between sheets)
- model formation (process of updating parameters and rolling over data is a simple and user friendly experience)
- model communication (so users can easily find key data points and summary of overall findings)
- model definition (so that key components of the cost model are clearly articulated, have specified purposes, and contribute to cost model functionality).
















Cost model documentation and supporting documentation (i.e., user guides) can be developed and these can all be considered as part of the PBS Program Review proposed for 2022-23. It was found

⁴ Articulation relates to key components of the model being clearly defined, having specified purpose and contributing to model functionality.

that risk associated with regulatory charging is managed through the charging risk assessment and the associated processes.

A summary of the assessment is described in Table 4.

Table 4: Summary of Cost Model Technical Assessment














Cost Model Technical Elements	Assessment	Risk
Better Practice Status		
Data Inputs and Assurance		
Model Purpose and Articulation		
Managing Risk		
 No Evidence;  Partially;  Mostly;  Meets Criteria -  Low Risk;  Medium Risk;  High Risk		

Alignment to the AGCF Assessment

The alignment to the AGCF assessment is a maturity assessment of the PBAC cost model against the requirements of the AGCF. This includes the combination of the cost model and technical assessments and how it links to policy authority, legal authority, minimum efficient costs, documentation, performance and risk assessment. Overall, it was found that the cost model aligns to most of the AGCF requirements. The alignment of expenses to revenue is materially accurate even though prices in 2021-22 are subject to indexation, rather than to reflect minimum efficient. It has robust external documentation and communication channels and assess risks through the appropriate documentation. It was found that the model appears to be consistent with the Government Policy direction, however it was not possible to sight the Government decision due to the May 2022 Federal Election affecting access to documentation. Overall risk against the AGCF alignment is assessed as low as most elements were met or partially met with documentary evidence and regular review.

A summary of the assessment is described in Table 5.

Table 5: Summary of AGCF Assessment

AGCF Elements	Assessment	Risk assessment
Policy Authority		
Legal Authority		
Minimum Efficient Costs		
Documentation		
Performance		
Risk Assessment		
		

Better Practice Methodologies

The scope of this review required that Callida consider better practice methodologies to feed into future updates to the PBAC cost model and to enhance the program. These are detailed below:

- Data collection and staff timings are essential inputs, which are combined with a range of other key components to develop an activity-based costing model. A better practice cost model may have the following attributes:
 - a detailed Activity Catalogue that identifies key activities, outputs and business processes or tasks across the PBS program and is used to record staff effort across all business processes at the respective APS classification, which produces a time yield per business process per single task occurrence
 - the calculation of direct salary costs based on the time yield per business process will result in a dollar yield per business process per single task occurrence. The allocation of other direct costs (e.g., supplier costs) linked to specific outputs, and the allocation indirect costs (e.g. overhead costs) using relevant proxies to business processes or outputs, will provide a fully burdened unit cost per output.
 - understanding and projecting volume and parameter data will drive the unit cost of an output into a program cost with relevant expenses and revenue models to manage this data
 - the ability to track alignment of expenses and revenue from specific business processes and outputs.
- Ongoing review of the PBAC cost model will:
 - ensure it is reflective of current processes and achieves principles of CRGs



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- ensure that business factors, including economic factors, and industry consultation appropriately inform volumes of PBAC activities.
 - Regular technical review of the PBAC cost model will drive:
 - internal consistency with data, formula validations, formatting and table structures between sheets
 - enhanced process of updating parameters and rolling over data
 - guidance for users to easily find key data points and summaries model outputs
 - up-to-date definitions, where key components of the cost model are clearly articulated, have specified purpose and contribute to cost model functionality.
 - Prices for the PBS activity outputs should be:
 - based, in the first instance, on the true unit cost of delivering each output
 - be moderated to the extent that is consistent with the Australian Government's policy decision in relation to the charging activity
 - set to ensure that expenses and revenue balance out over the business cycle of the activity.

Recommendations

As well as the better practice methodologies identified throughout the review, Callida identified four key recommendations Health could consider actioning to support the sustainability of the PBAC cost model and the PBS program. These are listed below:

Recommendation 1:

Confirm that the PBAC cost model will be reviewed and updated (as necessary) as proposed in 2022-23, including considering central documentation of parameters and assumptions in the PBAC Cost Model and supporting documentation (i.e., user guides).

Recommendation 2:

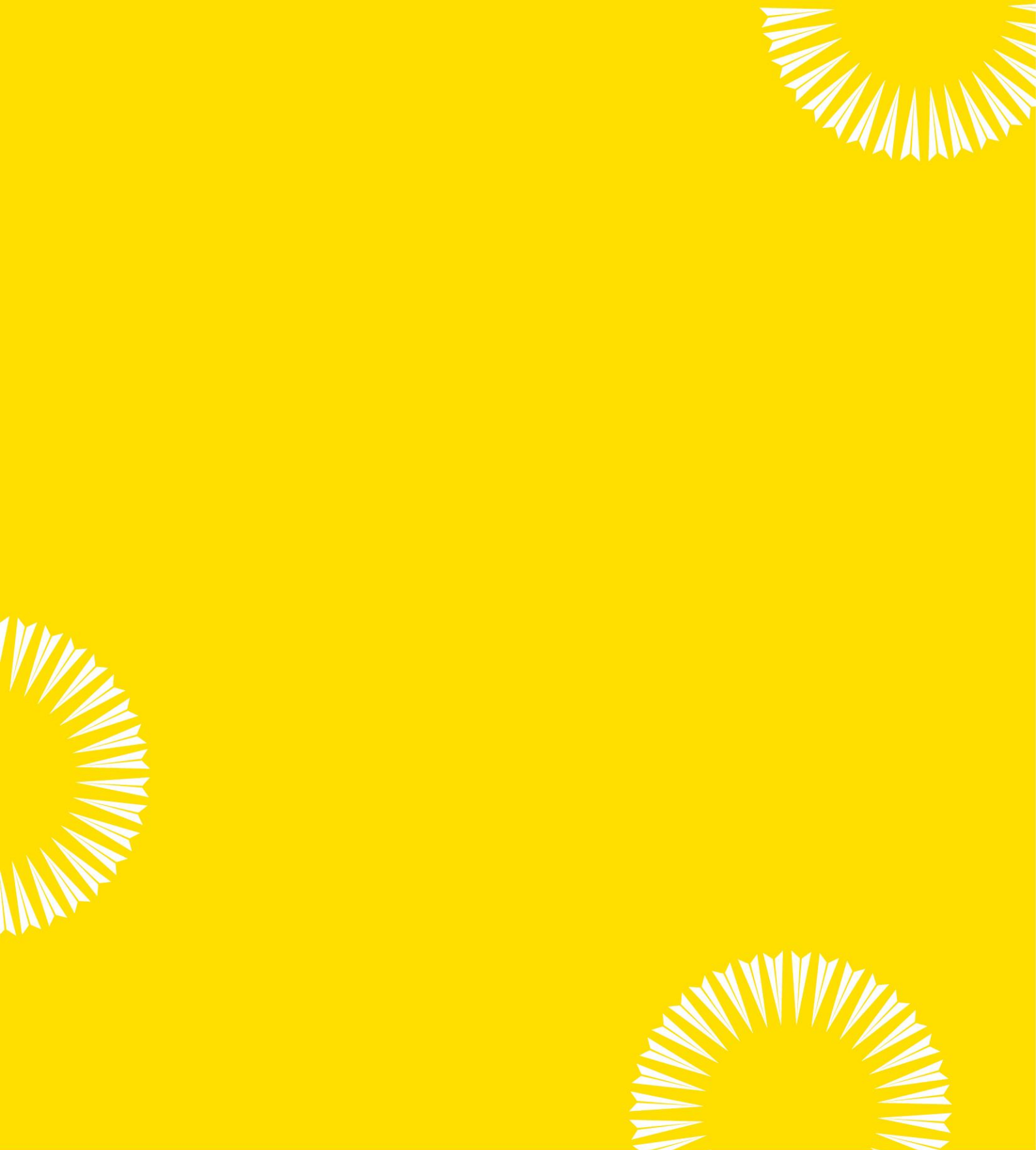
Ensure that mechanisms are in place so that where prices are set using an indexation mechanism, that they are also reflective of minimum efficient costs.

Recommendation 3:

Commit, publicly, to undertake a full cost model refresh during the 2022-23 financial year, with outcomes to be reflected in 2023-24 prices, except where legislative or policy issues are identified, and further Government consideration may be required.

Recommendation 4:

Consider whether the PBS CRIS adequately documents the stakeholder engagement strategy, including a summary of the latest engagement round – who was consulted and when, what their views were, and whether/how these views have been considered. Better practice would also identify planned consultation processes and mechanisms to be used to seek stakeholder feedback.



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