



4 October 2013

**Confidential**

Jennifer Phillips  
Assistant Director  
Chemotherapy Review Team  
Pharmaceutical Access Branch  
Department of Health and Ageing  
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**By Email**

Dear Ms Jennifer Phillips

**Data analysis services to support the review of chemotherapy funding**

I refer to the engagement of McGrathNicol by the Department of Health and Ageing (“the Department”) to provide data analysis services to support the Department’s review of chemotherapy funding in accordance with the Official Order dated 30 August 2013 under Deed of Standing Offer SON393462, and my letters of 16 September 2013 and 26 September 2013.

In accordance with the Official Order, the services to be provided were to:

- + review data provided by the Commonwealth to ensure the data is in a useable format and consistent with its purpose and with other applicable data sets;
- + where possible, comment on the adequacy of the data to enable the Department to make an informed decision; and
- + conduct analysis on the data and present the outcome in a graphical user friendly format.

The objective of the analysis was to determine the costs associated with the following four components of chemotherapy provision:

- + preparation costs (this component is the main focus of the objective);
- + dispensing / administration costs;
- + clinical services costs; and
- + other costs.

Please find enclosed an updated Cost Model prepared based on the data provided by the Department, which encompasses our performance of the above services, and incorporating amendments based on the Department’s feedback. We highlight our disclaimer within the attached Cost Model for the Department’s reference.

In addition to the enclosed Cost Model, I have provided below a summary of the outcomes with respect to each of the above matters.

**1 Review of the consistency and adequacy of the Data provided by the Commonwealth**

The Department provided 19 data sets for the purpose of undertaking analysis of the cost of the four identified components of chemotherapy provision.

McGrathNicol understands that each of the data sets represent an individual site undertaking chemotherapy related activities, and that the data sets are responses from each of the sites to a

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template issued by the Department requesting information with respect to costs applicable to chemotherapy related activities.

Based on a review of the template and the 19 data sets, we noted the following:

- + The template issued by the Department was designed prior to determining the cost components, and accordingly, was not set out in a format that is consistent with the cost components required to be considered in the analysis of the data. However, the template includes sufficient detail in cost categories to enable analysis to be undertaken in accordance with those components.
- + There were a number of consistency issues between individual data sets provided, including:
  - a number of the data sets included a greater level of detail than others;
  - a number of the data sets included only high level cost data, impacting the ability to analyse those data sets against particular cost components, and therefore against other data sets;
  - one data set was not completed in the standard format impacting the ability to analyse that data sets against any of the cost components, and therefore against other data sets; and
  - based on some of the commentary contained within the data sets, the interpretation of some of the categories of cost information sought varied across the data sets.
- + Most of the data sets did not provide commentary to describe the nature of the cost items reported.
- + The data sets are not supported by any verifiable documentation (such as internal management accounts or Audited Financial Statements). Accordingly, the accuracy of the data cannot be verified which may impact the reliability of any analysis based on the data sets.
- + There are a number of matters which may impact whether the data can be considered representative of the industry. If the data set is not able to be considered representative of the industry, it may impact the reliability of any analysis based on the data sets. These matters include:
  - the small number of data sets; and
  - that a number of the data sets appear to be part of group submissions which may impact the weighting of the average cost calculations.

Given the above matters, the ability for the Department to use analysis based on the data provided in making an informed decision with respect to an appropriate cost for chemotherapy provision could be improved by:

- + the use of a larger data set involving responses from a broader range of industry stakeholders across longer timeframe;
- + the use of a template specifically set up to be consistent with the objective, and purpose of the data and costs analysis; and
- + requiring the data provided by respondents to be substantiated by supporting documentation (such as internal management accounts or Audited Financial Statements).

As identified above, there are a number of matters identified which may impact the reliability of any analysis based on the data sets, and therefore the extent to which the data could be considered adequate to enable the Department to make an informed decision.

## 2 Analysis of the data sets provided by the Commonwealth

The Department requested that based on the analysis of the data provided, McGrathNicol undertake a calculation of the cost of the identified components of chemotherapy provision.

Based on the matters identified in Section 1 above, the data provided may not be considered adequate to enable an exact cost of the identified components of chemotherapy provision to be estimated. However, the data provided has been used to determine an approximate range with respect to the potential cost for the identified components of chemotherapy provision.

### 2.1 Disclaimer

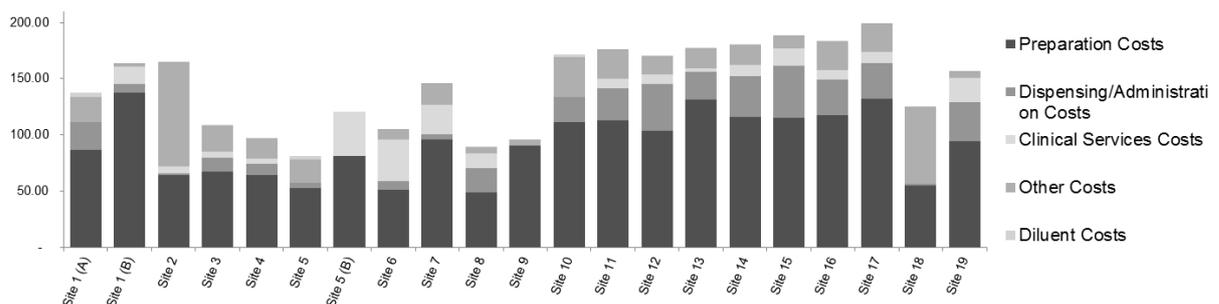
The analysis undertaken in the cost model is based only on the data provided by the Department of Health and Ageing. Except where specifically stated, we have not sought to establish the reliability of the sources of information presented to us by reference to independent evidence. We have not carried out an audit and accordingly an audit opinion has not been provided. The scope of our work is different from that of an audit and it cannot be relied upon to provide the same level of assurance as an audit. Furthermore, we reserve the right to amend the Cost Model and our analysis, if necessary, should any further information become available.

The cost model and this letter have been prepared exclusively for the use and benefit of the Department of Health and Ageing. Accordingly, it should not be used for any other purpose or provided to any third party in full, part or summary, except as required by law, without our prior written consent. In all circumstances, no representation, warranty or undertaking (expressed or implied) is made in relation to the Cost Model and no responsibility is taken or accepted by McGrathNicol for the adequacy, completeness or accuracy of it or the assumptions on which it is based and all liability is therefore expressly excluded.

### 2.2 Cost per infusion across the data set

Based on the data provided by the Department, the cost per infusion for each of the identified components of chemotherapy provision across the 19 sites in the data as shown in the Graph below:

Cost Per Infusion across the 19 Site Data-Set



### 2.3 Potential range of cost under the Pharmaceutical Benefits Scheme

In calculating a potential range of cost for the provision of chemotherapy services that is supported by the data from the 19 sites (referred to hereafter as the “Potential PBS Price”), it is important to consider the data sets that represent the total cost per infusion, including the cost of each component.

Accordingly, it possible to base the Potential PBS Price on:

- + all costs across the total data set;
- + only the costs for those sites in the data sets applicable to each of the cost components;
- + the cost for sites which undertake only Compounding activities plus the cost for sites undertaking only Clinical activities (excluding 3<sup>rd</sup> party compounding costs). This will represent the overall cost of the end to end process; or
- + only the cost for sites which undertake an integrated provision of chemotherapy (both Compounding and Clinical activities).

Additionally, in calculating a Potential PBS Price, the Department should give consideration to:

- + the Weighted Average Cost per Infusion (“WACI”), based on the number of infusions per annum; and
- + The Average Cost per Infusion (“ACI”), counting each data set equally in the average.

### 2.3.1 Calculation of a Potential PBS Price based on WACI

Table 1 below provides a summary of the relevant WACIs calculated in the Cost Model based on the data set:

Table 1: Weighted Average Cost per Infusion (“WACI”)

Component	Total Data Set \$ WACI	Applicable sites per component \$ WACI <sup>1</sup>	Compounding + Clinical sites \$ WACI <sup>2</sup>	Integrated Sites \$ WACI
Preparation	76.64	58.89	59.04	57.11
Dispensing/Administration	11.99	15.66	15.83	7.97
Clinical Services	11.59	12.14	33.31	5.79
Other	21.25	23.01	24.43	51.42
Diluent	1.63	2.51	3.63	0.30
<b>Total Costs</b>	<b>123.10</b>	<b>112.20</b>	<b>136.25</b>	<b>122.59</b>

Source: Cost Model, based on data sets provided by the Department

Based on the relevant WACIs in the Cost Model, the calculation presents a Potential PBS Price within a lower range of \$112.20 per infusion, and an upper range of \$136.25 per infusion.

<sup>1</sup> Each component cost is calculated separately based on the weighted average cost for those sites applicable to each component only. (e.g. sites that do not compound infusions in-house do not impact the calculation of preparation costs)

<sup>2</sup> This WACI is a combination of the WACI for sites which undertake only Compounding activities, and the WACI (excluding 3<sup>rd</sup> party compounding fees) for sites which undertake only Clinical activities.

### 2.3.2 Calculation of a Potential PBS Price based on ACI

Table 2 below provides a summary of the relevant ACIs calculated in the Cost Model based on the data set:

Table 2: Average Cost per Infusion (“ACI”)

Component	Total Data Set \$ ACI	Applicable sites per component \$ ACI <sup>3</sup>	Compounding + Clinical sites \$ ACI <sup>4</sup>	Integrated Sites \$ ACI
Preparation	91.92	73.27	85.30	60.01
Dispensing/Administration	18.79	21.84	31.62	9.34
Clinical Services	11.16	13.00	23.46	5.98
Other	22.33	21.92	31.80	41.41
Diluent	0.69	1.33	2.33	0.67
<b>Total Costs</b>	<b>144.90</b>	<b>131.35</b>	<b>174.50</b>	<b>117.41</b>

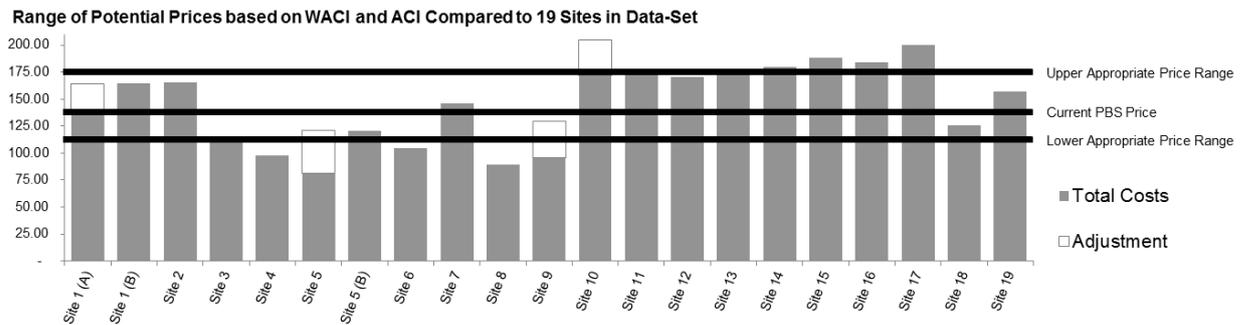
Source: Cost Model, based on data sets provided by the Department

Based on the relevant ACIs in the Cost Model, the calculation presents a Potential PBS Price within a lower range of \$117.41 per infusion, and an upper range of \$174.50 per infusion.

### 2.3.3 Potential PBS Price range

Based on the outcome from the analysis in the Cost model, a Potential PBS Price may be within a lower range of \$112.20 per infusion, and an upper range of \$174.50 per infusion.

The Graph below provides an overview of the upper and lower potential PBS Price range in comparison with the total cost per infusion for each of the data sets.<sup>5</sup>



As shown in the Graph above, the current PBS Price of \$137.66 per (including the \$60 interim payment) infusion is within the potential range indicated by the data provided by the Department.

<sup>3</sup> Each component cost is calculated separately based on the average cost for those sites applicable to each component only. (e.g. sites which do not compound infusions in-house do not impact the calculation of preparation costs)

<sup>4</sup> This ACI is a combination of the ACI for sites which undertake only Compounding activities, and the ACI (excluding 3<sup>rd</sup> party compounding fees) for sites which undertake only clinical activities.

<sup>5</sup> Site 1 (A), Site 5, Site 9 and Site 10 are all sites which only include the cost of Compounding activities. Accordingly, the total cost per infusion with respect to these sites is not comparable to the total potential PBS Prices, as they exclude the cost of Clinical activities. Accordingly, the total cost per infusion for these sites have been adjusted to incorporate a clinical services cost component, (shown separate to the Total cost, in White on the graph).

Further detail with respect to each of the components for chemotherapy provision, including the sub-components (such as device costs, corporate overheads and capital overheads) is included in the enclosed Cost Model.

If you have any questions with respect to the above matters, or the enclosed cost model, please contact Matthew Millwood on (02) 6222 1413 or Michael Dunnett on (02) 6222 1415.

Yours faithfully



McGrathNicol Advisory  
Contact: Shane O'Keeffe

Enclosure(s):

Cost Model – 131004 – Chemotherapy Data Analysis – Locked

Cost Model – 131004 – Chemotherapy Data Analysis – Inputs Unlocked