

Cost to PHARMAC of Implementing the Transparency Annex of TPP

Overview

This note summarises analysis done by PHARMAC, based on advice from the Ministry of Health and the Ministry of Foreign Affairs and Trade, on the estimated impact of implementing the Transparency and Procedural Fairness for Pharmaceutical Products and Medical Devices Annex to the Transparency and Anti-Corruption Chapter (“the Annex”) of the Trans-Pacific Partnership (TPP) agreement.

The analysis below outlines the estimated costs of operating new administrative procedures required under TPP. While these procedures will not change the PHARMAC model or its ability to fund, prioritise, approve or decline applications for funding pharmaceuticals, they do involve some cost to implement.

The actual operating cost to PHARMAC of implementing TPP is likely to be less than the estimates below, partly because PHARMAC may be able to absorb some of the activities required by the Annex within existing resources. When PHARMAC estimates, for example, that the impact of a provision would be an additional 0.20 FTE, this doesn’t mean that PHARMAC would necessarily hire an additional 0.20 FTE. In this situation, the cost of the provision could be met by applying existing resources to this new activity.

Comment on estimated costs

Commitment to consider funding applications within set timeframes

- TPP Parties have agreed to ensure that consideration of all formal applications is completed in a ‘specified timeframe’. An exception to this obligation has been included that allows this timeframe to be extended as long as reason for the extension is given.
- As a result of this provision, PHARMAC may need to consider some funding applications more quickly (although under TPP, PHARMAC retains the ability to determine how long this ‘specified timeframe’ should be), and it may need to make more decisions (rather than leaving applications open for future consideration).

Review mechanism

- TPP Parties have agreed to make available a review mechanism that applicants can elect to use if their application for funding is declined. The Government intends to run the review process internally, as provided for under the provisions of the Annex.
- PHARMAC has therefore estimated the costs associated with PHARMAC staff providing information to support this review function, and the costs associated with running the review process itself.

Information on Decisions

- The Annex also includes a number of provisions that promote transparency and consultation. These provisions reflect many existing PHARMAC processes and do not require new specific processes to be put in place. However, PHARMAC may decide in the future to implement new approaches that will support the continued operation of an efficient and effective system.

Other costs

- PHARMAC has also estimated some costs that relate to the implementation of the Annex as a whole. These include policy and project management costs, and the potential (though unlikely) costs associated with the possibility of a small number additional judicial reviews in the future, given there will be a number of changes to PHARMAC’s processes.

Breakdown of Estimated Costs

One-Off Establishment Cost Impacts

	One-Off Cost¹
<i>Commencing pre-ratification</i>	
Policy ²	\$200,000
Project Manager ³	\$200,000
Project Management Admin Support ⁴	\$23,200
IT Costs	\$200,000
<i>Commencing post-ratification</i>	
Legal costs in the first two years of implementation ⁵	\$3,875,000
Additional Board and PTAC costs	\$5,350
TOTAL	\$4,503,550

¹ May be spread over several financial years

² 1 FTE at \$100,000 x 2 (overhead)

³ 1 FTE at \$100,000 x 2 (overhead)

⁴ 0.20 FTE at \$58,000 x 2 (overhead)

⁵ Assumes five judicial reviews in the first few years of implementation

Ongoing Cost Impacts

	FTE	Cost per FTE	Overhead Adjustment	Ongoing Cost
Consideration of funding applications within set timeframes				
Therapeutic Group Manager (TGM)	2.50 FTE	\$100,000	2	\$500,000
Support Staff	0.50 FTE	\$58,000	2	\$58,000
Legal Staff	0.25 FTE	\$140,000	2	\$70,000
Health Economist	0.90 FTE	\$90,000	2	\$162,000
Management	0.10 FTE	\$200,000	2	\$40,000
Communications	0.40 FTE	\$100,000	2	\$80,000
Providing Information to Support Internal Review Function				
TGM	0.30 FTE	\$100,000	2	\$60,000
Support Staff	0.50 FTE	\$58,000	2	\$58,000
Legal	0.40 FTE	\$140,000	2	\$112,000
Communications	0.40 FTE	\$100,000	2	\$80,000
Running Internal Review Process⁶				
TGMs	0.70 FTE	\$100,000	2	\$140,000
Support Staff	1.00 FTE	\$58,000	2	\$116,000
Legal Staff	0.60 FTE	\$140,000	2	\$168,000
Health Economist	1.00 FTE	\$90,000	2	\$180,000
Communications	0.20 FTE	\$100,000	2	\$40,000
Management	0.20 FTE	\$200,000	2	\$80,000
Information on Decisions (if needed)				
TGM	0.5 FTE	\$100,000	2	\$100,000
Support Staff	0.5 FTE	\$58,000	2	\$58,000
Legal Staff	0.15 FTE	\$140,000	2	\$42,000
Other Ongoing Costs				
Support for working group				\$11,000
TOTAL ONGOING COSTS				\$2,155,000

⁶ PHARMAC may be able to operate the review process on a cost recovery basis

Summary of cost impacts

	One-Off Costs	Ongoing
TOTAL	\$4,503,550	\$2,155,000