GENERAL FORMULA FOR COSTING MEDICAL FEES

Fee = [Professional Component] + [Practice Cost Component]

$$F = [RVUs_s \times E_p] + [DC_s + OR_{p/s} + PI_{p/s} + WC_p]$$

$RVUs_s$ = Relative Value Units assigned to each item of service. RVUs are a function of total professional time T_{1s} and T_{2s} and relative service intensity or effort (I_s). Intensity of a service (I_s) is a function of relative complexity (C_s) and risk or "sweat" (S_s).

T_{1s} = Average efficient direct (face to face) service time by doctor.

T_{2s} = Average efficient indirect (non face to face) service time by doctor.

C_s = Relative complexity factor for that service.

S_s = Relative risk or "sweat" factor for that service.

E_p = Standard or base earning rate per RVU for that specialty or class of practitioner taking into account the human capital investment, including training, duration of professional working life etc. that is relevant to that specialty or class.

DC_s = Direct costs such as direct staff (technicians etc.), consumables, dedicated facilities etc. attributable to that service and based on reasonably efficient practice.

$OR_{p/s}$ = General overhead recovery attributable to that specialty -based on the financial modelling of reasonably efficient practice.

$PI_{p/s}$ = Professional indemnity recovery attributable to that specialty.

WC_p = Allowance for working capital based on representative cost/ billing/ payment cycle and levels of debtors and creditors.

NOTES

(1)   The above formula does not address "qualitative" (and largely subjective) factors such as the most cost effective process, or measurements of the relative worth of services, their social benefits etc.

(2)   Allowances for "profit", return on capital investment etc. are assumed to be built into relevant cost components.

(3)   The formula assumes that proper differentiation of services occurs so that globalisation is kept to a minimum.

(4)   "Cost neutrality" and changes in the growth or mix of services are not considered to be relevant to the individual fee setting process and are therefore not part of the formula.

(5)   In developing the professional component, complexity and risk loadings are not applied linearly to total time ($T_{1s} + T_{2s}$) but lie in varying relationships to direct time (T_{1s}) depending on the nature of the service. The functional relationship between time and intensity is determined from the ranking and rating process.

(6)   The recovery of general practice overheads ($OR_{p/s}$) and professional indemnity costs ($PI_{p/s}$) in fees should not be dismissed lightly as being simple percentage mark-ups on the professional component. There are complex costing issues (such as possible differentials between services provided in and out of rooms) that must be addressed otherwise distortions in fee relativities may result.

(7)   It is critical that all variables are accurately identified in order that any future changes or indexation are properly applied to ensure that the relativities between fees for items remain reliable.