

# Cost recovery related increase in fees

In adjusting fees to meet operational expenses, in terms of section 4(zG) of the Pharmacy Act 53 of 1974, effort is always made to minimise costs and keep any adjustment reasonable.

Council is self-funding and non-profit making, and all fees are generated from services offered. In coming up with an adjustment of fees for the year 2014, a process analysis exercise to facilitate full cost recovery was done on once-off applications, registrations, and providers' monitoring inspections. The analysis was not only to ensure effectiveness and efficiency but also sustainability in offering the services and the removal of cross subsidisation that would lead to higher increases in all annual fees.

In any organisation, a full cost recovery exercise is meant to recoup the full cost of delivering a service to a customer. The service is analysed to obtain an understanding of the process components involved in providing the service, i.e. the people, time and material required to satisfy the customer's need. After analysing the process components, costs are assigned to them, taking into account the time, labour and material requirements of each component. Using 'providers of education and training' as an example, the analysis to determine the annual fee payable by them to cater for a monitoring inspection focused on understanding the number of experts required to conduct the inspection,

the time and costs involved, and the frequency of inspections. The analysis included examining ways to enhance each process through the efficient use of resources and effective cost management.

The following two simplified examples explain the full cost recovery process.

## Example 1 – Monitoring inspection

Assume it costs R100,000 to send a team of experts to conduct a monitoring inspection at a provider of the Bachelor of Pharmacy qualification (BPharm), and an inspection has to be conducted every four years. In this case the annual fee for the provider of a BPharm qualification is calculated by dividing the total cost of R100,000 by four, which works out to R25,000 per annum towards a monitoring inspection conducted every four years.

## Example 2 – Once-off application

Assume that three separate procedures, necessitating three different people (A, B and C), are required to process an application, commencing with its receipt through to its approval. Due to the different skills and input required in processing the application, varying numbers of hours and labour rates apply, as indicated in the table below. Presume that additional costs (e.g. material, electricity, courier) to be factored in for each application amount to R100. Using this example, the cost of processing the application would amount to R254.24.

Person	Time taken in hours	Labour rate per hour in Rand	Calculations of input cost	Cost in Rand
A	0.25	48.08	R96.15 x 0.33	32.05
B	0.20	72.11	R120.19 x 0.42	50.08
C	0.15	86.54	R144.23 x 0.50	72.11
Other costs				100.00
Application or registration cost				R254.24

## Advantages

The full cost recovery analysis has ensured that monitoring inspections and once-off applications processes are enhanced and not subsidised by annual fees paid by other registered persons.

The remaining registered persons' annual fee adjustment for the year 2014 has been linked closely

to inflation. The annual fee adjustments will ensure the sustainability of operations and the enhancement of services to the members of the profession and public. A good example of this is the recently developed Council website that affords members remote access to update member details and pay fees anytime, anywhere.

