Life cycle costing of MRI machine at a tertiary care teaching hospital

Anupam Sahu, Vikas H¹, Nishant Sharma¹
Army Medical Corps, Department of Hospital Administration, AIIMS, New Delhi, India

Correspondence: Dr. H Vikas, Department of Hospital Administration, AIIMS, New Delhi - 110 029, India.
E-mail: vickygaddi@gmail.com

Abstract

Background: Life cycle costing (LCC) is an excellent decision-making tool that can assist a hospital administrator in seeking more cost-effective decisions to select the best course of action. LCC can be defined as "an economic assessment of competing design alternatives, considering all significant costs of ownership over the economic life of each alternative, expressed in equivalent rupees.

Aim: To determine the LCC of magnetic resonance imaging (MRI) machine at a tertiary care teaching hospital.

Settings and Design: A descriptive, observational study in MRI scan center of a tertiary care teaching hospital.

Materials and Methods: LCC analysis (LCCA) was performed to ensure total cost visibility for the entire life span of the MRI scan equipment, which was assumed to be 10 years.

Statistical Analysis: Data were analyzed using MS Excel.

Results and Conclusions: The total cost per MRI scan was calculated to be Rs. 2944. It was estimated that the MRI scan center would reach the break-even point by the end of the third year.

Key words: Break-even point; cost effectiveness; life cycle cost; MRI Centre; MRI costing

Introduction

Life cycle costing (LCC) is defined in the International Organization for Standardization standard, as an “economic assessment considering all agreed projected significant and relevant cost flows over a period of analysis expressed in monetary value. The projected costs are those needed to achieve defined levels of performance, including reliability, safety, and availability.”¹

LCC is an excellent decision-making tool that can assist a hospital administrator in seeking more cost-effective decisions to select the best course of action. LCC can be defined as “an economic assessment of competing design alternatives, considering all significant costs of ownership over the economic life of each alternative, expressed in equivalent rupees”.²

In the context of sustainable public procurement (SPP), the use of LCC is essential to demonstrate that procurement processes and decisions have to move beyond considering the purchase price of a good or service because the latter does not reflect the financial and non-financial gains that are offered by environmentally and socially preferable assets as they occur during the life cycle of the asset.

Typical LCC analyses are based on:
• Purchasing and all associated costs such as delivery, installation, commissioning, and insurance
• Operating costs including utility costs such as energy, water, and maintenance costs

This is an open access journal, and articles are distributed under the terms of the Creative Commons Attribution-NonCommercial-ShareAlike 4.0 License, which allows others to remix, tweak, and build upon the work non-commercially, as long as appropriate credit is given and the new creations are licensed under the identical terms.

For reprints contact: WKLHRPMedknow_reprints@wolterskluwer.com
• End-of-life costs, such as removal, recycling, refurbishment, and decommissioning
• Longevity and warranty time frames of the asset.

LCC analysis (LCCA) can explore trade-offs between low initial costs and long-term cost savings and identify the most cost-effective system for a specific setting. In addition, it can also determine how long it will take for a specific system to “pay back” its incremental cost. Since creating an exhaustive LCC estimate for every potential element is not practical, the guidelines for LCCA focus on features and systems most likely to impact long-term costs.[3] Considering all the above inputs, a study was carried out to analyze LCC of 1.5 Tesla magnetic resonance imaging (MRI) scan facility to evolve a decision matrix for cost-effectiveness analysis of the future technology.

Aim
LCC of MRI machine at a tertiary care teaching hospital.

Objectives
(a) To determine the unit cost of the scans conducted at the MRI scan center
(b) To calculate the break-even point for 1.5 Tesla MRI machine in the scan center
(c) To conduct cost-effectiveness analysis using LCC method for MRI machine.

Scope
Due to constraints of time and resources, all types of MRI scans carried out were clubbed together while calculating the unit cost and no attempt was made to calculate the unit cost of various types of MRI scans.

Materials and Methods

It was a descriptive and observational study. Direct observations were made to determine the entire process of carrying out an MRI Scan. The following records were also reviewed:
(a) Standard Operating Procedures (SOPs)
(b) Various policy letters
(c) Financial documents for technology acquisition
(d) Miscellaneous records.

Further, the staff of the MRI facility was interviewed to ascertain the organization, staffing, and functioning of the center.

Costing method
The operating costing method was used to estimate unit cost per scan, which was derived by calculating and adding the fixed and variable costs.

Fixed cost-The following contributed to the fixed cost
a. Salary
b. Cost of building
c. Maintenance costs of building
d. Cost of equipment
e. Equipment maintenance cost.

Variable cost
The variable costs incurred during an MRI scan included the following-
(a) Films and Contrast cost
(b) Consumables (stationery, drugs, medical supplies and cleaning materials)
(c) Cost of electricity
(d) Cost of diesel.

Life cycle cost analysis
LCCA was performed to ensure total cost visibility for the entire life span of the MRI scan equipment, which was assumed to be ten years. Cost inputs were divided into the fixed and variable cost for determining the unit cost of MRI scan and for carrying out break-even analysis.

The “time value of money” states that money received at a different time is not equally valuable. For a comprehensive analysis of the technology, a discounted cash flow technique of net present value (NPV) was employed. Costs for each year in the life cycle of the MRI equipment were discounted to the NPV.

A discounting factor of 10% which was compounded annually was taken for the study. Cost in respect of cash flow for each year of the life cycle was multiplied by the discounting factor (worked out from a standardized annuity table) to arrive at the present value of the cash flow.

Results

Calculation of unit cost of MRI scan
The unit cost of MRI scan performed on the equipment was arrived at by calculating the cost of each item consumed during the scan.

A. Fixed Cost
a) Manpower Cost = Total monthly salary of staff
Average number of scans per month

=360104/413 = Rs 872/-

b) Cost of Building
Documents of the turnkey projects were perused and cost of the building was ascertained to be Rs 65, 36,000/-. The life of the building was assumed to be 100 years.

Cost of building per year = 65, 36,000/100 = 65, 360/-

Hence, Cost of building per scan = 65, 360/number of scans per year
c) Maintenance Costs of Building

The annual cost of Building/Repair and Electrical/Mechanical maintenance for MRI center was Rs. 29,487.

Maintenance cost per scan \(= \frac{29487}{4957} = \text{Rs. 5.95} \)

d) Cost Profile of Equipment as in Table -1.

e) Cost Analysis of Comprehensive Maintenance Cost (CMC) as in Table – 2.

Out of 10 years’ life of MRI equipment, the first 5 years were under warranty and the next 5 years under Comprehensive Maintenance Cost (CMC). According to the contract, the amount of CMC was increased by 5% each year.

The cost of CMC per scan was calculated to be Rs. 20.

B. Variable Costs

a. Cost of MRI Laser film

Cost of the 14” × 17” laser film which was most commonly used for the scans was taken into consideration. This cost was Rs 13,114 for a pack of 125 films. Hence the cost per film was Rs 105. The annual consumption of films was 4788 leading to an annual expenditure of Rs 5,02,740 on films. Hence, the cost of laser film per scan was Rs 101.

b) Electricity as in Table – 3.

c) Cost of Diesel for DG set as in Table – 4.

d) MR Contrast Agent as in Table -5.

Gadolinium-based MR contrast was used only in contrast studies and angiographies. The total annual consumption of contrast was calculated to be 2684ml. The cost per 10 ml vial of Inj Gadolinium was Rs. 750. Hence, the annual cost on contrast was Rs 2,01,300. Based on historic data from the MRI scan center, it was seen that on an average there are 60% plain and 40% contrast MRI scans. Annual MRI scans for the year under study were 4957 (2974 plain scans + 1983 contrast scans).

Cost of Inj Gadolinium per contrast scan \(= \frac{201300}{1983} = \text{Rs. 102} \)

Combined film and contrast cost per scan \(= \frac{101 \times 2974}{4957} + (203 \times 1983) = \text{Rs. 142 per scan} \)

Table 1: Cost of MRI equipment

<table>
<thead>
<tr>
<th>S. No</th>
<th>Cost of Equipment</th>
<th>Cost (INR)</th>
</tr>
</thead>
<tbody>
<tr>
<td>(a)</td>
<td>Total installation cost</td>
<td>75,00,00,000/-</td>
</tr>
<tr>
<td>(b)</td>
<td>Cost of machine per year(^*)</td>
<td>75,00,000/-</td>
</tr>
<tr>
<td>(c)</td>
<td>Cost of equipment per scan</td>
<td>75,00,000/4957 = Rs. 1513/scan</td>
</tr>
</tbody>
</table>

\(^*\)assuming the life of MRI machine to be 10 years

Table 2: Cost of comprehensive maintenance contract

<table>
<thead>
<tr>
<th>S. No</th>
<th>Years</th>
<th>Annual Cost</th>
</tr>
</thead>
<tbody>
<tr>
<td>(a)</td>
<td>First 5 yr (warranty period)</td>
<td>Nil</td>
</tr>
<tr>
<td>(b)</td>
<td>6th yr</td>
<td>176000</td>
</tr>
<tr>
<td>(c)</td>
<td>7th yr</td>
<td>184000</td>
</tr>
<tr>
<td>(d)</td>
<td>8th yr</td>
<td>194040</td>
</tr>
<tr>
<td>(e)</td>
<td>9th yr</td>
<td>203742</td>
</tr>
<tr>
<td>(f)</td>
<td>10th yr</td>
<td>213929</td>
</tr>
<tr>
<td>(g)</td>
<td>Total</td>
<td>9,72,511</td>
</tr>
<tr>
<td>(h)</td>
<td>Cost of maintenance per yr</td>
<td>97,251</td>
</tr>
<tr>
<td>(i)</td>
<td>Cost of maintenance per scan</td>
<td>97251/4957 = Rs. 20</td>
</tr>
</tbody>
</table>

Table 3: Cost of electricity

<table>
<thead>
<tr>
<th>S. No</th>
<th>Cost Element</th>
<th>Equipment</th>
</tr>
</thead>
<tbody>
<tr>
<td>(a)</td>
<td>Annual consumption</td>
<td>196352 KWH</td>
</tr>
<tr>
<td>(b)</td>
<td>Annual cost of Electricity</td>
<td>196352 × 7.88 = 15,47,254</td>
</tr>
<tr>
<td>(c)</td>
<td>Cost of electricity per Scan</td>
<td>15,47,254/4957 = Rs 312</td>
</tr>
</tbody>
</table>

Table 4: Cost of diesel

<table>
<thead>
<tr>
<th>S. No</th>
<th>Cost Element</th>
</tr>
</thead>
<tbody>
<tr>
<td>(a)</td>
<td>Average monthly consumption</td>
</tr>
<tr>
<td>(b)</td>
<td>Monthly cost of diesel @ 64 per litre</td>
</tr>
<tr>
<td>(c)</td>
<td>Cost of diesel per scan</td>
</tr>
</tbody>
</table>

e. Consumable Cost

Total consumables cost which per scan was calculated to be Rs 15.49 per scan.

BEP analysis

BEP is defined as “The point at which total cost incurred becomes equal to the total revenue generated over the years”. It is calculated using the following formula.

\[
\text{Break Even Point (BEP)} = \frac{\text{Fixed Cost}}{(\text{Selling Price} - \text{Variable Cost})/\text{unit}}
\]

(a) Fixed cost was taken as the Cost of equipment and CMC cost.

(b) Selling price/unit: The selling price was a virtual or notional figure since no revenue was actually been generated. For the BEP calculation, the existing government rates were considered:

i. Plain MRI scan = Rs 5000/-
ii. Contrast MRI Scan = Rs 8000/-

(c) For calculation of average selling price per unit, as mentioned earlier, the MRI scans for the year under study were 4957 (2974 plain scans + 1983 contrast scans).

(d) Hence, average selling price/unit scan is calculated as under:

\[(2974 \times 5000) + (1983 \times 8000) = Rs \ 6200/\ 4957\]

(e) **Variable costs**: Variable cost per unit scan was calculated to be Rs. 519.

**Calculation of BEP as in Table – 6.**

**Break-Even Point (BEP) = \( FC \div (SP – VC) / unit \)**

\[BEP \ (Qty) = 7,59,72,511/(6200 – 519) \]

\[= 13,373 \text{ units}\]

Thus, for 1.5 Tesla MRI machines, the center shall break even towards the end of the third year.

**Table 5: Total cost incurred per MRI scan**

<table>
<thead>
<tr>
<th>Common Cost Element</th>
<th>Fixed Cost</th>
<th>Variable Cost</th>
<th>Cost/scan (Rs)</th>
</tr>
</thead>
<tbody>
<tr>
<td>(a) Labour cost</td>
<td>872</td>
<td></td>
<td></td>
</tr>
<tr>
<td>(b) Building cost</td>
<td>13.18</td>
<td></td>
<td></td>
</tr>
<tr>
<td>(c) Building maintenance Cost</td>
<td>5.95</td>
<td></td>
<td></td>
</tr>
<tr>
<td>(d) Films and contrast costs</td>
<td>142</td>
<td></td>
<td></td>
</tr>
<tr>
<td>(e) Cost of Consumables</td>
<td>15.49</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

\[\text{Cost/scan (Rs)} = 1049\]

**Specific Cost Element**

<table>
<thead>
<tr>
<th>Fixed Cost</th>
<th>Variable Cost</th>
<th>Cost/scan (Rs)</th>
</tr>
</thead>
<tbody>
<tr>
<td>(f) Cost of equipment</td>
<td>1513</td>
<td></td>
</tr>
<tr>
<td>(g) Cost of equipment maintenance</td>
<td>20</td>
<td></td>
</tr>
<tr>
<td>(h) Electricity</td>
<td>312</td>
<td></td>
</tr>
<tr>
<td>(i) Diesel cost</td>
<td>50</td>
<td></td>
</tr>
</tbody>
</table>

\[\text{Cost/scan (Rs)} = 1895\]

\[\text{Unit cost per scan (Total- (A)+(B))} = 2944\]

**Discussion**

In a study conducted by Chakravarty A. and Debnath J., the unit cost per MRI was found to be Rs. 4244.58 (1.5 T upgrade) and Rs. 6059.37 (3 T MRI). The LCCA also revealed that the NPV of the 1.5 T upgrade and new 3 T machine was Rs. 42,148,587.80 and Rs. 27,587,842.38, respectively. In our study, the unit cost per scan was calculated to be Rs. 2944.00, which was considerably lower compared to this study. For our equipment, the NPV was calculated to be Rs. 66,776,174 at the end of 10 years.

A study was conducted by Khurshid Rehana et al. to estimate the unit cost of various radiological investigations in a large tertiary care teaching institute in north India. The authors included direct and indirect costs but did not adopt LCC method and recorded that the unit cost of an MRI scan was Rs. 4497.50, which was approximately 50% more than the unit cost calculated in our study.

In another study, Col A Chakravarty and Col SS Naware calculated the unit cost of an MRI scan to be Rs 3,875 (Plain) and Rs 4,129 (Contrast), which was higher as compared to our study, Rs 2,944 (Plain) and Rs 3,086 (Contrast). a. **LCC should be an integral part of SPP policies.** Since resource allocation and the budget setting is undertaken at a higher level in the organization than routine procurement decision-making, “whole life value thinking” will begin to permeate all public spending decisions.

b. **The management officials responsible for public expenditure policy should be provided with the necessary tools, platforms, budgets, and expertise to perform this analysis in a cost-effective manner.**
Sahu, et al.: Life cycle costing of MRI

Table 7: LCCA of MRI equipment

<table>
<thead>
<tr>
<th>S. No.</th>
<th>Year</th>
<th>Number of Scans</th>
<th>Cash Flow</th>
<th>Cash inflow</th>
<th>DF (10%)</th>
<th>PV (Benefits)</th>
<th>Cost</th>
<th>PV 99 (Costs)</th>
</tr>
</thead>
<tbody>
<tr>
<td>(a)</td>
<td>1st</td>
<td>3500</td>
<td>21700000</td>
<td>0.909</td>
<td>19725300</td>
<td>1816500</td>
<td>1651199</td>
<td></td>
</tr>
<tr>
<td>(b)</td>
<td>2nd</td>
<td>3850</td>
<td>10010000</td>
<td>0.926</td>
<td>8268260</td>
<td>1998150</td>
<td>1650472</td>
<td></td>
</tr>
<tr>
<td>(c)</td>
<td>3rd</td>
<td>4235</td>
<td>11011000</td>
<td>0.751</td>
<td>8269261</td>
<td>2197965</td>
<td>1650672</td>
<td></td>
</tr>
<tr>
<td>(d)</td>
<td>4th</td>
<td>4659</td>
<td>12113400</td>
<td>0.683</td>
<td>8273452</td>
<td>2418021</td>
<td>1651508</td>
<td></td>
</tr>
<tr>
<td>(e)</td>
<td>5th</td>
<td>4659</td>
<td>12113400</td>
<td>0.621</td>
<td>7522421</td>
<td>2418021</td>
<td>1501591</td>
<td></td>
</tr>
<tr>
<td>(f)</td>
<td>6th</td>
<td>4659</td>
<td>12113400</td>
<td>0.564</td>
<td>6831958</td>
<td>2418021</td>
<td>1363764</td>
<td></td>
</tr>
<tr>
<td>(g)</td>
<td>7th</td>
<td>4659</td>
<td>12113400</td>
<td>0.513</td>
<td>6214714</td>
<td>2418021</td>
<td>1240445</td>
<td></td>
</tr>
<tr>
<td>(h)</td>
<td>8th</td>
<td>4659</td>
<td>12113400</td>
<td>0.467</td>
<td>5656958</td>
<td>2418021</td>
<td>1129216</td>
<td></td>
</tr>
<tr>
<td>(i)</td>
<td>9th</td>
<td>4659</td>
<td>12113400</td>
<td>0.424</td>
<td>5136082</td>
<td>2418021</td>
<td>1025241</td>
<td></td>
</tr>
<tr>
<td>(k)</td>
<td>10th</td>
<td>4659</td>
<td>12113400</td>
<td>0.386</td>
<td>4675772</td>
<td>2418021</td>
<td>933356</td>
<td></td>
</tr>
<tr>
<td>(X)</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>80573638</td>
<td>13797464</td>
<td></td>
</tr>
<tr>
<td>(Y)</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Net Present Value (Rs)</td>
<td>66,776,174</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Conflicts of interest
There are no conflicts of interest.

References