

24 August 2007

The Reviewer
Review of Physiotherapy Services
BY EMAIL

Dear Mr Goddard/Ms Salter,

DELOITTE SUBMISSION ON DRAFT REPORT OF REVIEW OF PHYSIOTHERAPY SERVICES

Introduction

Deloitte has reviewed the draft report released by the Reviewer dated 23 July 2007 entitled "Review of the Way in Which Physiotherapy Services are Funded and Accredited by ACC ("the Draft Report").

The purpose of this letter is to outline submissions that Deloitte would like to make to the Reviewer in respect of the Draft Report. Our submissions are detailed below and are referenced to the appropriate paragraphs of the Draft Report.

1. Reference to hourly rate of not less than \$138 per hour (excl GST) – referenced throughout report:

We note that the Draft Report refers to the modelling suggesting a sustainable hourly rate of not less than \$138 per hour (excl GST). The \$138 per hour (excl GST) figure was a figure detailed in the Deloitte/KPMG report provided to the Reviewer in June 2007 after a number of modelling changes were made ("the Deloitte/KPMG report").

Deloitte do not consider this to be the minimum hourly rate. This is because there were changes that were made to the model that are based on assumptions that needed to be further tested. Specifically an assumption was made in relation to the capital base of a practice being set at \$175,000 (an increase from an average capital base of approximately \$57,000 in the original modelling work based on the actual sample practice data). The capital base of a practice has a relatively large impact on price as it affects the depreciation expense of a practice as well as the ROI and goodwill calculations in the model.

Deloitte stated in the Deloitte/KPMG report that the assumption of the capital base of \$175,000 per practice needs to be further tested to check whether this is an appropriate amount (see pages 20 and 31 of the Deloitte/KPMG Report). We recommend that further work needs to inform what is an appropriate capital base of a physiotherapy practice to be used in the modelling – this could be undertaken by consultation with physiotherapy practices and with ACC.

If the sustainable capital base of a practice is set at an amount lower than \$175,000 then the modelled cost per hour would be less than \$138 per hour (excl GST).

2. Earnings of Physiotherapists Employed in Private Practice – paragraph 5.29 of the Draft Report

Paragraph 5.29 of the Draft report makes the comment that the “figures for sustainable hourly rates set out above [not less than \$138/hour excl GST] assume that ... owners of physiotherapy businesses that are reasonable efficient should on average expect to earn the same as physiotherapy managers in the public sector...”.

The modelling undertaken by Deloitte and KPMG however allows for greater returns to private practice owners of physiotherapy businesses. This is because the modelling provides a business owner salary, which is on average the same as physiotherapy managers in the public sector, but also a return on investment in the capital assets and goodwill of the practice.

For this reason the modelling actually allows a greater total remuneration to private practice business owners (salary plus return on investment) than is paid to physiotherapy managers in the public sector. We therefore suggest that paragraph 5.29 of the Draft Report be amended to reflect this point.

3. Time per Consult – paragraph F14 of the Draft Report

Deloitte would like to suggest a minor amendment to paragraph F14 of the Draft Report. Currently that paragraph reads “...Deloitte assumed an equal number of simple and complex consultations occurred whereas in reality the vast majority of visits were simple (and therefore shorter)”.

The original analysis by Deloitte did not assume an **equal** number of simple and complex consultations but rather used a consult time in the model based on data provided by NZSP. The ratio did not assume an **equal** number of regulation simple and complex consultations but instead assumed a ratio of simple and complex consultations that was different from the ratio of simple and complex consultations for EPN consults. In the later modelling undertaken by Deloitte/KPMG the consult times for regulation consults was changed to preserve the same ratio of simple and complex consultations for both EPN and regulation consults.

If you would like to discuss any of the above comments please contact either Andrew Gibbs on 04 470 3639 or Tim Richards on 04 470 3697.

Yours sincerely



Andrew Gibbs
Partner



Tim Richards
Associate Director