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5 REVIEW OF THE WAY IN WHICH PHYSIOTHERAPY SERVICES  
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8 ARE FUNDED AND ACREDITED BY ACC  
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12 Transcript of Proceedings  
13 of  
14 Meeting on Further Work by Joint Experts on the  
15 Costs and Pricing of Physiotherapy Services  
16

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19 Before  
20 David Goddard, QC, Chairman  
21

22 at  
23

24 Level 5 Conference Room  
25 Department of Labour  
26 Unisys House, 56 The Terrace  
27 Wellington  
28

29 Thursday, 13 September 2007  
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1 CHAIRMAN: Right, to help Marie who is going to  
2 transcribe this, I think we should go around the  
3 table and just do a quick introduction by way of  
4 voice check. So this is David Goddard.

5 MS SALTER: Diane Salter.

6 MR GIBBS: Andrew Gibbs from Deloitte.

7 MR RICHARDS: Tim Richards from Deloitte.

8 MR BARNES: Michael Barnes from KPMG.

9 MR TAYLOR: Martin Taylor, barrister.

10 MS LEACH: Gail Leach, NZSP.

11 MS DAVIE: Kirstin Davie, NZSP.

12 MS HUNT: Clare Hunt, NZPPA.

13 MS DYSART: Amanda Dysart, ACC.

14 MS O'CONNELL: Anne O'Connell, ACC.

15 MR MORRIS: And Kevin Morris, ACC.

16 CHAIRMAN: And I suspect that we should also try to  
17 remember -- sorry, on the phone we have.

18 MR HAYHOW: Graham Hayhow, Auckland Private  
19 Practitioners.

20 MR HOOD: And Malcolm Hood, Physiotherapy Trust.

21 CHAIRMAN: Right. Welcome everyone. Thank you for  
22 reassembling for what I anticipate will be a  
23 reasonably brief discussion.

24 I was just about to say -- before I remembered  
25 our virtual participants and the need to do a  
26 voice check for them -- that we should also  
27 probably try to just mention who is talking before  
28 we start, to help Marie, as well.

29 I think the focus of this should be on  
30 reporting back by our experts. I am very grateful  
31 to them for the time and thought they have put in,  
32 once again, to help me navigate through these  
33 issues.

34 I have got a number of questions arising out  
35 of this, but perhaps we could just begin with a  
36 quick progress report. Where are we up to?

37 MR RICHARDS: The work, in terms of the questions has  
38 been complete, apart from question 2, which is  
39 return on investment.

40 Deloitte has submitted a draft answer to KPMG

1 on that which they are currently considering, so  
2 between us we both feel that we are not in a  
3 position to discuss that due to having not  
4 directly reached any conclusions between ourselves  
5 at this point.

6 CHAIRMAN: Do you have a likely timeframe by which you  
7 will be able to comment on that issue?

8 MR RICHARDS: I will pass that to my KPMG colleague,  
9 Michael.

10 MR BARNES: The hold-up, in a sense, is the fact that  
11 Troy is out of the country at the moment. So  
12 depending on the timeframes, he is back on  
13 Saturday, so if we can get both Troy and Alan Dent  
14 together in the same room Monday, we should be  
15 able to resolve it then.

16 MR RICHARDS: Alan Dent being the Deloitte partner,  
17 Troy's been liaising on the return on investment  
18 with.

19 CHAIRMAN: That's good. Thank you.

20 So on the other answers, do you want to  
21 introduce that? I think it's mostly  
22 self-explanatory, but if there is anything you  
23 would like to draw to my attention, perhaps you  
24 could do that, Tim?

25 MR RICHARDS: Yes. What I thought I would do is just  
26 go through them in order, and I think the best  
27 approach would be for us to potentially answer  
28 questions as we go along, because I don't think  
29 there's any benefit in just going through all the  
30 numbers in the tables.

31 But if I can start with question 1, and that  
32 is in relation to the benchmark hourly rate, and  
33 do we agree that the suggested adjustment by ACC  
34 is correct?

35 Deloitte and KPMG believe that there has been  
36 some misunderstanding in respect of that hourly  
37 rate benchmark and therefore don't agree with the  
38 suggested adjustment.

39 The confusion, I think, arises from what the  
40 rates are actually used in the model. The EPN 1

1 and 2 rate is actually 30 minutes and 20 minutes.  
2 An adjustment was only made to the regulation  
3 initial and regulation follow-up consults,  
4 therefore we stand by the information which was  
5 provided, I believe, towards -- on about the 12th  
6 of July -- in respect of the table which is  
7 presented on that first page.

8 CHAIRMAN: So when I am comparing the model results  
9 with the status quo, this is the corresponding  
10 number?

11 MR RICHARDS: Yes.

12 CHAIRMAN: Yes. Can I just check with Dr Morris, are  
13 you comfortable that that has been cleared up? It  
14 looked to me, when I looked at your notice, that  
15 that might be right as well, so it's very helpful  
16 to have this clarified, I think.

17 MR MORRIS: Yes, ACC is comfortable with that position.

18 CHAIRMAN: That's good. Thank you. So that's good.  
19 We have a benchmark. Now I have a question about  
20 that. These are 2007 to 2008 EPN figures, it's my  
21 understanding, in the price column. So this  
22 \$103.22 must be a 2007/2008 hourly rate, correct?

23 MR MORRIS: Yes.

24 CHAIRMAN: What are all the other hourly rates in this  
25 report? What year dollars?

26 MR RICHARDS: The prices are 2007 and 2008.

27 CHAIRMAN: So these are all directly comparable.

28 MR RICHARDS: Was it 2006 and 2007?

29 CHAIRMAN: I was worried that it might be 2006/2007  
30 because it started --

31 MR RICHARDS: It is 2006/2007. It is 2006/2007.

32 CHAIRMAN: So we haven't actually got direct  
33 comparability, still; is that right?

34 MR RICHARDS: I think what we do have is comparability  
35 with what the exercise started out doing, and we  
36 started adding GS to it, what you have  
37 potentially, in terms of the previous work that  
38 has gone on, you know, comparability with what was  
39 in the original Deloitte report, keeping at those  
40 figures allows for that.

1 CHAIRMAN: Yes, it is just that I can't compare that  
2 directly to \$103.22, can I?

3 MR RICHARDS: Not directly, no.

4 CHAIRMAN: No. And I really would quite like to know  
5 what the direct implication is, what rates we'd be  
6 getting for 2007/2008 from the modelling exercise  
7 and how that would compare with this \$103.22.

8 Would it be possible to add to each table an  
9 07/08 column which uses the appropriate index as  
10 discussed by you in your previous report?

11 MR RICHARDS: That's fine.

12 CHAIRMAN: Sorry, I know that's a bit more mechanical  
13 work, but I do think it will help to make sure  
14 that we're looking at like with like all the time.  
15 Okay. Thank you.

16 My first question was that I suspected we  
17 still had a -- because this process began in  
18 2006/07 and it has drifted into 07/08, we updated  
19 those EPN numbers, but everything else continued  
20 to work to the financial year in which we kicked  
21 off, so it is good to get that absolutely  
22 straight.

23 That is all for question 1.

24 Tim, you are going to continue with question  
25 2?

26 MR RICHARDS: Yes, as we mentioned, question 2, we are  
27 going to not respond on that at this stage, so I  
28 can move on to question 3.

29 Question 3 does a number of sensitivity  
30 analyses on various inputs into the model. I  
31 didn't want to go through these in detail, they  
32 are in the copy of the presentation.

33 Just a comment on the items which do change in  
34 terms of these tables are largely focused around  
35 what is the fixed asset base, we have three  
36 different fixed asset base bases for these tables.  
37 One was a figure proposed by ACC, one a figure  
38 from NZSP and one a midpoint figure.

39 The second variable, which was changed was in  
40 terms of salaries, both business owner and

1 clinical staff salaries.

2 The next input which changed was a cost  
3 allocation base, whether we use a 67 percent, an  
4 80 percent or a 95 percent cost allocation base.

5 And the third part of that change was in terms  
6 of what approach do we use to setting an  
7 appropriate percentile. And the tables in our  
8 presentation pretty much go through all those  
9 different variables and different set-outs  
10 differently.

11 CHAIRMAN: Thank you. I do have just a couple of  
12 questions about this, again, mostly to make sure  
13 that I understand what I am -- exactly what I am  
14 reading.

15 The first is that when I see the label  
16 "Deloitte ROI approach", do I understand by that,  
17 that that is using the 15 percent figure and the  
18 finite project life approach to the --

19 MR RICHARDS: The approach, yes.

20 CHAIRMAN: Yes.

21 MR RICHARDS: The approach that has been used  
22 throughout.

23 CHAIRMAN: So that's shorthand for both the figure and  
24 the approach?

25 MR RICHARDS: Yes.

26 CHAIRMAN: When I look at KPMG ROI approach, is that  
27 20 percent and ongoing?

28 MR BARNES: No. It is 15 percent, and our methodology,  
29 which we consider to be ongoing.

30 CHAIRMAN: So there isn't a 20 percent return on  
31 investment reported here?

32 MR BARNES: Not currently, no.

33 MR RICHARDS: It was something that we had discussed at  
34 the start of the questions, and between Deloitte  
35 and KPMG agreed that we didn't need to model that.

36 MS SALTER: So you have a consensus around 15 percent?

37 MR RICHARDS: We agreed not to model.

38 MS SALTER: Okay.

39 CHAIRMAN: I think that as I understood where the  
40 Society ended up at the close of the second round

1 of hearings, you were suggesting that 20 percent  
2 was the correct figure and the ongoing business  
3 approach; is that right?

4 MR TAYLOR: Sir, I think that the approach on that is  
5 that we are guided by KPMG --

6 CHAIRMAN: Okay.

7 MR TAYLOR: -- in that respect. We would have to  
8 clarify with them just where they stand, but I  
9 think that my hearing what KPMG said was really  
10 that they felt that the ongoing project approach  
11 was the most important, rather than once you  
12 adopted that whether it was 15 or 20 percent.  
13 They thought under that approach, 15 was a  
14 reasonably adequate level.

15 CHAIRMAN: It's the interplay between those two issues,  
16 the approach and the percentage was, I think,  
17 identified at the last hearing and everyone agreed  
18 that clearly there was a relationship between the  
19 two.

20 I suspect we can hope for further illumination  
21 on those points from the answer to question 2; is  
22 that right?

23 MR RICHARDS: Yes.

24 CHAIRMAN: Okay. I had a casual question at the end,  
25 which was if there is anything else which the  
26 experts think is helpful to model, please do so.

27 If, as a result of your work on return on  
28 investment and approach you form the view that  
29 there is something else which would provide  
30 material information to me and through me to the  
31 Minister and officials in thinking about this,  
32 then that could be incorporated in that way, but  
33 otherwise I am very happy with what you have done  
34 here. I am not specifically asking that you model  
35 anything else, unless you, in your professional  
36 opinion, think they would be illuminating.

37 That's good. So that's that question, and  
38 that explains why you have not acted on my  
39 paragraph 3.1.1. I was about to plaintively ask  
40 why that had been ignored, but the answer is that

1           that's, in fact, the column described as KPMG ROI  
2           approach already.

3 MR RICHARDS: Yes.

4 CHAIRMAN: Yes, okay. That's good. Thank you.

5           So you have taken us through all of 3 except  
6           perhaps 3.5. Do you want to just comment on that?

7 MR RICHARDS: 3.5 dealt with the gross remuneration,  
8           clinical staff and business owners.

9           The tables in the report break out the  
10          remuneration so that you can see the base, which  
11          was input into the model. The over-time rate,  
12          which is based on the number of hours worked above  
13          standard hours, and another column for "other",  
14          and this "other" column represented for business  
15          owners the amount that was allowed for a  
16          professional development allowance in respect of  
17          the clinical staff it represented a professional  
18          development allowance, an allowance for the  
19          various fees paid for the annual practising  
20          certificate, NZSP or special interest groups, an  
21          allowance for the opportunity costs of clinical  
22          staff going on professional development courses  
23          and those over-time rates are based on the  
24          standard public sector over-time rates.

25 CHAIRMAN: A couple of questions about this. First, am  
26          I right to understand that all the figures in  
27          these two tables are 2004/2005?

28 MR RICHARDS: Yes, that's correct.

29 CHAIRMAN: And in fact you say so in your notes, sorry.  
30          There is a note under the table which makes that  
31          clear.

32          How easy would it be to provide current day  
33          dollar equivalents in a further column?

34 MR RICHARDS: I would have thought it would be fairly  
35          easy. Michael, do you agree with that?

36 MR BARNES: I agree, as long as we can come to an  
37          agreement what salary inflation has been over that  
38          period, which should be relatively easy.

39 CHAIRMAN: That would be helpful, because again it  
40          means that people trying to understand what this

1 means today, for equivalent remuneration as  
2 compared with current levels of remuneration in  
3 the public sector, or for other occupations, or in  
4 Australia, or whatever benchmark people might want  
5 to adopt, can just get a snapshot.

6 MR RICHARDS: So am I correct in thinking that that is  
7 2007/08 dollars?

8 CHAIRMAN: Yes, I think that would be consistent with  
9 the price per hour, and just gives us dollars of  
10 the day, gives us an up-to-date measure for the  
11 financial year we are now in.

12 So if you could do that, that would be very  
13 helpful. Don't lose this information. Obviously  
14 keep this, because the model worked originally in  
15 04/05.

16 MR BARNES: That's the original base data.

17 CHAIRMAN: That's the original base data. So it's  
18 worth having that there, I think, recognising that  
19 everything derived from that is derived through  
20 inflation adjustment, but if we could see that  
21 adjustment, that would be helpful.

22 MS SALTER: With clear documentation of what the  
23 index --

24 CHAIRMAN: Yes, applied is.

25 MS SALTER: -- applied is, yes.

26 CHAIRMAN: So that people know that and if there is  
27 debate around that. Mr Taylor?

28 MR TAYLOR: Yes, Mr Goddard, I did have one question  
29 that I thought might be useful just to be  
30 clarified.

31 In terms of the options shown in regard to the  
32 over-time components, if I take the right-hand  
33 table, for instance, the over-time components for  
34 3.3 (a) to (c) are consistent, yet the over-time  
35 components for 3.3 (d) to (f) are inconsistent.  
36 And I think you will see the same pattern  
37 reflected in the business owner table.

38 I just would like clarification whether that  
39 is appropriate, because my understanding is that  
40 of course when one changes the cost allocation

1 point, the overall package will be allocated  
2 differently, but it appears to me that I  
3 understood one needed to make a choice as to  
4 whether they were being reported as 100 percent  
5 figures consistently here or whether they were  
6 being allocated.

7 MR RICHARDS: That's a good point, and it was one that  
8 when we were doing this modelling exercise,  
9 Michael and myself, we noted that, as well.

10 The reason for that is when different inputs  
11 are put into the model, different practices  
12 suddenly became outlier practices. If you recall  
13 that modelling here is based on taking --  
14 excluding outliers, when different outputs are put  
15 into the model, they fall out side the outlier  
16 parameters so you have different practices which  
17 potentially make up the different input  
18 assumptions.

19 So therefore, for example, we had a  
20 difference -- you had different practices making  
21 up the pool of practices, and therefore we had to  
22 go back and look at well, how many full-time  
23 equivalent clinical staff are in those practices,  
24 and therefore that differed, which meant that the  
25 over-time rates were actually different.

26 CHAIRMAN: So this isn't a function of adopting  
27 different percentile cut-offs for over-time  
28 worked, it's a more fundamental process in the  
29 model by which outliers, in terms of overall  
30 costs, are dropped out of the modelling?

31 MR RICHARDS: That's correct.

32 CHAIRMAN: Okay.

33 The differences, looking at that table, are  
34 very significant, the over-time more than doubles  
35 if you look at -- compare 3.3 (d) to (a) to (c),  
36 for example, from the same base salary.

37 Do you have a sense of what's driving that  
38 sort of size of change, whether that is surprising  
39 or not?

40 MR RICHARDS: Once again, I think it is because of the

1 practices which are picked. Some of the practices  
2 which may have been dropped, perhaps, had more  
3 over-time component to the individual practice, so  
4 if they were dropped out of the argument that  
5 would potentially push down the over-time rate.

6 CHAIRMAN: Is it appropriate when we are conducting  
7 this sort of sensitivity testing and trying to  
8 understand what difference particular assumptions  
9 make to have different practices coming in and out  
10 of our calculation?

11 Mightn't it be better to fix the group that  
12 we're using based on the raw cost data and exclude  
13 certain outlier practices and then just take that  
14 core group and apply everything to them?

15 MR RICHARDS: I suppose you have a question of it being  
16 where do you fix those practices, do you fix it at  
17 the output from the Deloitte modelling or the KPMG  
18 modelling, because you have different, probably,  
19 outlier assumptions from our original  
20 Deloitte/KPMG report.

21 For example, we had \$138 coming out of the  
22 Deloitte modelling, you may have had different  
23 practices there than you had in the KPMG modelling  
24 when you had different input assumptions.

25 CHAIRMAN: I suppose I had assumed that the  
26 identification of outliers happened at some  
27 earlier point based on raw cost data and -- but  
28 I --

29 MR RICHARDS: It is calculated based on cost data,  
30 that's correct.

31 MS SALTER: A total cost data inclusive, so you have  
32 got to have made one set of assumptions to get  
33 your total costs.

34 CHAIRMAN: But you wouldn't -- I wouldn't have thought  
35 that changing remuneration assumptions, for  
36 example, since those are common across all  
37 practices, would alter who the outliers were as  
38 you changed that; would that be right?

39 MR RICHARDS: It does, specifically around over-time.  
40 Can I give an example? If you had a practice and

1           there was a practice that had 30 hours of  
2           over-time on average per week, they stated, if you  
3           increase the remuneration, because the over-time  
4           has been driven on time and a half and double on  
5           the base rates, you are making that practice have  
6           a very, very high cost per hour and therefore  
7           turning into an outlier.

8           CHAIRMAN: I understand. Does anyone have anything  
9           they want to say about that approach? Are there  
10          any views around the table?

11          I realise it is difficult to comment just on  
12          the hoof, with this issue having come up.

13          MR TAYLOR: It does generally, I think, give me some  
14          concern. I understand the logic behind it. I  
15          guess that short of undertaking two processes, one  
16          where those original outliers were maintained as  
17          the other outliers, nothing else can be done, that  
18          would then probably leave the unenviable task,  
19          Sir, in your hands of deciding whether to use a  
20          set of data with the original outliers or with the  
21          others.

22          So to the extent that you feel willing to take  
23          on that challenge, that's going to obviously  
24          provide more information, but I think beyond that,  
25          we would have to think about what our response is.

26          CHAIRMAN: Dr Morris?

27          MR MORRIS: Yes. It does leave me feeling a little bit  
28          uneasy, and I just reflect back thinking that this  
29          is -- is this an artifact of having such a small  
30          and selected original sample of practices, and  
31          this is one of the consequences we are living with  
32          which --

33          MR RICHARDS: I think that's entirely correct. Quite a  
34          diverse range of practices which weren't normal  
35          distribution, so therefore once you are down to  
36          smaller sample size, by taking outliers you have  
37          big effects.

38          One of the things I think you can see within  
39          the percentile approach, we adopt different  
40          percentiles, is quite often there is a marked jump

1 specifically around the 87th percentile when you  
2 compare, for example, the 70th and 80th.

3 CHAIRMAN: Yes. As I listened to this, I was thinking  
4 more and more that all of this is just a  
5 salient reminder of how small our data pool is,  
6 and the limits of what we can learn from such a  
7 small pool of practices and from the sort of  
8 assumptions that have to be made to test these  
9 issues.

10 So I think it is very helpful, but again it  
11 also underlines some of the caution I was  
12 expressing about hoping for magic numbers to drop  
13 out of this.

14 And I think, Mr Taylor, to answer your  
15 question, I would get more numbers from a  
16 re-running of this, but I am not sure I'd be any  
17 wiser about what to do with them. T.

18 He point is, once you have got a very small  
19 sample you can manipulate it as much as you like  
20 in different ways, but you don't actually get more  
21 comfort about what you are learning.

22 I have one question about this which is, in  
23 the "other" category, some of the allowances  
24 involve costs such as practising certificates; is  
25 that right?

26 MR RICHARDS: That's correct.

27 CHAIRMAN: So those aren't -- so if we are trying to  
28 compare this, for example, with public sector  
29 remuneration rates, that should really be left  
30 out, shouldn't it, because those are not things  
31 that people see in their take-home pay.

32 MR RICHARDS: I think the other category here are  
33 basically costs which were allowed to private  
34 sector practices, because they were generally paid  
35 within the public sector.

36 CHAIRMAN: So if we are looking at a take-home pay for  
37 clinical staff that would tell us how they would  
38 fare working for one of these modelled practices  
39 rather than for a DHB, we should be adding  
40 together the base and the over-time but ignoring

1 the "other" column; is that right?

2 MR BARNES: That's right.

3 MR RICHARDS: Yes.

4 CHAIRMAN: Mr Barnes you agree?

5 MR BARNES: Yes.

6 MS SALTER: In which case, giving there is a re-running  
7 of these tables happening anyway to update them  
8 for 2007/2008 cases, could you perhaps put an  
9 additional column in that just totals the base in  
10 over-time?

11 MR RICHARDS: Sure.

12 MS SALTER: That would be great.

13 CHAIRMAN: That would be good. Thank you. That's the  
14 most direct correspondence, then, I think, again  
15 to whatever remuneration benchmark we might want  
16 to look at. It seems to me it has been overstated  
17 a little bit in terms of take-home pay in this  
18 right-hand column.

19 I didn't have any other questions about this.

20 Diane?

21 MS SALTER: No.

22 CHAIRMAN: Okay. Perhaps we'll just go around quickly  
23 to see if there are any matters arising in  
24 relation to this or directly from it. Dr Morris?

25 MR MORRIS: No. I think you have covered the over-time  
26 and the issue we have just been dealing with is  
27 one that had come to my attention, so I am happy  
28 with that. So no.

29 CHAIRMAN: No. Going around the table?

30 MR TAYLOR: Reluctantly, yes, there is one, Mr Goddard.

31 CHAIRMAN: Never really reluctant.

32 MR TAYLOR: I assure you I am.

33 And that is, I think, something that Mr Barnes  
34 raised in regard to looking at updating these  
35 tables.

36 As I understand it, labour costs are obviously  
37 one of the big drivers here, and the model has to  
38 date used 5.7 percent as the labour cost index for  
39 health professionals, and has applied that, I  
40 think, routinely to jump between years.

1 CHAIRMAN: Let's just pause and check that. Is that  
2 right?

3 MR RICHARDS: That's correct.

4 CHAIRMAN: You used the same inflater for each year?

5 MR RICHARDS: Yes.

6 CHAIRMAN: Yes.

7 MR TAYLOR: It's something which ACC has raised in  
8 their post-conference response and they, I think,  
9 have indicated a concern that the actual labour  
10 cost index -- and I think it was health  
11 professionals -- is the particular column which  
12 was used, raised a concern that the actual numbers  
13 should be used.

14 It's first of all a view with which I have  
15 some sympathy, but second of all, in terms of  
16 getting practical outcomes from this process, if  
17 ACC intend to use the actual index, which is  
18 sensible, then I just wonder whether that is  
19 something which is factored into the approach, and  
20 in particular I think the comment I would make  
21 about that is in much of the work which NZSP has  
22 provided on the salary issues, we have taken  
23 figures from, for example, the 2006/2007 DHB  
24 salary scale, and we have used the 5.7 percent  
25 figure to deflate back to 2004 to include in the  
26 model, which then obviously is re-inflated using  
27 that same figure.

28 The net result of that is obviously so long as  
29 one uses the same figuring from the labour cost  
30 index to deflate, as well as to inflate, the  
31 reality is one is only going to get the one year's  
32 inflation, in point of fact, from 06/07 to 07/08  
33 in final analysis, but it is certainly something  
34 which, if it is to be used, it must be applied  
35 with some care in that regard, and I think it is  
36 something which must be borne in mind in looking  
37 at salary assumptions generally being put into  
38 this model.

39 CHAIRMAN: And hourly rate figures, presumably.

40 Perhaps I could ask our experts to comment on

1           whether it would be a significant task to use  
2           year-specific data for each of the years we are  
3           talking about.

4 MR RICHARDS: The way the model is constructed allows  
5           input of one inflation adjuster. And I think  
6           given now that we are wanting to put it in 07/08  
7           dollars, that would add another year index. If we  
8           were going to go back and challenge what that  
9           index was, it would be a three-year period which  
10          you would review that index over.

11 CHAIRMAN: And you would be using -- you consider  
12          everything, referring back to the same cell you'd  
13          have different references in different places  
14          depending what you were trying to do.

15 MR RICHARDS: I suppose what I am saying is at the  
16          moment the way the model is built you can only put  
17          in one inflation adjuster, and if we were going to  
18          re-look at this you'd probably want to look at the  
19          three years of labour costs and average that up  
20          for three years.

21 MS SALTER: And apply that.

22 CHAIRMAN: Would it be more helpful to use that average  
23          over the three years, recognising that this is  
24          all, you know, an approximation, but that might be  
25          a better approximation? Can I check whether  
26          anyone has a problem with that?

27 MR TAYLOR: Sir, on first blush I think that that seems  
28          appropriate. My focus would come back to, to the  
29          extent that it's done at all, just checking that  
30          the deflation from particularly the 06/07 year of  
31          the salary scale, which I believe is used in at  
32          least some of the calculations, is handled  
33          appropriately, and that would be something which  
34          one would check before the figures were input into  
35          the model, so it wouldn't be a modelling task, per  
36          se, just combing the data.

37 CHAIRMAN: That's a clever consistency, I think. Okay.  
38          So can I ask then that you do that, please?  
39          Work out what the average is for three years and  
40          use that?

1 MS SALTER: That would be the LCI, health professional  
2 subset.

3 MR TAYLOR: That is, I understand, exactly what  
4 Deloitte identified in the first instance.

5 CHAIRMAN: As the appropriate one. Let's do that.

6 That's another little caveat just to bear in mind  
7 about the output from this is that there is going  
8 to be some smoothing and as a result there will be  
9 some difference from what would happen if you used  
10 each of the three years separately.

11 MS SALTER: One final check, does that have any  
12 implications for the answers to question 1,  
13 because that uses the 5.7.

14 MR RICHARDS: No.

15 MS SALTER: That's actual, fine.

16 CHAIRMAN: They are actual figures, so that doesn't  
17 change.

18 MS SALTER: You are right, so that's good.

19 MR TAYLOR: Sir, perhaps if I could just, from our  
20 side, check the assumptions that we've made in  
21 terms of any contras we have made on -- most  
22 recently in terms of salary -- and just note the  
23 deflation issue in particular. That will, I  
24 think, satisfy us that we were correct and clear  
25 in terms of what we are suggesting for 04/05  
26 inputs.

27 CHAIRMAN: I think that that's helpful only in so far,  
28 now, as it feeds into the specific work in here,  
29 because -- and it probably does that, I suppose,  
30 does it, in the upper band analysis for the  
31 salaries, although those come from Strategic Pay.

32 So again, I think it's a matter of being very  
33 clear what year those are meant to relate to, and  
34 I am not sure that I can remember.

35 MR TAYLOR: Sir, I think we'll take a quick bit of  
36 advice on that, but I think it's probably not  
37 hugely relevant, I think. The most relevant point  
38 I think would have been the minimum position that  
39 Strategic Pay expressed in their latest  
40 submission, and that's not modelled, so perhaps

1           you are right.

2 CHAIRMAN: Well, I don't see any harm in getting  
3 absolutely clear what years dollars we are talking  
4 about in anything that you think important. So I  
5 will leave that with you. I'd like that done very  
6 fast, please, especially insofar as it feeds into  
7 this.

8           So that's probably a matter of your going away  
9 and looking at the upper band analysis figures and  
10 checks that those figures are the ones that you  
11 want for 2004/2005 salaries for business owners  
12 and clinical staff, because that's how those are  
13 being used at present.

14 MR TAYLOR: Yes, sir, thank you.

15 CHAIRMAN: Correct? Those are 04/05 figures.

16 MR RICHARDS: For the upper band?

17 CHAIRMAN: For 3.2 upper band.

18 MR RICHARDS: I am not sure about the upper band, I am  
19 confident in the other things, but I am not sure  
20 about the upper band.

21 CHAIRMAN: So that's what should be checked.

22 MR TAYLOR: Thank you.

23 CHAIRMAN: Anything else, Mr Taylor?

24 MR TAYLOR: That is all, thank you, Sir.

25 CHAIRMAN: You circulated another small note and  
26 commenting on the possible scenario. I thought  
27 that was reasonably self-explanatory. Was there  
28 anything that you particularly wanted to say about  
29 it?

30 MR TAYLOR: Well Sir, I think since you generously give  
31 me the opportunity, there is a couple of things I  
32 would say.

33 CHAIRMAN: Just checking.

34 MR TAYLOR: And those are first of all, Sir, I  
35 understand that you identified some prices which I  
36 think may have identified independently for salary  
37 that you wished to be input into the model, and  
38 one of those was \$54,000 for employed staff in  
39 06/07, and I think that it was interesting that in  
40 the modelling that actually when one deflates it

1 to the 04/05 base comes out below what Deloitte  
2 had identified.

3 Now, I wasn't -- I must say I wasn't entirely  
4 clear that the possible scenarios was the, shall  
5 we say, baseline position which ACC was  
6 identifying, but I thought it was perhaps the most  
7 coherent explanation of the baseline position  
8 which had been provided by ACC to date.

9 And the reason why we responded with that note  
10 was that we felt that the major problem we had  
11 with the position as expressed by ACC was that it  
12 did not appear to represent the distribution of  
13 physiotherapists on the experience scale.

14 So we provided two alternatives, which based  
15 on NZHIS data and the survey undertaken by NZSP,  
16 showed some consistency in terms of distribution  
17 and I believe we very fairly made a very  
18 conservative effort to express those in these  
19 tables, and we felt that they provided a small  
20 increase in physiotherapy employed staff payments,  
21 which is a very important issue, I think, from a  
22 business owner's perspective.

23 They do wish to ensure that there is fair  
24 remuneration identified. It's not NZSP's  
25 preferred position, but in terms of any baseline  
26 any reporting, we really, I think, put that on the  
27 table and would very much like to see it adopted  
28 as the baseline.

29 We may well be in ACC's court as to whether  
30 they are comfortable with the different population  
31 bases, at the very least, which we have provided,  
32 and further I think the other point I made which  
33 is slightly less important is the one about  
34 whether we accept a two yearly progression as they  
35 had identified.

36 CHAIRMAN: I think it is helpful to clarify what you  
37 were seeking to do.

38 Just two comments, the first is that I don't  
39 think that it's safe, based on the information we  
40 have, to make any assumption about progression

1 from step to step based on yearly steps, based on  
2 progression of time, especially as some of those  
3 are not just merit steps but actually designated  
4 position steps.

5 So the issue arises -- that gets us back to  
6 the basic problem that I really don't think we  
7 have good information to enable us to look at the  
8 distribution against the DHB scale, and of course  
9 that their most senior people in the DHBs are  
10 probably not sitting on that scale, anyway, they  
11 are sitting on contract remuneration figures that  
12 we simply don't have. So there's just a paucity  
13 of information about what people are being paid,  
14 especially at the top-end, and what the  
15 distribution is of people on those bands,  
16 especially at the top-end.

17 So this is interesting, but I am not going to  
18 make any assumptions in the report about steps, at  
19 the encouragement of any party, because I don't  
20 think I know enough to be able to do that.

21 The second point is that yes, I was slightly  
22 surprised, thought I suppose I shouldn't have  
23 been, when some numbers I'd plucked out, as I  
24 thought other interesting indicative numbers to  
25 help get a handle on it to help get a handle on  
26 what the situation was, actually turned out so far  
27 as clinical staff were concerned to be below the  
28 figure that Deloitte was working with originally,  
29 that hadn't been what I intended, and I might just  
30 re-think, overnight, whether I want to make any  
31 changes to the figures that are used in that last  
32 model, now that I have finally got straight what  
33 years all the different things related to.

34 I think I had managed, with a little help from  
35 the data, to confuse myself quite thoroughly about  
36 which years different salary rates referred to and  
37 I think you have successfully, thank you, Tim and  
38 Michael, unconfused me about that. And so now I  
39 will go away and think about whether I can ask a  
40 more focused question.

1 MR TAYLOR: Sir, I think the basis upon which I  
2 provided that note was that as I understood your  
3 questions you had asked for modelling of that  
4 possible scenarios situation that ACC had  
5 outlined, and that was --

6 CHAIRMAN: That wasn't the case, at all. I had simply  
7 made up something of my own that I thought might  
8 be informative.

9 MS SALTER: The possible scenario was to inform the  
10 lowest benchmark.

11 CHAIRMAN: Yes.

12 MR TAYLOR: Exactly.

13 MS SALTER: So your point was that that lowest  
14 benchmark may have been up to \$3,000 too low for  
15 clinical staff.

16 MR TAYLOR: Correct.

17 CHAIRMAN: But --

18 MS SALTER: ACC's assumption so just challenging that  
19 as a reasonable --

20 CHAIRMAN: But I think the purpose of the lowest and  
21 the highest is to let each party put forward their  
22 preferred set of assumptions and see where that  
23 would take things, and then the sensitivity  
24 testing would look at modifying those, so I am not  
25 inclined to push anyone too hard on the  
26 reasonableness of either of those.

27 MR TAYLOR: No, sir, I'd be more than pleased, though,  
28 to hear whether ACC have any sympathy for the view  
29 that we expressed in that paper.

30 MR MORRIS: I think all I could say is I think ACC has  
31 noted the information we have provided. I am not  
32 in a position to give any feedback beyond that.

33 MR TAYLOR: Fair enough.

34 Sir, can I just -- one tiny other question.  
35 It really comes back to that baseline, and I think  
36 Deloitte have looked at \$50,000 as the baseline in  
37 the model for employed staff. That is something  
38 which I am not clear about the basis upon which it  
39 has been identified.

40 It is something which, as I understand it,

1 looking at the labour cost index, might be reduced  
2 in its net end effect if one uses the actual  
3 labour cost index as it stands rather than the  
4 5.7 percent consistent yearly increment, and I  
5 would simply ask that to the extent that it is  
6 something which Deloitte have identified, if it is  
7 something which has been identified as effectively  
8 a current, appropriate price and deflated, that  
9 the appropriate steps be taken to change that  
10 assumption, also.

11 CHAIRMAN: I am sure that Deloitte will take that  
12 on-board, make sure that --

13 MR RICHARDS: I think the response from ACC to that  
14 query about what is an appropriate rate stated  
15 that, you know, if we do have better data in terms  
16 of DHB salary scale to use on which to inform what  
17 that base salary should be, we should use that.

18 CHAIRMAN: But also to the extent that it is taken from  
19 a year other than 04/05, obviously, need to be a  
20 little bit careful taking it back.

21 MR RICHARDS: Yes. What we'll do in our modelling is  
22 take everything back to 04/05 rates, so we are all  
23 starting from the same level in terms of our  
24 modelling.

25 MR TAYLOR: That same comment would apply in terms of  
26 the business owner salary which Deloitte have  
27 identified as their minimum comfortable position,  
28 I believe.

29 CHAIRMAN: Yes, I think the point that each input needs  
30 to be checked to make sure that it is  
31 year-appropriate is well taken on-board by the  
32 experts, and I am sorry, that will involve a  
33 little bit of checking and looking at particular  
34 figures and saying, "Hmm, so what was the origin  
35 of this figure? Where did that come from? Was it  
36 an 04/05 figure that can just be plugged in or was  
37 it from somewhere else, and now what do we do with  
38 it."

39 But I am -- you know, that is in good hands, I  
40 am grateful to you for undertaking that.

1 MR RICHARDS: Just a further point on those indexes.

2 Given we're chained to 07/08 for looking at  
3 salaries, we'll need to also look at all the  
4 inflation adjusters for all the other components  
5 of the model?

6 CHAIRMAN: Yes, I am aware of that.

7 MS SALTER: They were other.

8 CHAIRMAN: Yes. Good. Thank you.

9 What's a reasonable timeframe to ask you to  
10 come back to us on that in?

11 MR BARNES: I am in Auckland tomorrow and in Australia  
12 for next week, which creates a few issues for  
13 myself. I really need to discuss with Troy and  
14 see what his availability is to be a bit more  
15 hands-on in this modelling.

16 MR RICHARDS: The way we have done this in the past is  
17 someone from KPMG and Deloitte have sat in the  
18 room and basically modelled the outputs at once.  
19 We have found that the most efficient way of doing  
20 it.

21 CHAIRMAN: I would expect it to be.

22 MR RICHARDS: And that is the approach we would like to  
23 adopt going forward, so we'll work with Patrick  
24 and Jackie to make sure we can get a finite time  
25 and perhaps get back to Diane with appropriate  
26 time. I understand your report is due at the end  
27 of the month.

28 MS SALTER: The 26th.

29 CHAIRMAN: Really, I need to have all inputs locked  
30 down at the latest by next Friday.

31 MS SALTER: Yes, realistically.

32 CHAIRMAN: After that it is just not going to be  
33 possible to incorporate things in the report.

34 Thank you all very much for coming today and  
35 for the information provided. Thank you  
36 especially to our accounting experts who have  
37 taken ever-expanding, and in some cases it seems  
38 slightly eccentric, requests and very patiently  
39 modelled them for me.

40 That's very helpful. Thank you very much.

1 Goodbye everyone.

2 MR TAYLOR: Thank you, Sir.

3 (Proceedings adjourn.)  
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