

The Deloitte logo, consisting of the word "Deloitte" in a white, bold, sans-serif font, followed by a small green dot. The background of the slide is a solid blue color with a pair of silver metal crutches crossed over each other, with black handgrips and red adjustment knobs. The crutches are positioned diagonally from the bottom left towards the top right.

**Deloitte.**

# **Independent Review of the Relationship between Physiotherapists and ACC - Deloitte Model**

May 2007

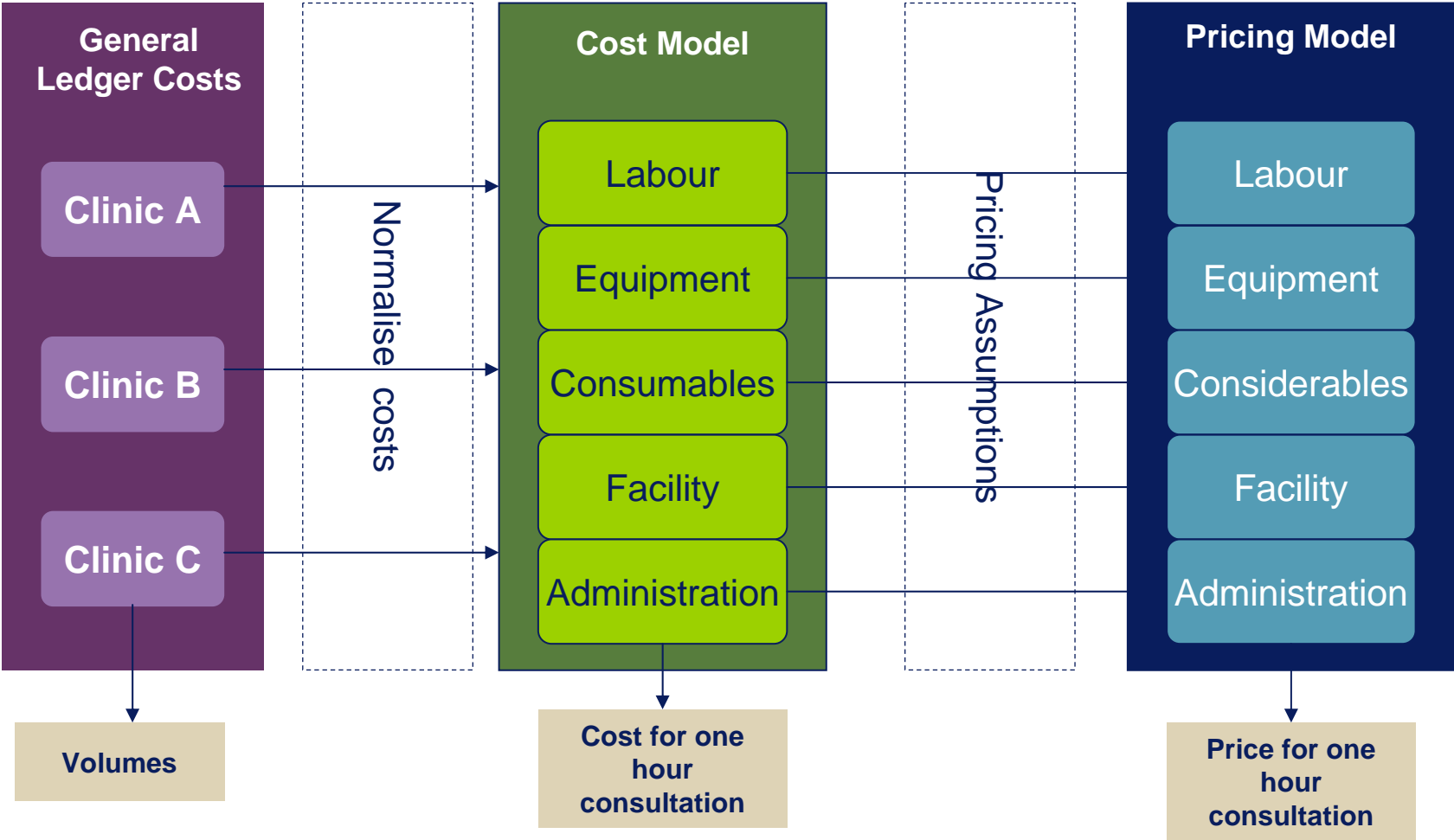
# Introduction

- July 05 commenced project.
- Concern from physiotherapy practices about the current level of contracted rates.
- Objective was to inform ACC of the operating cost of a practice.
- Open and transparent process
- Model to be input into a wider process – negotiation.
- Worked closely with NZSP.

## Approach - Sample

- NZSP selected 33 practices to be involved that represented a range of location types and operating circumstances:
  - EPN accredited
  - Not EPN but accredited
  - Not EPN, not accredited
- 20 eventually participated covering 23 sites.
- Resulting participants:
  - Metropolitan - 15
  - Urban - 6
  - Rural (under 6,000 people) – 2
  - Average clinical FTE's per practice – 4.6 (including business owner)
- Not statistically representative – diversity.

# Methodology



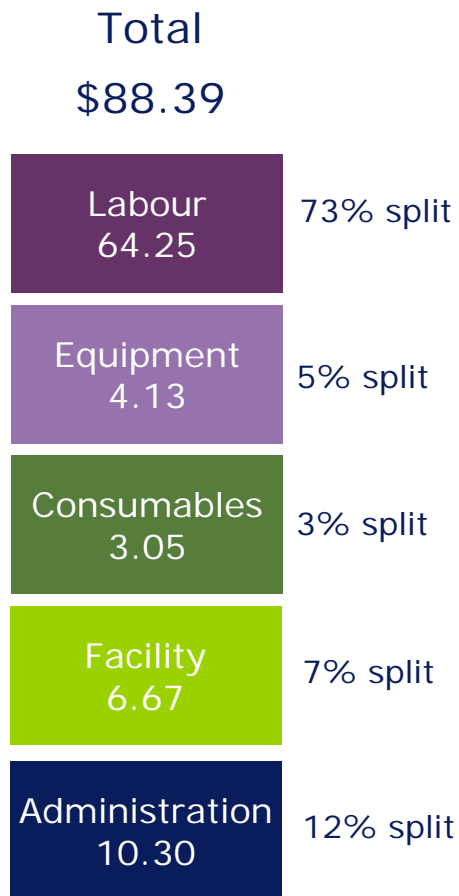
# Normalisation of Costs

- Review of information provided to ensure it is consistent and complete.
- Excluding costs unrelated to a physiotherapy practice.
- Annualisation of costs – where they did not relate to a full year.
- Reviewed the depreciation calculation.
- Included amortisation of goodwill.
- Adjusted business owner salaries to ensure consistency.
- Adjusted
- Included:
  - Accreditation costs
  - Time spent on professional development

## EPN / Regulation Split

- Identify those costs that relate to EPN/regulation consults.
- Practices had difficulty extracting the number and type of consultations.
- Therefore split was based on EPN/Regulation revenue split.
- Of those surveyed the average was 67%.
- EPN/Regulation cost are then divided by the consult hours to obtain cost per hour.

# Cost of one hour consult – weighted average (04/05 costs)

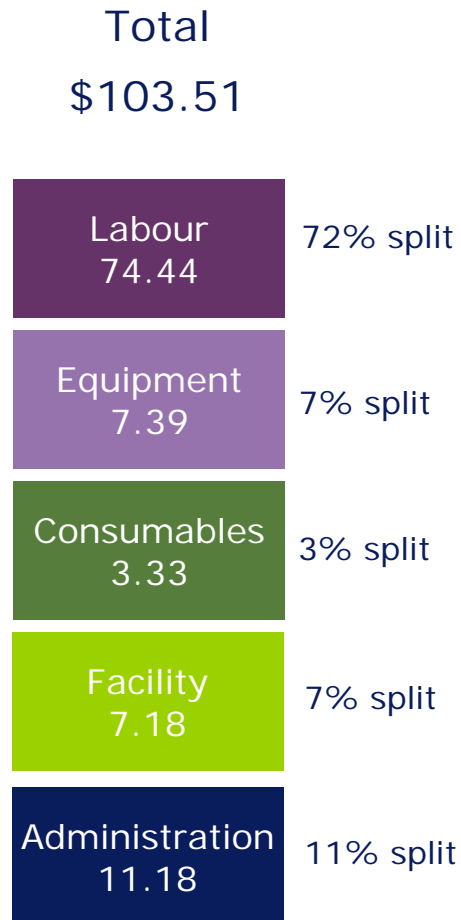


- Range was from \$68 to \$120
- Prices exclude GST

# Financial Sensitivity Analysis – Base Assumptions

<b>1. Business Owner Salary Base</b>					
	<b>Metropolitan</b>	\$ 63,000	(approx \$78,000 total)		
	<b>Urban</b>	\$ 60,000	(approx \$75,000 total)		
	<b>Rural</b>	\$ 57,000	(approx \$72,000 total)		
<b>2. Physio and Clinical Staff Wage %</b>			103%	( approx \$52,984 in model)	
<b>3. EPN Revenue</b>			67%		
<b>4. Consult Times</b>					
			<i>Avg time</i>		
	EPN - PT01		30 mins		
	EPN - PT02		20 mins		
	EPN - PT03		40 mins		
	EPN - PT04		30 mins		
	Regulation - Initial		35 mins		
	Regulation - Follow-up		25 mins		
<b>5. Year of Actual Cost 2004/05, year being priced 2007/08</b>					
<b>6. ROI - 15%</b>					

# Price of one hour consult – weighted average (07/08 price)



- Range was from \$80 to \$137
- Prices exclude GST

# Financial Sensitivity Analysis – Price of a one hour consultation

- Change in Business Owner Salary Level.

<b>Input</b>	<b>Metropolitan</b>	\$ 53,000	\$ 63,000	\$ 83,000	\$ 103,000	\$ 128,000
	<b>Urban</b>	\$ 50,000	\$ 60,000	\$ 80,000	\$ 100,000	\$ 125,000
	<b>Rural</b>	\$ 47,000	\$ 57,000	\$ 77,000	\$ 97,000	\$ 122,000
<b>Output</b>	<b>Labour</b>	\$ 70.79	\$ 74.44	\$ 81.73	\$ 89.02	\$ 98.02
	<b>Equipment</b>	\$ 7.39	\$ 7.39	\$ 7.39	\$ 7.39	\$ 7.39
	<b>Consumables</b>	\$ 3.33	\$ 3.33	\$ 3.33	\$ 3.33	\$ 3.33
	<b>Facility</b>	\$ 7.18	\$ 7.18	\$ 7.18	\$ 7.18	\$ 7.18
	<b>Admin Expenses</b>	\$ 11.18	\$ 11.18	\$ 11.18	\$ 11.18	\$ 11.18
	<b>Total</b>	\$ 99.87	\$ 103.51	\$ 110.80	\$ 118.09	\$ 127.09

- NZSP consider that a salary of \$160,960 is an appropriate remuneration figure.
- A Base Salary of \$128,000 equates to a total salary of approximately \$160,000 when time not captured in financials is factored in.

# Financial Sensitivity Analysis – Price of a one hour consultation

- Change in Business Owner and Clinical Staff Salary levels.

<b>Input</b>	<b>Metropolitan</b>	\$ 53,000	\$ 63,000	\$ 83,000	\$ 103,000	\$ 128,000
	<b>Urban</b>	\$ 50,000	\$ 60,000	\$ 80,000	\$ 100,000	\$ 125,000
	<b>Rural</b>	\$ 47,000	\$ 57,000	\$ 77,000	\$ 97,000	\$ 122,000
<b>Clinical Salary Base</b>		95%	103%	125%	135%	147%
<b>Output</b>	<b>Labour</b>	\$ 67.88	\$ 74.44	\$ 89.75	\$ 100.68	\$ 114.06
	<b>Equipment</b>	\$ 7.39	\$ 7.39	\$ 7.39	\$ 7.39	\$ 7.39
	<b>Consumables</b>	\$ 3.33	\$ 3.33	\$ 3.33	\$ 3.33	\$ 3.33
	<b>Facility</b>	\$ 7.18	\$ 7.18	\$ 7.18	\$ 7.18	\$ 7.18
	<b>Admin Expenses</b>	\$ 11.18	\$ 11.18	\$ 11.18	\$ 11.18	\$ 11.18
	<b>Total</b>	\$ 96.95	\$ 103.51	\$ 118.82	\$ 129.75	\$ 143.13

- NZSP have suggested that remuneration for clinical staff should be on average \$77,907 per practice. (would increase the clinical staff salary base by approximately 47%).

# Financial Sensitivity Analysis – Price of a one hour consultation

- Change in EPN/Regulation Revenue Split.

Revenue Split	67%	71.60%	80%
Total	\$103.51	\$110.01	\$122.92

- NZSP considers that the EPN/Regulation Revenue Split would be at least 80%.

# Financial Sensitivity Analysis – Price of a one hour consultation

- Modelling based on different percentiles.

<b>Percentile</b>	<b>Price (07/08)</b>
Base (average price)	\$ 103.51
60th percentile	\$ 108.91
70th percentile	\$ 114.84
80th percentile	\$ 120.59
90th percentile	\$ 127.48
100th percentile	\$ 137.35
87%	\$ 123.35
Min practice price	\$ 79.77
Maximum practice price	\$ 137.35

# Financial Sensitivity Analysis – Price of a one hour consultation

- Change in Regulation Consult Times.

		<i>Avg time</i>	<b>Labour</b>	\$ 74.44
EPN - PT01		30 mins	<b>Equipment</b>	\$ 7.39
EPN - PT02		20 mins	<b>Consumables</b>	\$ 3.33
EPN - PT03		40 mins	<b>Facility</b>	\$ 7.18
EPN - PT04		30 mins	<b>Admin Expenses</b>	\$ 11.18
Regulation - Initial		35 mins		
Regulation - Follow-up		25 mins	<b>Total</b>	\$ 103.51

Base

		<i>Avg time</i>	<b>Labour</b>	\$ 80.96
EPN - PT01		30 mins	<b>Equipment</b>	\$ 8.04
EPN - PT02		20 mins	<b>Consumables</b>	\$ 3.62
EPN - PT03		40 mins	<b>Facility</b>	\$ 7.80
EPN - PT04		30 mins	<b>Admin Expenses</b>	\$ 12.16
Regulation - Initial		31.6 mins		
Regulation - Follow-up		21 mins	<b>Total</b>	\$ 112.58

Change in Regulation Consult Times

# Financial Sensitivity Analysis – Price of a one hour consultation

- Adopting the NZSP assumptions outlined below in respect of the model produces a weighted average price per hour of approximately \$222.
- Note this price represents a weighted average cost and does not represent a cost based on using the 87th percentile or take into account any goodwill adjustments suggested by NZSP.
- NZSP Assumptions:
  - Increasing Business Owner and clinical staff salaries to NZSP suggested amounts
  - Adjusting EPN/Regulation revenue split to 80%
  - Adjusting Regulation consult times
  - Using ROI of 27.5%
  - Increasing professional development costs
  - Using unavoidable costs methodology
  - Increase in fixed asset values to represent start-up costs of a new practice
  - Allowing for a return on working capital
  - Increase in accreditation costs
  - Holiday Act Allowance of 2%

**Responses to Question 5**  
**Letter dated 11 May 2007**

## Additional Information in Relation to Model – Use of Average

- Model currently uses average revenue split to distribute costs rather than median.
- Either approach could be used but it should be used consistently. i.e. if use median for revenue split should also use median for consult timings, hours worked outside financials etc.
- Data was collected from practices based on averages therefore it made sense to use averages used in model.

## **Additional Information in Relation to Model – Pricing at 87th percentile**

- Initial setting of EPN prices was conducted using a “mystery shopper” approach set at the 87th percentile.
- Current modelling determines costs/prices based on a different approach.
- Deloitte model just one aspect of helping to determine what appropriate pricing should be.

## **Additional Information in Relation to Model – Relationship between ACC funding levels and Remuneration**

- As the price paid for EPN Consults is set in the EPN contract this may have a bearing on the level of wages/salaries to be paid to physiotherapists.

## **Additional Information in Relation to Model – Equipment investment**

- This exercise did not determine whether levels of investment in equipment was sufficient.
- Fixed assets have been incorporated into the Deloitte model using the asset information provided by practices. Depreciation was calculated on these assets at higher rates than shown in financials.
- The range of physiotherapy practices chosen meant that some practices had newer equipment while some practices had older equipment.

## **Additional Information in Relation to Model – Professional Development and Compliance Costs**

- Professional Development Costs were included in the Deloitte model in relation to the period data collected.
- Accreditation Costs for accredited practices are included in the Deloitte model.
- Holidays Act compliance should be factored into any pricing going forward. This was not modelled in the model as this cost only came into force in 2007.
- An approximate \$1,500 adjustment to private sector salaries has been made to account for benefits paid in the public but not private sectors.

## Additional Information in Relation to Model – Consult Times

- Consult times varied widely between sample practices.
- We did note that most practices had difficulty extracting the number and type of consultations from their respective patient systems.
- A standard consult time was needed to feed into the Deloitte model.
- NZSP provided guidance as to likely consult times.
- If the proportion of regulation consult visits is the same as the proportion of simple and complex visits for EPN consults then the use of a consistent consult times between EPN and regulation consults would be appropriate.

## **Additional Information in Relation to Model – Use of Unavoidable Cost Principles**

- The model has been developed using an Activity Based Costing approach.
- Costs have therefore been split according to the revenue split between different types of activity rather than weighting costs in favour of EPN/Regulation activities.

# Summary

- Model provides a better understanding of the costs of running a practice.
- Diverse range of small businesses – unique complexities.
- Identified where the sensitivities are in the pricing:
  - Salary levels
  - Split between EPN/regulation costs and other costs
  - Change in consult timings
  - Weighted average cost v 87<sup>th</sup> percentile
- Results need to be considered in the wider context.