

## **FURTHER QUESTIONS FOR ACCOUNTING EXPERTS**

Deloitte and KPMG response to further queries raised by Reviewer on 3 July 2007

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**1 Costs based on practice data – with salaries and capital costs now based on assumed values (items 2, 6 and 7), please specify what costs are now based on practice data, and their relative significance as a proportion of total practice operating costs.**

The following cost components are based on assumed data (note: costs are total costs (excluding outlier practices):

- Salaries for business owner and clinical staff
- Capital Costs
- Accreditation Costs
- Goodwill

The following costs are based on practice data (17 practices)

- Administrative wage/salary costs and labour –other (\$780,907+ \$99,507)
- Consumables (\$209,814)
- Facility Costs (\$441,530)
- Administration Expenses (excluding accreditation costs) (\$752,878 – \$70,000 = \$682,878)

Actual practice data costs = \$2,214,636

Total practice costs = \$6,670,831

= approximately 33%

**2 Cost allocation – item 1 – please explain whether the 67% split was applied to every practice, or whether the revenue split for each practice was applied to the costs of that practice.**

The 67% is an output based on the weighted average revenue split of sampled practices i.e. it is built via a bottom up approach from practice data. The revenue and cost split was based on the percentage of EPN/Regulation revenue relevant to each practice rather than 67% being applied to each practice.

The sensitivity analysis however, which may be a source of confusion, adopts a different approach. Sensitivity analysis uses a top down approach in which a revenue split is determined (e.g. 80% cost allocation) and then applied to base practice data.

**2.1 Does this have implications for the use of mean versus median figures?**

**Deloitte Comment:**

There will be implications for the use of the mean compared with the median when you use the EPN/Regulation revenue relevant to each practice. If the EPN/Regulation revenue split is set at the same rate across the practices, as was done with the sensitivity analysis, there will not be implications.

We note that although the Deloitte base model produced a mean of \$137.52 the median one hour practice costs across the practices was \$128.76

Removing outliers the EPN/Regulation split reduces the mean split from 67% to 64%

The median EPN/Regulation split when outliers are removed is – 68.9%.

**KPMG Comment:**

KPMG agree that if the revenue split is set at the same rate across all practices, there will be no implications.

**2.2 Please describe briefly the issues raised by the further data provided by ACC referred to on page 11, and the reasons for not using it.**

Copy of ACC data received by Deloitte to be provided to Reviewer. This can be compared with previous data ACC provided to NZSP.

**Deloitte Comment:**

There was a difference in the data due to the following reasons.

- The later data provided to Deloitte uses a wider definition of ABP to incorporate all ABP contracts;
- The later data provided to Deloitte has been extracted based on the service date and the data provided to NZSP was based on the payment date; and
- The data provided to Deloitte was GST exclusive and the data provided to NZSP was GST inclusive.

**KPMG Comment**

In April 2007, on request, ACC supplied NZSP with income data for the 2004/05 and 2005/06 years on all physiotherapy related contracts. This data (refer attachment) separates contract income into endorsed provider, physiotherapy (assumed to be regulation), hand therapy, functional capacity and activity based provider classifications.

Subsequent data sourced from ACC by Deloitte for preparation of the joint KPMG Deloitte Experts Report contradicted the data supplied earlier to NZSP and could not be reconciled. We have reservations about ACC's ability to interrogate its records in a reliable way.

**3 Please comment on whether, and how, the spread of locational cost structures (item 10) has been taken into account in establishing the modelling percentile under item 3.**

We have not taken into account locational cost structures in establishing the modelling percentile.

**4 Please provide further sensitivity analysis as follows:**

**4.1 -4.3. Using the midpoint sensitivity analysis on page 10, but with the modelling percentile set at 70%/75%/80%**

Using the following adjusted inputs: Base salary of \$80,000 for business owner and \$60,000 for clinical staff and cost allocation of 80% (note: the data below allocates an 80% EPN/Regulation revenue split against each practice)

Percentile	Deloitte ROI Approach	KPMG ROI Approach
Mean	\$190.70	\$202.14
70%	\$215.50	\$226.94
75%	\$216.26	\$227.70
80%	\$216.37	\$227.81

**4.4. Please replicate the midpoint sensitivity analysis tables on p 10 and the tables requested above, with a 67% cost allocation base rather than the 80% cost allocation base.**

Using the following adjusted inputs: Base Salary of \$80,000 for business owner and \$60,000 for clinical staff and cost allocation of 67%

**Note:** the data below uses the actual EPN/Regulation revenue split relevant to each practice. This cost allocation in the model is actually 64% when outliers are removed rather than 67% when outliers are not removed. The data below therefore is showing the output at a mean cost allocation of 64%.

Percentile	Deloitte ROI Approach	KPMG ROI Approach
Mean	\$145.72	\$156.85
70%	\$156.61	\$167.74
75%	\$176.62	\$187.75
80%	\$179.83	\$190.96