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David Goddard QC
WELLINGTON

By Email

Dear Sir

Follow-Up Regarding LCI Inflation and Deflation

1. NZSP wishes to provide final comments on the application of the LCI data following today's teleconference to consider the joint experts' second report. NZSP accepts the use of the average LCI (health professionals) index over the relevant period, so long as that is compounded within the model. We understand that it is compounded to date.
2. NZSP will wait to see the final figures on an annual basis, and asks that they be included in the experts' report. Where there are significant differences between years, NZSP considers that it will be important to use figures specific to the period in question. For instance, when deflating 06/07 figures back to 04/05, the two year average from the relevant period should be used for deflation, and the three year average for inflation up to 07/08. Figures from 06/07 which should be deflated using a two year average include:
 - 2.1. Reviewer query 3.1, and any use of NZSP's commentary thereon (refer to my letter dated 12 September 2007);
 - 2.2. Reviewer query 3.3.1 and any replacement thereof;
 - 2.3. Figures used in Strategic Pay's August 2007 paragraphs 25 – 33, though these are not currently modelled in any analysis.
3. NZSP particularly notes that, to the extent that any of the LCI figures are lower than the 5.7% currently in the model, this may mean that the 04/05 equivalents for the "possible scenario" modelled in Query 3.1 become higher again than the Deloitte figure of \$50,000 (base 2004) used for employed clinicians.
4. NZSP reiterates its request that Deloitte reconsider the base salaries of \$50,000 and \$62,930 (staff and business owner respectively) currently included in the model. To the extent that either of these are based on figures from later years which are deflated to 2004/05, they should be adjusted as appropriate to take account of any changes in the LCI rate applied.
5. Both the upper band and the midpoint salaries were derived by KPMG during the first joint expert process. We understand these were identified on a 2004/05 base, but have requested KPMG to consider whether adjustment is necessary.

Yours faithfully

Martin Taylor
Barrister