
**Second Brief of Troy W Newton
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**To
Independent Review of the Relationship Between
Physiotherapists and ACC**

**In Support of Submission of
New Zealand Society of Physiotherapists**

May 2007

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1. KPMG Corporate Finance has been asked by the New Zealand Society of Physiotherapists (“NZSP”) to consider a set of Business Benchmarking Survey reports which have been produced by Waikato Management School (“WMS Benchmark data”). The data comprises median and in some cases average reported outcomes for a set of measures intended to allow users to compare their business against these results, and assess their own performance. The data covers both physiotherapists and a number of potentially comparable professions.
2. NZSP has asked KPMG whether this data can be used to assess the comparative performance of physiotherapists against these other professions, particularly in regard to remuneration.
3. In our view the WMS Benchmark data is far too unreliable to be used in any comparative sense between professions, particularly in regard to the residual available for owner remuneration and profit. I will briefly summarise the reasons for this:
 - 3.1. It is evident from the structure of the survey and the types of variables analysed that it is a generic survey intended for use in the manufacturing, distribution or retail sectors rather than one directed at service based professionals, let alone suitable for comparing remuneration and salary issues specifically.
 - 3.2. To undertake any survey which is to be relied on for comparative financial analysis, there needs to be careful survey design customised to the job at hand. In my view the WMS benchmark data does not come from such a source.
 - 3.3. The key outcome which NZSP identified as potentially providing some comparison - “net profit per working owner” - is of weak practical value. This data does not take into account business ownership structures (such as closely held companies) which allow business owners to optimise their tax position, often by assigning themselves a salary just below the \$60,000 per annum limit for moving into the highest personal tax bracket.
 - 3.4. The sample size for many of the professions surveyed is so small that the risk of error or non-representative outcomes in the survey is too high to allow use of the data for any meaningful analysis. This can occur through the data set containing extreme results which, in small samples, will disproportionately affect the statistical results.
 - 3.5. Further, in order to contextualise income or net profit figures, one would need to look at the number of owners and the number of staff (including contractors). First, contractors are not reported, which indicates that detailed comparison is not possible. Second, the median figures are medians for each reported variable, not variables for a median business. Each variable therefore has no relation to others, and they cannot be cross-analysed. The same is true for averages, where income and net profit cannot be analysed against number of working owners or number of staff, as these are also independently calculated variables.

- 3.6. The data is collected from participating accountants, whose clients do not represent a random or stratified sample of the comparative professions. This further compounds the non-representative nature of the data.
- 3.7. I also understand that business owners working less than one FTE are still counted as one FTE in this survey. Where revenue figures are unexpectedly low this may be due to the business of a part time owner being recorded as a full FTE.
4. In light of these points, I do not believe that any reliance can be placed on the WMS benchmark data.
5. I have reviewed the Australian data contained at paragraph 58 of the NZSP Second Submission. Whilst that data may have some or all of the same flaws as the above, it shows for example chiropractors as earning 30% more net profit per owner than physiotherapists on lower comparative revenue, and 66% more income per professional than physiotherapists. As the New Zealand data does not appear to show similar trends, this raises concerns as to the applicability and/or reliability of the data.
6. The average co-payment figures at paragraph 53 of the NZSP Second Submission show that during the period March 04 to September 05 the average surcharges of chiropractors were 98% to 110% more than those of physiotherapists (ie double). NZSP advise their view that the appointment times of chiropractors are likely to be no longer than those of physiotherapists, and may well be shorter. If one therefore assumes a reasonably comparable rate of throughput by chiropractors, then the financial performance of chiropractors in comparable practices should be significantly better than that of physiotherapists.
7. The WMS data does not align with the expected outcomes based on the size of co-payments. As the co-payment data is sourced from ACC and covers all ACC-billing chiropractors and physiotherapists, it confirms suspicions as to the reliability of the WMS comparative data.
8. The WMS benchmark data for chiropractors, osteopaths, midwives, therapists (occupational and other), counsellors and dentists is included at Appendices 1 – 5 respectively. A table showing comparative levels of income, net profit, and net profit per working owner, together with number of respondents, is attached as appendix 6. I have not included staff, as that information incorporates non-professional staff, and does not include contractors, who I understand are a significant factor in the physiotherapy workforce.
9. In summary I have material concerns about placing any reliance on the WMS survey results, particularly in relation to benchmarking the remuneration of physiotherapists (either owners or employed / contracted professionals) against other comparable professions.

Yours faithfully



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