

Annual statement of reasonable GP fee increases 2008/09 update to DHBNZ

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Executive summary

This report presents the 2008/09 update of the annual statement of GP fee increase.

The key points of this report are as follows:

- The same methodology used to produce annual statements for 2005/06, 2006/07 and 2007/08 was followed, with no amendment.
- The impact of changes in relevant indices to the calculation of the annual statement is somewhat mixed. Across the contributing indices, there has been a relatively strong base of annual growth over time, despite some recent easing. As experienced last year, labour cost increases for the Health and Community Services remain a strong driver of upward movement. There has also been additional pressure following growth within the Producers Price Index-Inputs. However, in comparison with last year, growth for the relevant components of the Capital Goods Price Index has eased.
- The recommended annual statement of reasonable patient co-payment GP fee increase for 2008/09 is **4.7 per cent** based on a 50/50 capitation/co-payment split. We also provide annual statement calculations for other capitation/co-payment splits.

Table of Contents

Executive summary	ii
1 The annual statement.....	1
2 Recap of methodology.....	1
2.1 Indices used	1
2.2 Annual statement calculation	2
3 Changes in indices.....	3
3.1 Labour Cost Index	4
3.2 Other indices	4
4 2008/09 annual statement update.....	6
4.1 Calculation of input-cost related adjustment rate	6
4.2 Adjustment for Future Funding Track.....	6
4.3 Calculation of annual statement.....	7
4.4 Alternative capitation/co-payment splits	8

1 The annual statement

This report presents the 2008/09 update of the annual statement of GP fee increase.

Fee increases (the co-payment component of fees) that are at a level equal to, or less than, the annual statement of increase, will not require referral by a DHB to a fee review committee. In circumstances above the level determined in the annual statement, the fee review committee may permit fee increases in excess of the reasonable level, but the factors influencing their fee changes need to be considered in isolation from what is considered to be a reasonable increase at a wider level. There are some practice specific factors for example, which the annual statement could not realistically account for, and the fee review process exists for that purpose.

The annual statement attempts to reflect movement in the drivers of changes in GP fees. It does not attempt to infer or investigate what the absolute or relative level of GP fees should be. Nor does it suggest that fees should increase by the level of the annual statement.

The methodology and the subsequent annual adjustment also do not make any inference as to the most efficient way to organise the delivery of care; changing models of care and practice composition are not considered.

2 Recap of methodology

2.1 Indices used

The method of calculating annual fee changes includes development of a weighted average of changes to prices of key inputs used to produce the services provided by GPs. The key inputs and the relevant official indices associated with them are as follows:

Labour

Changes in the price of labour are a major factor in changes in operating costs and hence the fees charged by practices. The measure we use is the **Labour Cost Index (LCI)**, which gives a measure of movements in the cost of labour.

Other inputs

Labour is not the sole determinant in determining changes in fees. Other relevant inputs include:

- **The Producer's Price Index (PPI) Input** is a measure of the change in prices of items such as materials, fuels and electricity, transport and communication, rent and lease of land, building, vehicles and plant, commission and contract services business services and insurance premiums; and

- The **Capital Goods Price Index (CGPI)** is a measure of the change in the general level of prices for physical capital assets (i.e. buildings). This can also influence changes in fee levels.

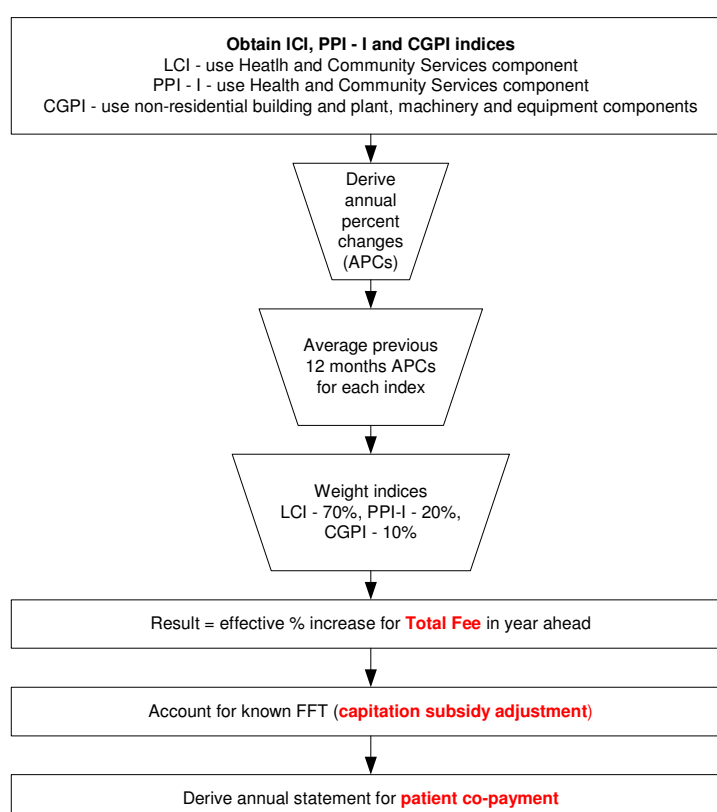
2.2 Annual statement calculation

As described in the previous report, the process of calculation takes place sequentially (see Figure 1 below).

The first step involves processing of the Health and Community Services component of the labour cost and the producers price-inputs indices as well as the relevant components of the CGPI. We determine the annual percentage change for each index and average these over the previous 12 months. It should be highlighted that such a process allows for past changes to affect the current fee change amount. Following this, we apply the agreed weightings to the respective indices. These weightings remain unchanged from those utilised in previous years: 70 per cent labour; 20 per cent other inputs; and 10 per cent for capital.

Using this weighted average we calculate the first step in a two-stage process. In the first instance, we assess the effect of input cost changes on total fees (i.e. GP fees in the absence of capitation payments). From this, we use the known Future Funding Track adjustment (FFT) to derive the co-payment annual statement increase).

Figure 1 Schematic of calculation process



3 Changes in indices

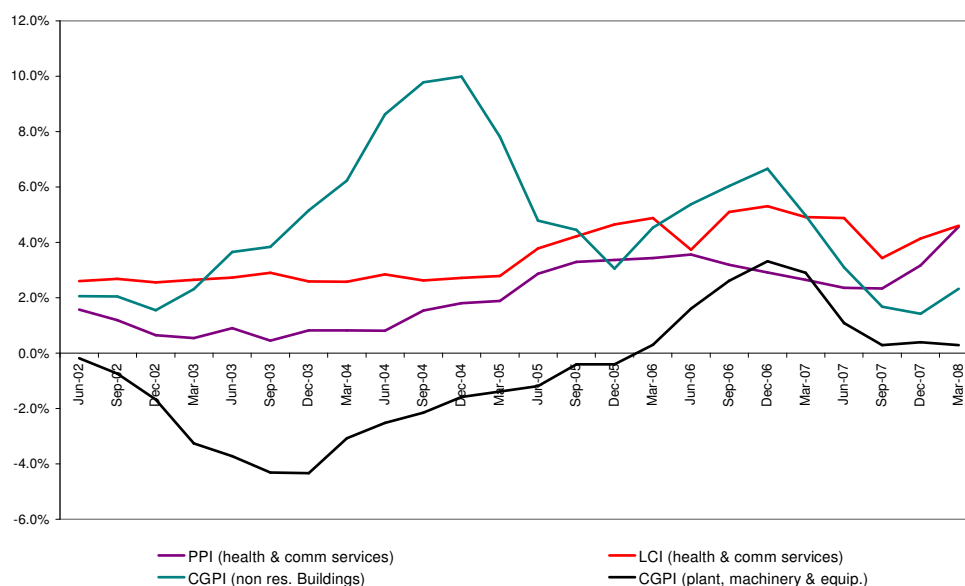
The most recent releases for the relevant indices, published by Statistic New Zealand in May 2008 for the March 2008 quarter, have been utilised to generate this annual statement.

A summary of relevant index movements is provided below in Table 1. Annual growth changes since June 1992 are represented graphically in Figure 2.

Table 1 Index movements		
Index	Change from previous quarter	Annual change (from same quarter in previous year)
PPI Inputs health and community services	1.6%	4.6%
LCI Health and community services	1.0%	4.6%
CGPI Non-res buildings	1.0%	2.3%
CGPI Plant machinery and equipment	-0.1%	0.3%

The figure below shows the annual percent change in the relevant indices over time. It shows a relatively strong base of annual growth over time, despite some recent easing.

Figure 2 Annual growth in contributing indices



3.1 Labour Cost Index

For all industries combined, the LCI showed a rise of 3.4% in salary and wage rates (including overtime) in the year to the March 2008 quarter. This is the largest annual increase since production of the series began in 1992.

For the Health and Community Services component, the LCI data shows growth in all salary and wage costs of 1.0 per cent for the most recent quarter and a growth of 4.6 per cent annually. This is broadly comparable with the annual change rate evidenced last year of 4.9 per cent indicating a slight slowing of growth during the past 12 months.

However, while the Health and Community Services sector has experienced a plateau more recently, it still represents a higher than average rate of growth across all industries combined. This is driven by the pressure experienced as a result of settlement of collective employment agreements. Arguably, this pressure may potentially exacerbate rather than continue to ease, given current discussions in relation to junior doctors' remuneration and other labour market shortages for particular groups of health professionals.

3.2 Other indices

Producer's Price Index Input

The PPI-I shows that the Health and Community Services sector faced a 1.6 per cent increase in prices in the March 2008 quarter, in comparison with a 2.3 per cent increase in input prices for all industries combined.

On an annual basis, the 4.6 per cent increase experienced by the Health and Community Services sector is behind the 7.4 per cent annual change figure for all industries combined.

The 4.6 per cent growth for the health sector represents a significant increase on the equivalent figure recorded for last year of 2.6 per cent. However, there has been a significant acceleration in the annual growth rate across all industries (from 2.7 per cent growth last year). The most significant upward contribution to the PPI-I index came from the electricity and supply index, followed by the wholesale and trade index, driven by higher crude oil prices.

Capital Goods Price Index (CGPI)

The CGPI rose just 0.5 per cent in the March 2008 quarter, a slight down-turn following small rises in the previous two quarters.

Specifically, the non-residential component utilised with the formula rose 1.0 per cent in the March 2008 quarter, in comparison with rises of 0.4 per cent in September 2007 and 0.7 per cent in December 2007. This recent growth is driven by higher prices for steel products. However, the annual increase of 2.3 per cent in the year to March 2008

represents a down-turn from the growth of 5.0 per cent indicated in the year to March 2007.

For plant machinery and equipment, the other relevant contributor to production of the annual fees statement, there has been an annual down-turn to 0.3 per cent change in the year to end of March 2008, in comparison with the 2.9 per cent change evidenced in the previous year.

4 2008/09 annual statement update

4.1 Calculation of input-cost related adjustment rate

Using the process outlined in section 2.2 above (with the relative weightings for each index remaining the same as the methodology utilised in previous years) we generate a total fee adjustment rate of 3.7 per cent for 2008/09. This figure represents the input-cost related change to the total fee for a given year, a crucial intermediate input into the annual statement determination.

Table 2 below provides the equivalent input-cost related adjustment factors for previous years.

Table 2: Input-cost related adjustment rate				
	2005/06	2006/07	2007/08	2008/09
Input-cost related adjustment factor for total fee	2.6%	3.9%	4.4%	3.7%

As indicated in section 3, the current the pattern of movement in indices relevant to the calculation of the annual statement is somewhat mixed, though the data point to some easing in price pressures generally.

We explained in our report last year, that there is a degree of lag built into the way in which the statement is calculated. With the slight reduction of the annual adjustment figure (from 4.4 per cent last year to 3.7 per cent this year) we are beginning to see the impact of easing price pressures. It should be noted that the LCI component has the highest weighting (at 70 per cent) and thus will be the most significant driver of change.

4.2 Adjustment for Future Funding Track

Following the calculation of the input-cost related adjustment factor, we apply the known FFT adjustment (which is 2.798 per cent for 2008/09, rounded up to 2.8% in the table below) to derive the corresponding level of reasonable increase to co-payments.

Table 3: Future Funding Track adjustments				
	2005/06	2006/07	2007/08	2008/09
FFT adjustment	2.8%	3.3%	2.6%	2.8%

4.3 Calculation of annual statement

The final step in the process described in section 4.2 derives the annual statement figure. As outlined in table 4 below, based on a 50/50 capitation/co-payment revenue split, the annual statement figure for 2008/09 is **4.7 per cent**.

Table 4: Annual levels for reasonable increases to GP patient co-payments adjustments

	2005/06	2006/07	2007/08	2008/09
Annual statement of reasonable patient co-payment (on basis of 50/50 capitation/co-payment split)	2.4%	4.5%	6.1%	4.7%

This calculation is a function of the relativity between the capitation payment from the Government (the FFT adjustment) and the input-related adjustment factor for the total fee, given an assumed split.¹

As a hypothetical example, consider a total fee of \$100, comprising \$50 provided for by Government subsidy and the remaining \$50 met by the patient co-payment. Given an increase in input costs (as calculated above) of 3.7 per cent, we would naturally expect the total fee to reflect this and rise to \$103.70. The portion of the increase paid for by Government increases by 2.798 per cent (\$1.40), leaving around \$2.30 (approximately 4.7 per cent of the original \$50 co-payment amount, allowing for some rounding effects) of the increase to be paid for by the patient.

When the FFT adjustment is greater than the input-related adjustment factor, the co-payment increase will be less than the input-related adjustment factor.² This was the case in 2005/06. The opposite is also true, as evidenced in 2006/07.

¹ The fee template associated with the annual statement gives the opportunity to use practice, or practice group specific data where this split is not appropriate.

² This is because the weighting attached to the capitation subsidy is greater than that of the co-payment, meaning when the capitation adjustment is greater than the input-related adjustment factor, there is effectively less work to do by the co-payment in order for the total fee adjustment to match the change in costs faced by practices.

4.4 Alternative capitation/co-payment splits

The 5.2 per cent annual statement figure derived above is based on a 50/50 capitation/co-payment split. Various practices and practice groups may have different splits based on their total revenue from both sources.

The table below provides the annual statement change for various capitation/co-payment splits, compared with the equivalent figures for previous annual statements.

Table 5: Annual statement and general adjustments for different capitation/co-payment splits				
	2005/06	2006/07	2007/08	2008/09
Input-related adjustment factor for total fee	2.6%	3.9%	4.4%	3.7%
Annual statement of reasonable patient co-payment GP fee increase (assuming 80/20 split)	1.8%	6.3%	11.4%	7.5%
Annual statement of reasonable patient co-payment GP fee increase (assuming 70/30 split)	2.1%	5.3%	8.5%	5.9%
Annual statement of reasonable patient co-payment GP fee increase (assuming 60/40 split)	2.3%	4.8%	7.0%	5.1%
Annual statement of reasonable patient co-payment GP fee increase (assuming 50/50 split)	2.4%	4.5%	6.1%	4.7%