



General Practitioner Industry Report 2022

Foreword

General Practice is always at the forefront of changes to the medical industry. Practice owners are increasingly concerned about the viability of their practices, attracting and retaining doctors and managing workload. Bulk billing rates are starting to decline as practices pass on costs to patients. The looming threat of payroll tax audits are resulting in practice looking at ways to reduce the risk of being subject to these audits. It is important to make sure your practice is financially sound and investing resources in the right tools to enable growth over the long term.

Practice viability is becoming an increasing concern for owners.

Welcome to our latest General Practitioner industry report, part of our commitment to the medical industry. The last 12 months have continued to present challenges to general practitioners, even as practices transition out of a COVID environment.

Attracting quality staff to medical practices remains a concern amongst practice owners, and the ever-present payroll tax challenges are impacting the future viability of medical practices. Practice owners are responding by changing their billing model and are relying less on bulk-billing in favour of a mixed billing model.

At Prosperity Health, we make sure we are doing everything possible to support our general practice clients to grow, improve and eventually sell their practices for the highest price, so they can live and retire financially secure.

With 11 partners and over 170 staff throughout the firm Prosperity has the necessary expertise, experience and resources to service our clients' needs. We are very proud of our leading reputation, and we follow best practice processes and procedures to ensure our clients receive consistently high-quality services and solutions.

To provide our practice owning GP's with accurate, real time industry performance information, we have once again conducted the Prosperity Health General Practitioner Industry Report. Now in its eighth year, the study assists many practices to understand their key performance metrics and to keep ahead of their competition

This report provides the feedback from that study, set in the context of an analysis of recent broader industry data released by respected commentators and industry analysts.

Brendan Campbell
Director
Prosperity Health

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RECENT INDUSTRY ANALYSIS

2022 shows a shift in the proportion of bulk billing GP services and an increase in concern on the long-term viability of medical practices.

The 2022 RACGP industry report into General Practice Medical Services provides some interesting high-level industry statistics and insights:

- For the first time in almost 20 years, there has been a drop in the proportion of bulk-billed GP services. General practice is at a tipping point, and unless government immediately boosts investment in general practice care, more and more practices will be forced to pass the cost on to patients
- Only 13.8% of future doctors are choosing general practice as their career. Many GPs are exhausted with the bureaucratic nonsense, and more GPs, including younger GPs, are reducing their hours and expressing their intentions to retire early from general practice
- More than three-quarters of GPs reported that ensuring compliance with Medicare takes time away from patient-facing care, and 61% reported that the complexity of Medicare is something that worries them outside of their work day
- 70% of practice owners have indicated they are concerned about the ongoing viability of their practice, an increase from 54% in 2021
- GP work-life balance has declined annually since 2019, and for the first time since the survey began, fewer than half of GPs report having a good work-life balance
- The top challenges for GPs are managing workload, income and regulatory burden
- Business profitability was the issue most frequently selected as a challenge overall by practice owners, with almost three in four (73%) selecting it
- Sourcing and retaining GPs was frequently ranked by practice owners as their most important challenge, with 72% reporting it as a challenge and 38% ranking it as their top challenge
- Medicare data indicates that approximately 20% of GP consultations are conducted using telehealth, with 94% of these occurring via phone
- The year 2022 saw a steep decline in GPs who indicated interest in owning a practice in the future
- GPs are indicating earlier retirement, with 25% now reporting intentions to retire within the next five years, an increase from 18% in 2021. Fewer than half of GPs (48%) intend to still be practising in 10 years time.



UNDERSTANDING THE DRIVERS OF PRACTICE PERFORMANCE

Some of the key findings that we see as important to running a financially sound practice are highlighted below:

A large portion of Practice income is usually derived from the Service fees charged to consulting Doctors. This means the performance of the Doctors at a clinic is crucial to the financial success of the Practice itself. Once expenses are paid, and the profit is determined, we can measure the contribution to this profit on a Full Time Equivalent (FTE) basis. How the final profit is arrived at can vary, but at the end of the day it is important to understand what this profit is.

Essentially the major variables are:

- The Fees (Billings) of the GP;
- The Service fee percentage charged; and
- Wages paid to Nurses and admin staff.

The Fees (Billings) of the GP

The first piece of the puzzle is the billing of the Doctors. The Practice receives a service fee based on the billings of the Doctors and this makes up a majority of the income of the practice. Some Doctors will bulk bill and some will have a majority of private billings. Even when bulk billing, the amount billed is also then dependent on the consultation level undertaken and billed.

Bulk billing rates have reduced in 2022 compared to 2021, with reports of GP's bulk billing five million fewer standard consults. Anecdotally, we are hearing practices moving more towards a mixed billing model of care to ensure that their practices remain viable.

Whilst some practices experienced an increase in billings, others saw a decrease. Business acumen plays a key part in guiding the medical practice through changes in conditions and temperament of patients.

Based on data collected by Cubiko, we can see that the Gross GP billings per hour has increased from \$306 in 2021 to \$324 in 2022. Whether this is due to an overall increase in billings or appointment throughput remains unclear.

Chronic disease management has decreased slightly in 2022 but is still under 10% of all billings.

We can also see a drop in Telehealth consultations, moving from 14.62% of billings in 2021 to just under 11.47% of billings in 2022. This may indicate a return to normal as the effects of the Pandemic wear off.

	2021	2022
Gross GP billings per hour	\$306	\$324
Chronic Disease management	9.48%	9.32%
Telehealth consultations	14.62%	11.47%

Whilst the drivers of practice performance are consistent, the looming impact of payroll tax changes puts into focus practice viability.

Despite a pandemic, the major variables on practice performance remain to be billings, service fees and wages.

The Service fee percentage charged

While Service fees charged are dependent on many factors including the patient mix and supply and demand of the Doctors, as a rule a higher percentage is charged by those practices where greater assistance through nurses and admin staff is provided. The service fee percentage is often driven by competition which may reduce this as a lever that can be pulled.

Wages paid to Nurses and Administration staff

As billings are typically considered income of the Doctors, the Practice then charges the Doctors a service fee, and this service fee is recognised as income of the practice income (not an expense). Therefore typically the wages paid to staff is the largest expense of the practice. We have found that this can be a big factor in the financial success of the practice. In a perfect world when Nurses are more involved in the patient care, the Doctors would be taking less as a percentage of billings to account for the work of the nurses, and overall both the Doctor and the Practice would be in a better financial position. However this is not a perfect world and the Practice needs to monitor the service fees charged and the use of Nurses (paid by the practice) to make sure that the Doctor / Nurse numbers are financially viable.

With the looming payroll tax changes on the east coast, now is the time to look to reduce staffing costs using technology. Investment in technology isn't free, but where this reduces the cost of admin wages required to run manual systems, then over time this can be a large benefit to the practice, saving costs in the process, and freeing up time to be invested elsewhere.

Ensuring you are regularly monitoring staffing costs and checking that these don't blow out and dramatically affect the financial viability of the practice.

It should be noted that some practices with high staff costs are quite successful in providing assistance to the Doctors, a consequential increase in the billings of the Doctors - this is however a delicate mix and does need to be monitored.

Net Profit per GP

All of the factors above are part of a bigger picture and will be the variable factors in the overall profit of the Practice.

While net profit is traditionally 10% of billings, with the impact of payroll tax we expect that this will drop to 7% of billings, either as a result of the increase cost of payroll tax or the increase in administration required to ensure payroll tax isn't levied on Doctor's billings.

The drop of 30% of net profit is significant and can possibly be combatted by a disciplined reduction of costs or to increase income. We are seeing practices moving towards more of a mixed billing model or full private model.



The 2022 IBIS industry report into General Practices provides some interesting insights:

- Rising demand from Australia's growing and ageing population has been a key driver for revenue growth over the period, particularly as older people tend to use more GP services. Improved efficiencies have also allowed for higher patient throughput, increasing the total number of billable patients per day
- Over the past five years, junior doctors have increasingly chosen to pursue non-GP specialty training, with non-GP specialists earning almost twice that of their GP counterparts
- General practices are forecast to increase throughput rates and attain greater economies of scale over the next five years. However, some GPs operating private practices will likely need to bulk-bill to stay competitive, placing downward pressure on their profit margins. Reduced profit margins for smaller practices may cause some sole proprietors to reduce wage costs by taking on some administrative tasks themselves. Many smaller general practices rely on income from rents paid by pathology services to provide bulk-billing or lower priced medical services
- Computer technology has the potential to boost GP productivity and income by reducing administrative costs, enabling greater access to medical information, facilitating coordinated care and allowing consultations to be conducted remotely.

Is your practice 'payroll tax audit ready'?

Recent Payroll Tax cases have shone a light on the Independence of Contracting Doctors. Practices should be considering putting in a range of measures to ensure Doctor independence.

Following the Victorian 2019 decision in the Optical Superstores case, the NSW 2019 Homefront Nursing case and the 2022 Thomas and Naaz case, the various State Revenue offices (collectively 'OSR') have been actively engaged in payroll tax audits on medical and dental practices. With the power to issue backdated assessments for up to five years and impose penalties of between 10-75% of any back taxes levied, the potential claims could be substantial.

As you would know there continues to be uncertainty regarding payroll tax risk for medical practices. Many medical practices are introducing additional changes to their systems and are now considering making a change to set up multiple bank accounts and EFTPOS machines for each independent GP practitioner.

Considerations for payroll tax

When considering whether your medical practice may be subject to payroll tax, there are many factors to consider including:

- Are the patient fees collected and paid directly to the GP? Or are they collected by the medical centre and then remitted to the GP?
- Does the medical practice provide use of rooms and facilities as a service, or as a lease?
- Does the medical practice exercise control over the practitioner?
- Are the GPs required to use the medical practice facilities to see and treat their patients, or do they have discretion on how they conduct their own business?
- Are the patients attributed to the independent GP/other practitioner or to the medical practice itself?

All GP and Specialist practices should be seeking an urgent review of how billings are received in order to reduce their payroll tax risk exposure.

Should
Practices
have to pay
Payroll tax on
contracting
Doctors?

Going forward, we see there are two options to consider for the flow of funds:

1. **Doctors collect their own billings**, less restrictive contracts, and less control for a possible saving of payroll tax. There are three ways to administer this
 - Individual doctor provides the reconciliations and reporting to the practice manager
 - Practice manager has read only access to the individual doctor's bank account and prepares the reconciliation
 - Individual doctors utilise an independently managed and administered third-party trust account (eg Prosperity's Billings Collection Service).

It is also important to ensure the following are put in place:

- Contractual arrangements, with a specific focus on items such as the ownership of the patient relationship, the characterisation of payments from the doctor to the practice, any conditions imposed on the doctor by the practice and the funds paid for such services; and
- Practice website and marketing collateral, and day-to-day communication refer to the doctors as independent, and not as staff or team of the Practice. Patients are to be considered as patients of the Doctor and not the practice.

OR

2. **Practice collects billings**, keep more restrictive contracts and have more control over Doctors and patients, and less admin time spent reconciling through one account and just pay the additional payroll tax (this is really a cost benefit analysis that may suit smaller practices with lower payroll tax exposure).

Please contact us if you or someone you may know are interested in reducing your payroll tax risk.

ABOUT PROSPERITY HEALTH

Prosperity is an independently owned, award-winning chartered accounting and financial advisory firm with offices in Sydney, Brisbane and Newcastle.

Our Health team specialises in providing medical and allied health professionals with the financial services they need. Our team of specialists provide comprehensive accounting, audit, taxation, salary packaging and financial advisory services to practices of all sizes as well as individual practitioners and their families.

With 11 partners and over 170 staff throughout the firm Prosperity has the necessary expertise, experience and resources to service our clients' needs. We are very proud of our reputation among our clients and we follow best practice processes and procedures to ensure our clients receive consistently high-quality service and solutions.

Our experienced Prosperity Health team can work closely with you to assess your individual circumstances and work with you to develop strategies to reach financial goals and objectives.





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