How to survive the big squeeze

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Owners are being forced to change the way they operate, but many appear to be putting off tough decisions until it is too late, writes Zilla Efrat.

Co-pay or doctors' pay? Something has to give in the business of running a GP practice as successive governments unleash an ever-increasing number of challenges.

It's so tough for smaller practices that some are selling up. The smart ones are innovating. Those that are too fearful or tardy to act are heading for a rude awakening.

With bulk billing at record levels, the biggest pain is coming from the four-year freeze on Medicare rebate indexation, says Dr Malcolm Parmenter, CEO of Sonic Clinical Services.

He describes it as a slow death by a thousand cuts.

"Sooner or later (and probably later), GPs will be forced to charge a co-payment. Currently there is no sign of an increase in private billing."

Practices just can't keep up with inflation.

"The statistics show that GPs continue to bulk bill while pedalling faster," says Dr Parmenter, whose company owns Independent Practitioner Network (IPN) and has partnerships with 1700 doctors at 200 clinics.

These are uncertain times. Practice owners must run their businesses with one eye distracted by the uncertainty of the MBS review, in which medical experts are scouring the schedule looking for items and rebates to cut.

Then there's last month's announcement of the Health Care Home reforms, the government's plan to radically change the funding mechanism for seven million patients with chronic conditions.

Details are still patchy. But the idea is that fee-for-service payments to doctors for chronic disease care will be replaced by an as yet unknown quarterly payment.

The scheme might offer welcome relief, but doctors bemoan the lack of detail so far.

"Without any information on the quantum and break-up of its funding, one can only speculate about how it might work," says Dr Parmenter.

Chartered accountant David Dahm, CEO and founder of the Health and Life consultancy, says: "There are many unanswered questions on policy reform and these are creating a lot of uncertainty. Obviously the bigger practices are better resourced to deal with them. The smaller ones are being overwhelmed by the tsunami of change."

Mr Dahm reports an increase in practice distress – in the form of wage cutbacks and practice sales.

"The problem is that many practices are not very financially literate. They don't understand what their numbers mean and react when it's too late."

Professor Anthony Scott, who jointly co-ordinates the University of Melbourne Health Economics Group, believes that instead of altering their bulk billing formulas, many practices are just taking the hit. Others are changing their cost structures, delegating more to practice nurses or operating more effectively.

"There is evidence that GPs charge higher prices for richer patients than poorer patients. Therefore, they may decide not to change prices for poorer patients because they will just go somewhere else. But for richer patients, they might be able to charge higher prices and keep them," says Professor Scott.

Dr Rodney Beckwith, who operates two NSW practices, has adopted a wait and see approach before implementing more private billing.

He estimates his practices' bulk billing rate to be over 98% and says they essentially break-even. So small changes to the system can have big impacts on their viability.

"If my wait and see approach fails, then clearly the rebate will become unsustainable and all general practices will need to charge privately above the rebate. This will create social problems as many of our patients are genuinely unable to afford private fees."

Dr Beckwith is also looking at other income opportunities. "We have long recognised that the arbitrary and politically driven agenda of the government creates a high level of risk for GP practice owners. The government can scrap certain item numbers on a whim, deeply affecting our business viability," he says.

"The biggest direct cost reduction is in the percentage we are able to pay to contractor doctors. We simply made a decision, regardless of what our competitors are doing, not to pay above a certain percentage, no matter what. Otherwise, we will go broke."

Dr David Tillett, the founding member of Central Medical Group in the Albury-Wodonga region, says his practice has tightened up its billing structures and is bulk billing fewer people.

"We have introduced a new process for assessing people for bulk billing, Previously it was pretty much up to the doctors to decide. Now we have an application process for people who feel that they need bulk billing. We used to bulk bill over 65s routinely, but no longer do that. On the whole patients have responded really well to this. I think that's because we've communicated the issues effectively to them.

"We've also been more diligent in following up on people who don't attend appointments."

The practice is trying to improve the quality and depth of its services.

"We've been talking to orthopaedic surgeons, gastroenterologists around Hep C treatments, and to plastic surgeons and dermatologists on how to enhance skin care," he says.

In addition to boosting consolidation among practices, Mr Dahm expects the changes to change the way practices are run in the future.

He says owners need to develop a sustainable strategy for the future, define this with actual numbers and get practice-wide buy-in.

"They should also decide what changes they will tackle and which they won't. You can't do everything at once. If you put too many changes on to your staff members and doctors at once, they could hit their breaking points," says Mr Dahm.

He supports weaning practices off bulk billing.

"As soon as you put a fee on your service the patient becomes discerning. So there is a fear among doctors that they have to justify their services because patients will demand more or go next door to the bulk billing practice. But that's a myth.

"If they go to the practice next door, it means you are probably not that good at what you do. You need to focus on patient surveys and what patients think about your services.

"You may come up with some great ways to retain patients. For example, some practices are introducing membership fees to encourage patient continuity. Others may charge $10 a consult for the first 10 consults and bulk bill for the rest of the year."

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