18 December 2017

Digital Economy Strategy Team
Department of Industry, Innovation and Science
GPO Box 2013
Canberra, ACT, 2601

Dear Team,

On behalf of Surgical Partners, I submit the following information to support the important work of the Department of Industry, Innovation and Science to unlock the economic potential of Australian Industry via digital innovation.

Increasingly, one of the most important industries of the Australian economy is the provision of Healthcare services. Healthcare comprised 10.3% of GDP in 2016, up from 8.8% in 2008[(1)], and has been the primary provider of new jobs in the Australian labour market since the 1990s - and is expected to remain so[(2)]. A rapidly ageing population should ensure that these trends continue into the next decade, and well beyond.

The opportunity for digital innovation in healthcare is profound, particularly among small business providers of medical services. In the recent Productivity Commission report "Shifting the Dial: 5 Year Productivity Review", the Commission has specifically targeted healthcare - an industry many would not traditionally associate with productivity - as having significant efficiency opportunities. From the Foreword of that report:

> *"Health and education are expanding their share of the Australian economy. Moreover, they are directly under the control of governments. Delivering them much more efficiently, and with a serious focus on what improves outcomes for the users of these services, will deliver bigger benefits than even traditional industry reform" [(3)]*

We contend that there are two broad methods of achieving efficiency in the provision of Healthcare services:

1. Efficiency of clinical service delivery, and
2. Productivity of healthcare administration.

Australia has a long and proud history of clinical innovation. The Commonwealth Government continues to invest heavily to sustain this legacy, including via the recent Medical Research Future Fund and the My Health Record. Indeed, we believe digital innovation in the clinical environment is a worthy investment case for Government, given that such innovation has often proved elusive in the free market. This is due largely to both the complexity and criticality of medical conditions, and perhaps more controversially, to the existence of free market failure.

It is our view that, despite promising early progress, digital innovation in the clinical arena remains a lengthy and expensive pursuit. Interoperability issues and valid concerns around patient privacy and security, among other challenges, will continue to restrict meaningful results.

Furthermore, changes to clinical processes are inherently risky to patient care, and therefore resisted by well-intentioned clinicians and administrators.

The core message of our submission is that there are more readily available opportunities in terms of industry productivity, with less complex implementation risk, that are available *by adopting policies that drive administrative innovation in healthcare*.

In delivering this message, our approach is completely consistent with the Small Business Digital Taskforce's central observation that:

> *"Evidence shows that when a small business begins to digitise and use digital tools it creates new growth opportunities and diversifies revenue streams. Adopting digital technologies also helps small businesses to find talent, access finance, work smarter and enhances the value of the business when it is time to sell. However, many small businesses are not taking advantage of the opportunities that the digital economy offers."* [(4)]

This statement could not be more relevant to healthcare businesses. We contend that many of these opportunities can be exploited by simply engaging the kinds of tools and technologies that are already being employed in many other small business sectors. We will detail these administrative efficiency opportunities later in this submission.

Context – The healthcare industry in Australia

The total healthcare expenditure in Australia in 2015-2016 was $170.4b, of which the Commonwealth government funded $70.2b, and States and Territories $44.4b[(1)]. In total, Australian taxpayers fund over 67% of total healthcare expenditure. The industry comprises three broad groups of subsectors:

1. Private and Public Hospitals with $66.1b or 39% of annual expenditure.
   - Hospitals are largely operated by government or significant corporate enterprises. With the exception of smaller private hospitals and day surgeries, this is not a focus of Surgical Partners' experience and expertise, and so will not be addressed in this submission.

2. **Outpatient Medical Services with $56.1b or 33% of annual expenditure**
   - This area accounts for the most significant volume of healthcare transactions, processed by the vast majority of registered healthcare practitioners, and is predominantly serviced by small-to-medium businesses with substantial efficiency opportunities. Surgical Partners focuses on addressing these opportunities, and so this subsector will feature most heavily in this submission.

3. Benefit-paid Pharmaceuticals and other medications with $20.8b or 12% of annual expenditure
   - This is not a focus area for Surgical Partners and so will not be addressed in this submission.

4. Other expenditure (such as capital, transport services, aids and appliances, administration and research) at $27.3b or 16% of expenditure.
   - Similarly, this is not a focus area for Surgical Partners and so will not be part of this submission.

Outpatient Medical Services are the engine room of healthcare service provision, and at the frontline of every day patient care. Services include Primary Healthcare (General Practice), Referred Services (Specialists), Dental Services, and other services (such as Allied and Community Health). Essentially all of these services are funded on a fee-for-service basis by government, individuals or private health insurance institutions.

Providers of these healthcare services represent a "cottage" industry of small businesses, primarily owned by medical practitioners or private investors. There have been many attempts to corporatise and consolidate these smaller operators, but the larger business models have often struggled due to a key industry structural feature – a structural feature that has historically served to stifle innovation in the industry.

Healthcare services provision has an unusual structural feature driving its microeconomics

This structural feature is at the heart of understanding digital opportunities for small healthcare businesses, and will be referred to throughout this submission. It is this:

> ***The revenue-generating asset in the healthcare industry is the Medicare Provider Number. By legislation, for outpatient healthcare services, this asset is available only to medical practitioners and not* the medical practice business that the practitioner operates in.***

** Note: Medical practice entities do have the right to bill for less regular claims such as practice incentive payments, and for 'Healthcare Homes' services under the current trial.*

Why is this structural feature so relevant to this submission?

1. Firstly, the provider number walks in and out of the healthcare practice each day. To different extents in different medical disciplines, the goodwill of the patients will reside predominantly with the practitioner (or again, the provider number), and typically less so with the business "brand" that the practitioner operates under. Therefore, any consolidation or corporatisation will typically depend on the reliable implementation of contractual or incentive structures to control this un-owned practitioner 'asset'.

2. Further to the earlier point, industry consolidation strategies have often failed because of an inability to effectively control the practitioners in this manner. It has been argued that many consolidation strategies rely principally on financial engineering concepts, such as multiple arbitrage, as opposed to genuine value creation via true scale economies and the application of sophisticated business processes.

3. This structural feature means that healthcare practices providing regulated services generally *do not own the revenue they collect* – that is, it is only the practitioners that

have the right to regulated outpatient revenue. To overcome this, the practices will typically charge "facility fees" or rents to practitioners to operate within their centres. This is a well-established and legitimate charge for the cost of providing rooms, staff, supplies, systems and utilities to the practitioners operating in the practice. However, the processing (and often manual handling) of claiming, collecting and distributing the net billings to practitioners, together present substantial administrative challenges to the business.

4. Finally, the practitioners themselves, as legal entities, need to administer their own revenue, which in turn results in substantial manual processing of the billings data passed on by the practices.

Again, it has made commercial sense for private investors and healthcare funding bodies to attempt to extract scale economies and efficiency dividends via consolidating independent practices. While there may be ongoing rationale for pursuing scale economies, particularly in some disciplines such as Pathology services, it is our contention that digital tools now available to small business can achieve similar levels of returns as those available to larger corporates. For example, this is the very selling point of modern integratable accounting ledgers for small businesses, such as Xero and MYOB – which is the use of integration and automation to drive down the cost base of small business management, thereby approaching corporate-like efficiency.

The point I am making is that in the digital age already upon us, Doctors and private investors need not necessarily feel pressured to sell their small businesses in order to achieve such efficiencies, or in order to rid themselves of the manual processes of the past. Similarly, Governments and regulators have additional levers at their disposal to drive efficiency dividends from the sector, without relying on the further distancing of capital ownership from the patient coalface.

Digital automation of the practice/practitioner billings cycles is a substantial opportunity

Of the $56.1b value chain in outpatient healthcare service provision[1], it is our view that approximately $2b is wasted on the administrative manual processing that is occurring behind the point of clinical service provision. That is to say, this waste is entirely addressable with no direct impact on the clinical care of patients.

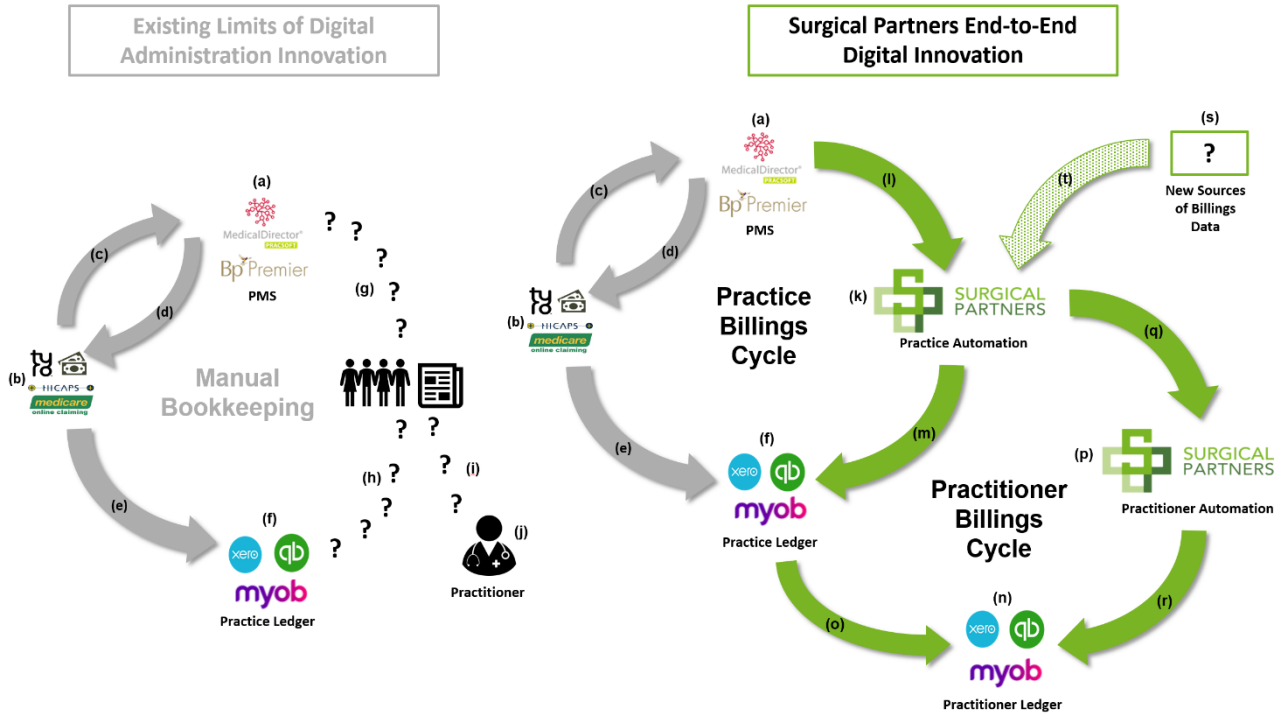
The scale of waste is in part driven by the nature and number of business entities that are providing outpatient services. From multiple available data sources, such as IBIS World[5], we believe there are around 20,000 medical and dental practice businesses in Australia, with many more providing other allied healthcare services. While some of these medical and dental practices are consolidated in corporatised structures, the vast majority (>90%) remain privately owned.

Further to our earlier discussion on the key industry structural feature, most medical practices are in fact billing on behalf of multiple individual practitioner entities. The data shows that there are over 100,000 registered Doctors in Australia[6], and almost 20,000 registered Dentists[7].

Essentially all of these practitioners require their earnings to be reported as independent legal entities, meaning an integratable ecosystem of well over 100,000 small business entities in the registered outpatient services industry alone.

The estimated administrative waste figure of $2b amounts to around $100k per medical and dental practice, ignoring allied health services in this analysis. While the medical practice business will ultimately bear much of this cost, it is also borne by the practitioners working in the practice. Per our discussion above, the practitioners will need to account for their own billings, a process which unnecessarily wastes as much as $5k or even $10k per year per practitioner. The following Figure 1 serves to illustrate the automation opportunity to address what we consider to be the most significant driver of waste in the ecosystem for outpatient services provision.

Figure 1: Visualisation of innovative transaction flows in healthcare financial management



(a) Practice Management System (PMS) - The source of truth of financial transactions for Outpatient Services
(b) Claiming and Payment Solutions – the method by which patients and funders settle payment for Outpatient Services
(c) Increasingly, payment solutions are digitally integrating payment remittances into the PMS
(d) Increasingly, PMS providers are integrating claims processing to claiming solutions and merchant terminals
(e) In most modern ledger systems, the deposits from these payment solutions are integrated by bank account "feeds"
(f) Integratable accounting ledgers are beginning to be well adopted, though their capacity is under-utilised
(g) Internal administrators or external advisors extract reports from the PMS for manual processing
(h) Manually processed summary entries are then manually journaled to accounting systems, bank not digitally reconciled
(i) Manually processed summary of practitioner billings share is generated and sent as static document to practitioner
(j) Practitioner either manually books their share themselves or pays advisor to manually enter in a ledger system
(k) The Surgical Partners Hub processes all source transactions digitally for bank reconciliation and practitioner distribution
(l) Surgical Partners extracts granular PMS transaction data in real time via proprietary mapping
(m) Standardised transactions are integrated into accounting systems for daily bank reconciliation and revenue accrual
(n) With integration innovation, we expect significant adoption of integratable accounting ledgers by practitioners
(o) Surgical Partners can digitally instruct practitioner payments to be fed digitally as bank feeds to practitioner systems
(p) The Surgical Partners Hub already processes transactions for integration into practitioner systems
(q) The Hub receives granular practitioner share data from earlier Hub logic in real time, presents for practitioner integration
(r) The granular data is then consolidated for daily integration into the practitioner systems for bank reconciliation
(s) There are a number other sources of practitioner financial data such as VMO work, telehealth, outsourced medical billing
(t) The Surgical Partners Hub has been designed to integrate this separate data and process it similarly to PMS data

The core efficiency opportunity in this ecosystem of entities is threefold – and these are examined here in turn.

Cost of extraction, manipulation and entry of billings data

In essentially all medical and dental practices today, the 'source of truth' financial transactions are manually extracted from Practice Management Systems (PMS) using printable reports or spreadsheet downloads (*Path (g) in Figure 1*). The source data is predominantly raw and often needs to be heavily worked into accounting relevance. For medical practices, that means totalling cash receipts for comparison with bank deposits, and splitting billings between practitioners and any direct practice revenue accounts for less common services. Once these calculations are made, the entries are journaled manually into accounting systems (*Path (h) in Figure 1*).

For simplicity, the majority of smaller healthcare businesses would enter only cash movements for the period, using the reports to compare with receipts coming in via bank account feeds to accounting systems. On very rare occasion, the data is entered accurately to reflect both accrual and cash transactions. More often, where accrual accounting is even attempted, it is achieved by entering end of period debtors balances and then backwards solving for accrual movements. It is our view that where business size mandates accrual accounting for compliance, there would be a significant proportion of practices that are simply non-compliant.

Surgical Partners has eradicated these manual processes by extracting and standardising source financial data regardless of practice PMS (*Path (l) in Figure 1*), using proprietary integrations and transaction mapping. By standardising the data, the Surgical Partners Hub can automate processing of the data regardless of the practice (or practitioner) choice of accounting system, and regardless of the chosen business rules for calculating and distributing the practitioner share of billings. Processed data is then automatically journaled into both the Practice (*Path (m) in Figure 1*) and practitioner (*Path (r)*) accounting systems, ready for reconciliation with bank deposits from payment methods.

Bank reconciliation, financial control, and the prevention of fraud

Given the inherent complexity of medical claiming, and the agency reliance on practice managers, staff and advisors, it is imperative for medical practice owners to have adequate financial controls in place. And given the current process of manually handling the data, there are very limited digital means of providing checks and balances on flows of practice billings. Indeed, the gold standard in these processes is to have internal staff or external advisors matching line by line bank statements with extracted PMS reports, or worse, by comparing period totals to within a digestible tolerance. Some larger specialist practices, for example, have two full time staff employed for the sole purpose of performing manual line-by-line reconciliation of bank statements.

Often, the bank reconciliation is simply not performed, or not performed with any regularity. As a result, fraud is a significant problem in the management of outpatient medical services. It is such a problem that it is explicitly insured for in medical practice business insurance, and insurers

provide extensive training and medical conference presentations to encourage financial control practices that can prevent the occurrence of fraud. It is difficult to find empirical data on the cumulative extent of the problem, however industry stories abound of practice staff, and indeed practitioners, defrauding practice businesses and practitioners of 6-figure sums.

We believe that the panacea for all problems reconciliation is the combined availability of both reliable bank feeds and source receipt integrations into small business accounting systems. Bank account feeds have been widely available to small business since the turn of the century, and indeed, have been employed by medical practices and their advisors for some time (*Path (e) in Figure 1*). However, it is only since the introduction of the Surgical Partners solution that practices have been able to leverage bank reconciliation screens in their accounting system to uniquely and digitally match line-by-line bank deposits with aggregated source receipts as recorded in the PMS. The fundamental check and balance provided by this combined innovation has the potential to eradicate what is a material contributor to the waste at the back end of the $56.1b industry value chain.

While automation of the bank reconciliation function is a significant step forward in financial control, this approach remains limited by the occasional lack of effective PMS integration of payments solution remittances, which are then extracted by Surgical Partners for integration. As such, Surgical Partners is actively engaged with payments providers across the claiming spectrum, including with major financial institutions and innovative new entrants into the healthcare payments space. In effect, Surgical Partners is leveraging its bank reconciliation expertise to define a de facto industry standard for the method of PMS remittance integration employed by these payments solutions.

It is worth noting that most medical practices calculate the distribution of practitioner share of billings based on receipts. Therefore, with such prevalent bank reconciliation problems in the industry, practitioners are often being paid an amount with no basis in actual bank deposit reality. This only further serves to compound the error and waste in the industry.

Distribution of Practitioner share of Billings, and further Data Entry

Once Medical practices have manually worked the source PMS financial data into practitioner components, the practice share for each practitioner is then calculated, typically as a percentage of billings. As would make microeconomic sense, many practices have business rules that retain a different percentage of billings for different procedures performed at the practice, which further complicates the manual process. The calculated splits are then manually drawn up in a Recipient Created Tax Invoice (RCTI), as a static document, and passed on to the Practitioner (*Path (i) in Figure 1*).

The key issues here are transparency, accuracy and efficiency. As noted above, particularly if the practitioner is paid on receipts basis, it is unlikely that the calculated amount is accurate in any financially controlled sense. Similarly, there is limited ability for the practitioner to digitally audit their distribution. And of course, there is the evident cost of handling substantial financial transactions in this manner.

Surgical Partners' proprietary technology automates the splitting process at the granular transaction level, according to the business rules of the practice. That is, the split could potentially be a different percentage for different procedures for different practitioners. The transactions being split by Surgical Partners' technology are the same ones that we have already reconciled digitally with bank in the process described above. Once again, the practice share and practitioner share are then journaled into the practice (*Path (m) in Figure 1*) and practitioner (*Path (r)*) accounting systems. Surgical partners can even automate the payment instruction to distribute the money to the practitioner bank account (*Path (o)*), which can be in turn be reconciled in the practitioner's accounting system.

In our view, the practitioner will increasingly become the nexus of the Surgical Partners solution set. This is because the availability new revenue sources for doctors (*Point (s) in Figure 1*), and the digital connectivity to these sources, is increasing. Similarly, practitioner accounting needs will become more complex as they look to maximise these new revenue sources. With broadening access to this spectrum of source financial data (*Path (t) in Figure 1*), Surgical Partners is ideally positioned to automate this accounting complexity for practitioners.

Examples of these evolving new revenue sources include:

- Telehealth payments to practitioners – such as: www.welio.com, www.gp2u.com.au, www.readycarenow.com.au
- Visiting Medical Officer payments by Public hospitals – such as: www.ehealth.nsw.gov.au/programs/corporate/vmoney
- Repeat prescription services – such as: https://practices.healthengine.com.au/repeatprescriptions/, https://www.hotdoc.com.au/practices/products/repeats/, https://www.medadvisor.com.au/HowItWorks/GPLink
- Independent Medical Expert (IME) Providers, and other third-party insurance work – such as: www.mrinow.com.au, www.ereports.com.au
- Outsourced Medical Billing for in-hospital work – such as: https://www.synapsemedical.com.au; www.medicalbillingservices.com.au

Other administrative pain points and manual processes, and available solutions

Outside of accounting system integration, payments reconciliation, and automation of practitioner distributions, we submit that there are a number of other significant opportunities to address administrative friction via digital innovation. In this section, we have listed some key categories of opportunity, and some examples of available solutions in the market.

1. Accounting for regulatory compliance, and for managing financial performance
    - Historically, many healthcare businesses would collate source documents from their practice management system and provide this data, along with asset, expense, and payroll data to accountants and bookkeepers to process manually
    - The declining cost and increasing ease of use of accounting systems has led to their more widespread adoption across all small business sectors
    - In our interaction with the industry, we are seeing the rapid adoption of cloud-based solutions such as www.xero.com, www.myob.com.au and

www.quickbooks.intuit.com/au/. Surgical Partners is therefore integrated into these systems.

2. Management of Human Resources
   - Typically, staff are single highest cost of running a medical practice. Practices will often rely on external assistance from groups as the Australian Medical Association, their practice Insurer, and/or human resource consultants for advice on their human resource challenges. Many will also outsource payroll to accountants, bookkeepers, or payroll services providers
   - There are a number of low cost workforce management applications for rostering and timesheeting of staff. Popular web-based solutions include www.deputy.com and www.tanda.co, both of which integrate into all major small business accounting systems
   - For broader Human Resources processes, useful tools for healthcare businesses include www.enableHR.com.au and www.employmenthero.com

3. Expense management
   - Outpatient medical practices are consumers of a variety of medical consumables, professional services, information technologies, utilities and general office expenses. Management of these suppliers and their transactions are usually handled internally, or by an external bookkeeper
   - Using available, low cost cloud-based solutions such as www.receipt-bank.com or www.hubdoc.com, practices can automate the data entry and processing of supplier invoices and expense approvals. These products integrate into all major small business accounting systems, which in turn add efficiency by enabling direct payments to suppliers, or at least facilitate easy payment via the generation of ABA files

4. Quality Management and Accreditation
   - Government and industry bodies are implementing increasingly onerous accreditation requirements on healthcare practices. These include the Australian Health Service Safety and Quality Accreditation Scheme, and the National General Practice Accreditation Scheme
   - At the same time, more sophisticated healthcare businesses are appreciating the value in implementing broader quality management processes than can help manage broader commercial as well as clinical risk
   - Increasingly popular cloud-based solutions for these processes in medical practices include www.logiqc.com.au and www.practicehub.com.au

5. Sales and Marketing
   - Historically, healthcare businesses have had limited need to advertise due to information asymmetry with patients, and to restrictive standards that are enforced by the Australian Health Practitioner Regulation Agency
   - With the explosion of internet usage and social media, information asymmetry has waned, and marketing expenditure has increased as a result. An industry of advisors has surfaced to suit the budget and ensure that practices still comply with the standards

- As in many other sectors, intermediaries have become invaluable to source new customers and to engage with existing patients, with most medical practices using web-based tools such as www.healthengine.com.au and www.hotdoc.com.au for this purpose

6. IT Support and Services
   - The majority of medical practices remain heavily reliant on desktop-based practice management systems and connectivity to administrative and clinical hardware. Security of patient data is a crucial responsibility, and most practices will outsource their IT support and service provision to external suppliers
   - As device connectivity becomes more reliable, and core desktop solutions become web-based, it seems likely that healthcare businesses will lower their reliance on these external services. The most obvious implication is that the industry cost of hosting desktop solutions will inevitably come down
   - New cloud-based practice management systems that will help to drive this trend include www.medirecords.com, https://www.medicaldirector.com/products/helix and www.clinictocloud.com

7. Sourcing of Capital
   - Digital Innovation in financial technology is often cited as a means to increase access to capital, particularly to short term debt funding for small to medium businesses
   - Historically, healthcare businesses and medical practitioners have represented one of, if not the most bankable sectors of the Australian economy. Rarely do medical service providers have any issue accessing reasonable levels of capital. Therefore, emerging funders such as www.moula.com and www.ondeck.com are not as relevant in this industry. Still, medical practices often seek funding for medical equipment and fitouts, for general expansion as well as for practitioner vehicles and goodwill acquisition
   - What is undoubtedly true is that use of integratable ledgers (and other digital administration tools) will make the application processes for capital far less onerous on medical practices and their advisors

Government and Industry-led initiatives relevant to administrative innovation in Health

The healthcare specific opportunities addressed above have context in a number of government and industry led initiatives in digital innovation. For the purposes of this submission we would like to focus on three that may be common with other industries:

1. The prevalence of cloud-based software and transaction processing tools;
2. New Payments Platform; and
3. Emerging standards such as e-invoicing and Standard Business Reporting (SBR)

Cloud- or web-based transaction processing is the foundation tool for cost base reduction

The prevalence of cloud-based, integratable ledgers has revolutionised the way small businesses work, and in our view, the economy-wide network effects from increased B2B connectivity have

only begun to be realised. For many small businesses, as per the healthcare example discussed earlier, web-based integration of low cost workflow management systems can deliver the benefits of a fully integrated CRM/ERP application without the need for an expensive enterprise solution. This trend has led to greater collaboration across the financial services and technology industries, from which small business can only benefit further.

In this light, Surgical Partners has previously been engaged as a representative of the Medical Software Industry Association (www.msia.com.au) with the Commonwealth Department of Human Services working group for the introduction of a Web Services claiming standard. Our involvement in this forum was to ensure that any future development of claiming services would consider the substantial benefit available to stakeholders via the adoption of reconciliation standards, that would in turn address administration friction on medical practices.

And since that time, the Department of Human Services has announced the Modernising Health and Aged Care Payments Services Program[8], which aims to deliver a new Digital Payments Platform that supports a digital-first (or digitally enabled) service delivery business model and simpler, faster, easier services for users. The outsourced development of this platform is expected to include an application layer for controlled external development - which may be an ideal basis for innovating around the many sources of waste in the revenue processing cycle for both medical practices and practitioners. The manner in which this Program interacts with other industry initiatives, such as e-invoicing and the New Payments Platform, will also have a meaningful impact on how administrative waste can be addressed in healthcare businesses.

At the same time, the accounting and medical software industries are witnessing a number of emerging Government policies that would seem to be working against the adoption of these important technologies. For example, while the ATO has recognised the productivity benefits of increased connectivity across the digital economy, it has introduced an Operational Framework in response to the business risks and security implications of such connectivity. Specifically, the framework establishes how the ATO will provide access and monitor the digital transfer of data through software.

Similarly, the Commonwealth Department of Human Services has introduced an External Cloud Service Provider Policy, targeting the providers of medical claiming software that interact with Department systems. If these software solutions are hosted in the cloud, the cloud computing providers must be listed on the Australian Signals Directorate's (ASD) Certified Cloud Services List, and all data must remain onshore, within Australian jurisdiction. Furthermore, software hosted by the cloud computing provider must reside on server infrastructure physically dedicated to Australian Government use, and Permanent privileged access must be limited to individuals who are Australian citizens and hold Australian Government Negative Vetting Level 1 security clearances.

While not impacting Surgical Partners directly, these policies have the clear potential to restrict the adoption of the cloud-based software innovation referred to throughout this submission. To be clear, Surgical Partners supports all reasonable steps to preserve the security and reliability of Government connectivity. We submit that the more blunt and extreme measures of these policies, if adopted, will serve to unnecessarily undo recent progress in advancing industry productivity via digital innovation.

New Payments Platform - while an invaluable innovation, brings only half the picture

Outpatient healthcare service provision is a relatively high volume, low value transaction environment, highly suited to structural innovation in payments technologies. For example, in the unreferred primary healthcare market in financial year 2017, Medicare funded over 38.5 million transactions at an average of $49.46 per service[9]. Funding sources include Medicare and other government funded services (such as Department of Veterans affairs and the National Disability Insurance Scheme), Private Health Insurers, Third Party Insurers such as Workcover and the Transport Accidents Commission, and others.

The existing Medicare Online claiming service, and its derivatives, have served the country well. Practices have recently grown comfortable with this technology, as they have with more integrated solutions services such as Tyro. However, Payments innovation in healthcare is proceeding at a rapid pace, including via the proposed new Department of Human Services program described above. For private payments of services, there is increasing integration of private health insurers, merchant services (including card not present transactions) and third party insurer transactions.

As the complexity of this spectrum of payments solutions increases, it has been proposed that the innovation and data content baked into the New Payments Platform could potentially provide a solution. Rather than rely on source financial data to account for healthcare remittances, the required data could simply be delivered as a dataset within a deposit in the bank account feed.

However, there are a number of problems with this proposal. Firstly, this relies on complete information being passed on by Practice Management Systems to full spectrum NPP-enabled payment solutions. Under any incomplete picture, where is the check and balance, the double entry bookkeeping, that provides such a fundamentally sound protection against fraud and the other ills of poor financial control? Secondly, under any incomplete picture, how would this data assist with on-distribution of the practitioner share of billings, and how will the embedded data in a future NPP-facilitated practitioner distribution come about? We would see automated solutions such as Surgical Partners as the logical populators of this NPP dataset.

In our view, The NPP data embedded in accounting system bank feeds will only have the capacity to deliver half the revenue cycle automation picture, and that this is the half that already exists.

Finally, despite the rapid adoption of digital payment mechanisms and the potential they provide, it is also important to note that elderly population cohorts remain by far the highest per-capita consumers of healthcare services. As noted in a recent article in the Australian Financial Review, titled “Cash in Circulation reaches a 50-year high”, the Reserve Bank of Australia Assistant Governor, Lindsay Bolton, was quoted as saying:

> *“A large component of the of the community – particularly older Australians – tend to use cash both as a payment method and also hold some proportion of their wealth in cash”*[10]

Unless the cash received by providers of regulated medical services is deposited at bank branches with some kind of supporting digital data, it is difficult to see NPP being the small business automation panacea in healthcare for the foreseeable future.

Industry and regulatory standards with respect to financial transactions and reporting

Direct electronic invoicing (or e-invoicing) is an exciting source of future business-to-business efficiency. The industry-led Digital Business Council is working toward a vision where economy-wide adoption of e-invoicing will increase the level of participation in the digital economy, driving productivity improvements and growth across industry.

According to Digital Business Council, the Australian Taxation Office (ATO) is committed to supporting the development of e-invoicing standards supports the Council's efforts to encourage adoption of e-invoicing both within and outside the government. It has been argued that initiatives like e-invoicing can assist the ATO in simplifying and streamlining regulatory burdens on business and revenue collection costs by leveraging standards like e-invoicing to achieve transaction-level GST collection, for example. In a recent speech, the Inspector-General of Taxation said that among technological advancements presenting opportunities are

> *"strategies that have been brought to our attention include implementing business-to-business and business-to-government e-invoicing for GST or Value-Added Tax (VAT) and working with taxpayers to implement machine-to-machine GST/VAT data reporting"*[11]

Where this becomes complicated in healthcare is the structural feature where the healthcare practice invoices patients and funders on behalf of the Doctor. And under current legislation, regulated healthcare services do not incur GST in any case. Therefore, while adoption of e-invoicing by the billings function of healthcare Practice Management (PMS) will be important in the longer term, the most significant GST accrual in health is where a medical practice charges its practitioners a facility fee. Without the kind of digital innovation being introduced by Surgical Partners, the generation of this fee is a highly manual and periodic process (eg Fortnightly or Monthly). Our technology is already capable of automating e-invoicing for this key industry transaction on a daily or even real-time basis.

Standard Business Reporting (SBR) is another important standard that has been enabled by increasing adoption of digital and integratable accounting tools. Again, the aforementioned complexities in healthcare transactions has meant the industry has been slow to adopt these tools and even slower to consider conformance to SBR principles. Surgical Partners is determined to deliver the reduced administrative burden and simplified business reporting obligations envisioned by the SBR standard, and is available to work with the ATO and other government agencies to assist in its adoption in the healthcare industry.

In conclusion – Please consider stakeholder benefits for the Healthcare industry

When leveraging the latest digital innovation in pursuit of available administrative efficiencies, industry stakeholders can substantially lower the cost base of healthcare provision, without any possible negative effect on patient care. Not only are these savings immediately available, but in

our view, represent the lowest risk approach to trimming the surging national burden of healthcare expenditure.

It is our understanding that the Digital Economy Strategy Team (and the Small Business Digital Taskforce) now have the opportunity to review and co-ordinate a number of Government and industry-led initiatives to assist in the industrial adoption of digital innovation. This would logically include financial transactions such as medical claiming, payments, e-invoicing, and regulatory engagement with government bodies such as the Australian Taxation Office. For these initiatives, I am confident that Surgical Partners' unique administrative efficiency lens on the sector will provide valuable insights to the review process. Therefore, Surgical Partners is ready and willing engage with the Strategy team (and indeed the Taskforce) to share our perspectives in further detail.

In summary, we submit that the digital innovation that we are already bringing to market, along with that of our technology partners, will together deliver a step change in efficiency for taxpayers, healthcare providers, healthcare practitioners, and the economy in general. We ask that the Team consider approaches that encourage the adoption of these technologies and remove the roadblocks to it; the industry is too important to our country's future to sustain the current prevalence of administrative waste.

Yours Sincerely,

Marcus Wilson
Chief Executive Officer

About Surgical Partners

Surgical Partners is the Financial Management Platform for Medical Practices and their Doctors. We integrate any practice management system (the core systems that run the practices) with any accounting system, and split the Doctor's billings into practice share, and doctor share, in real time.

Our iOS app shows Doctors what their real time share of billings is, in the palm of their hand, rather than waiting for a static contract invoice at the end of each payment period. Users of the platform can manage their practice with live data at the compliance accounting level, eradicating data entry and other manual financial workflows – resulting in substantial administrative & accounting savings, dramatically tighter financial controls, and improved financial engagement and retention of Doctors in the practice.

We have a growing base of delighted clients across Practice Management Systems in both Australia and New Zealand.

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