

# State of Corporatisation

A report on the corporatisation of  
general practices in Australia

Medicare Financing and Analysis Branch  
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**PROTECTED**

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## 1 Introduction

This report was prepared for the Department of Health and Ageing/Department of Human Services project, "Tracking the effects of corporate practices on Medicare Outlays".

The project aims include developing a better understanding of the market structure, operations and behaviour of the primary care market. This report contributes to the project by providing:

- a definition of corporatisation relevant to the Australian health care sector
- an historical overview
- identification of the models of practice ownership in existence
- a description of current and emerging corporate models
- profiles of the major players in the market – including analyses of ownership, mergers, acquisitions and integration of services across the health sector.

Assembling the information presented challenges, particularly in discovering the history of the smaller players. The paper also describes sources that can be used to locate company information, and some of the challenges in interpreting that information.

## 2 Summary

### Drivers for corporatisation

The corporate model has pros and cons. At its best it can provide financial security and lifestyle benefits for doctors, improve efficiency through and reduce costs, and provide patients with access to inexpensive medical services in a conveniently located “one-stop shop” environment.

At its worst, inefficiencies and substandard procedures may not be addressed if they don't affect the bottom line, patients may not have the opportunity to build a rapport with their doctor of choice, unprofitable patients could be marginalised, and doctors may face competing incentives to do the best for their patient, or the best for their company.

### Sources of information

Finding information on ownership of practices and the corporates that own them has been a challenge. Companies change hands, change names, merge and demerge, split apart into separate businesses or consolidate, and use multiple different trading names.

Multiple sources of information were used to identify companies and to seek out and verify information about them.

Sources included academic literature, media reports, internet searches, court cases, business registers, company reporting such as annual reports, company websites, telephone directories and even domain name registration details.

### Historical overview

Up to the late 1990s, general practice in Australia was, with some exceptions, a “cottage industry”. The typical practice was small and it was owned by independent practitioners trading as sole traders, partnerships, or associateships.

By 2000, there were six publicly listed corporate groups in operation. The AMA responded by issuing a voluntary *Corporate Code of Conduct*, the New South Wales government introduced legislation to penalise corporations for influencing practitioner referrals, and the Australian Government commissioned studies, trialled alternative models and in 2007 introduced its own legislation to prevent inducements to gain doctors referrals for diagnostics.

Through the 2000s a series of corporate takeovers took place, both friendly and hard fought battles. By 2010 there were just three publicly listed corporations operating in the market – Primary Health Care, Sonic Health Care and Healthscope - each having acquired some of the other players.

Government decisions regarding Medicare, and particularly changes in funding relationships, can be seen to have had a direct impact on corporate revenue and the corporate models favoured. The interrelationships between the pathology and general practice markets became closer through the 2000s as GP corporates bought into pathology, and vice versa.

### The current environment

Consolidation of practices has resulted in three large corporates that are, or were recently, publicly listed – Primary Health Care, Sonic Healthcare and Healthscope.

Although the market has consolidated, these companies still account for a relatively small percentage of industry revenue estimated at 12% of industry revenue<sup>1</sup>. The larger corporates compete against smaller corporate practices and unincorporated businesses to recruit doctors and to gain income from their services.

Smaller corporates that appear to be growing include Tristar Medical Group and Ochre Health. Both of these companies specialise in providing services to rural and remote areas.

## **Current and emerging corporate strategies**

A profitable enterprise requires both the ability to keep down costs and to bring in revenue. The models in use, and that we see emerging, are closely related to the financial incentives available.

With each new government initiative or change in environment, there is a potential new strategy to employ or niche to fill that could see a small corporate become a large one. A profitable enterprise requires both the ability to bring in revenue, and the ability to keep down costs. The models in use, and that we see emerging, are closely related to the financial incentives available.

### ***Reduce costs***

On the cost side of the equation the dominant corporate model is one that uses economies of scale in management both at the clinic level, where there has been a trend towards larger clinics, and in the central control of administrative processes, down to even the seemingly most minor of costs.

Primary Health Care is renowned for the aggressive approach it takes to cost control. Tristar also prides itself on its ability to identify and reduce costs.

### ***Increase market share***

Regardless of the business skills of a corporate practice manager, their ability to make a profit depends on having access to the general practice workforce. We see corporate owners employ carrot and stick approaches, with large sums of money and support provided as carrots and contract terms that are rigorously enforced as a stick to prevent the GP from departing and becoming a source of competition. Alternatively, the corporate may purchase another chain of general practices.

### ***Find new sources of revenue***

Each addition or withdrawal of Government financial incentives has the potential to create, or destroy, a corporate approach. Recently some general practices have been extending beyond the Medicare Benefits Schedule (and other Government incentives) and have introduced non-Medicare charges.

The introduction of nurse practitioner access to Medicare items in November 2010 has provided a boost for the one existing nurse-led clinic, Revive, and driven the creation of another, SmartClinics.

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<sup>1</sup> Fitzpatrick, N., 2011, "General Practice Medical Services in Australia", IBISWorld Industry Report 08621, IBISWorld, November 2011. The report only discusses Primary Health Care and Sonic Healthcare. It does not mention which companies IBISWorld places as the third and fourth largest.

## 3 Definitions

At its simplest, “corporatisation” of general practice is when a general practice becomes, or is acquired by, a corporate body created by law. Further refinement of this definition is required in order to be meaningful and workable for this project.

### General Practice

We define a “general practice” as a group of general practitioners at a common location (or locations). Activities of the general practice include activities of all individual practitioners working at the practice, regardless of whether they own the practice.

### Corporatisation

The majority of general practices are not owned by corporate bodies. They are usually sole traders (an individual owner), partnerships (two or more individual owners) or some variation of these business types such as associateships (groups of GPs sharing common facilities but each registered as a separate business).

Being a sole trader, partnership or associateship does not prevent a general practice from hiring employees or from expanding to new locations. However, they do not have the opportunities, or costs, of a company.

A company is a body corporate registered in Australia by the Australian Securities and Investment Commission (ASIC) under the *Corporations Act 2001*. Companies have one or more shareholders, rather than owners. Shareholders may have little or no involvement in the running of the business. Companies can operate nationally and can include charitable and not-for-profit organisations, which are usually registered as public companies limited by guarantee<sup>2</sup>.

It seems likely that only the most profitable or ambitious general practices would find becoming a company advantageous. Companies are more complex and expensive to establish than the simpler business structures described above. They have heavier tax reporting requirements and face other obligations such as production of an annual report.

Advantages for a business of becoming a company are:

- greater access to capital,
- limitation of liability for the owners, and
- taxation at the flat company rate of 30% instead of at individual tax rates<sup>3</sup>.

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<sup>2</sup> ASIC, “About the National Names Index”

<http://www.asic.gov.au/asic/asic.nsf/byheadline/About+the+National+Names+Index?opendocument#5> accessed 3 August 2011.

<sup>3</sup> Australian Taxation Office, 2008, “Choosing the right Business Structure”, available at <http://www.ato.gov.au/content/downloads/mei00182084nat72538.pdf> accessed 3 August 2011.

Aside from companies, the other type of corporate body is an *incorporated association*. Incorporated associations are registered by a State or Territory government, and may only operate within that State or Territory. Rules applying to incorporated associations vary from State to State<sup>4</sup>. However, incorporated associations are non-profit making; any profits can only be used to promote the association's objectives<sup>2</sup>.

Both companies and incorporated associations can hold property, and can sue or be sued in the name of the organisation rather than in the name of the owners.

## Corporatisation of general practice

For the purposes of this project:

We define corporatisation of general practice as when a general practice becomes, or is acquired by, a for-profit company registered under the *Corporations Act 2001*.

Further, we are focusing on chains of corporate practice, where a "chain" is multiple practices under common corporate ownership (as defined above). This paper concentrates on the largest chains, those that are rapidly growing, and those that are implementing novel changes.

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<sup>4</sup> ASIC, "Registering not-for-profit or charitable organisations", <http://www.asic.gov.au/asic/asic.nsf/byheadline/Registering+not-for-profit+or+charitable+organisations?openDocument> accessed 3 August 2011.

## 4 Drivers for and impact of corporatisation

### **“Rising cost / administrative pressures disproportionately impact smaller practices and drive doctors towards amalgamation models such as Primary”**

*Primary Health Care Limited, 2011<sup>5</sup>*

#### **Goodwill payments and GP retirement plans**

Details of general practice purchase arrangements are sparse<sup>6</sup>, since contractual arrangements between general practitioners and corporate bodies are generally covered by a non-disclosure clause. However, one element which they are known to contain is a substantial goodwill payment. “Goodwill” refers to the value of the business over and above the value of its tangible assets.

These payments can be seen in aggregate in company financial reports but are often mixed with reporting of purchases of other business types making it difficult to estimate the size of payments. Primary Health Care was recently reported to have said they typically pay around \$400,000 for goodwill – in exchange for which the doctor agrees to work 40 hours per week for five years<sup>7</sup>.

For GPs, the lure of a large goodwill payment is not merely a short-term grab for cash.

Under the “cottage industry” model, GPs typically invest a considerable sum in capital for their practice, with the expectation that they will recoup that investment on retirement<sup>8</sup>. If the GP is unable to find a buyer for the practice, their investment is effectively lost and retirement plans may be compromised. Given the ageing of the GP workforce, and the difficulties experienced in recruiting GPs to some areas, failure to sell their practice when they want to retire is a realistic scenario.

These large upfront goodwill payments would appeal to GPs who want to find more reliable retirement investments while still maintaining their income.

#### **Practice efficiency, or inefficiency**

At its best, a corporate environment can bring about improvements in practice efficiency and reduced focus on administration for GPs (e.g. human resource management). It can reduce the cost and administrative overhead of purchasing equipment and supplies, and of IT support.

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<sup>5</sup> Primary Health Care Limited, 2011, Medical Centre Investor Presentation, May 2011, available at <http://www.aspecthuntley.com.au/asxdata/20110503/pdf/01177073.pdf> accessed 15 August 2011.

<sup>6</sup> Although some information is reported in court cases for contractual claims. See page 44 for details revealed in Primary Health Care court cases.

<sup>7</sup> Creswell, A., 2010, “GP defends clinics in mailout”, *Australian*, 9 November 2010, p9.

<sup>8</sup> KPMG Consulting, 2000, “Corporatisation of General Practice Scoping Paper”, report prepared for the Commonwealth Department of Health and Aged Care, May 2000, p11.

These efficiencies and reduced administrative burden on GPs can lead to improvements in quality of care for patients and in life-style issues for GPs such as employment conditions and access to relief services. GPs with more time can engage in quality improvement and training opportunities. A larger practice also gives ready access to colleagues, with potential social and professional benefits.

At its worst the management of the practice may not meet, or may be slow to meet, doctor's and patient's needs - potentially endangering lives.

## Convenience for patients

For patients, a large medical practice can offer the convenience of a one-stop shop. It is in the medical centre's best interests to locate in a central, easily accessible area. Patients with complex needs may prefer to attend a practice, situated close to public transport, which has pathology or diagnostic imaging providers on site.

Large medical practices can also reduce accessibility for patients. A patient will have fewer options about which location to attend if the medical centre is created by consolidating GPs from the surrounding area into the one central practice.

## Loss of rapport

Some corporate practices introduce no-appointment systems. Because patients don't see the same GP on each occasion, they do not build the same relationship with and trust in a doctor over time, and GP's aren't as familiar with the family and social conditions of their patients.

## Unclear motives

At its worst, a GP working for a corporate body may not act as an agent of their patient, but of a corporation whose main concern is profits. This situation is not always clear to the patient<sup>9</sup>.

It can be argued that GPs working in a fee-for-service system have always had financial motivations in addition to the best interests of their patients.

## Profit considerations

For any primarily profit-making body there is a strong incentive towards "cream skimming" – establishing a business model that encourages the more lucrative patients while those with more complex needs prefer to attend practices with different models of care. GPs working in corporatised clinics have observed the different demographic of patients that practices such as queuing (rather than making appointments) draw<sup>25</sup>. There are possible equity issues here. General practitioners in Australia act as gatekeepers to the broader health system and it would be a matter of great concern if those who are most in need were not able to access their services.

## Vertical integration

It has been claimed that 'vertically integrated' general practice corporations i.e. corporations with connections to e.g. pathology, imaging and specialist services are more profitable<sup>9</sup>. These claims were tested in 2007 when Jane Jones conducted an exploratory study of companies listed on the stock exchange in the pathology,

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<sup>9</sup> Fitzgerald, P., 2002, "General practice corporatisation: the half-time score", *Medical Journal of Australia*, Volume 177, 15 July 2002, pp90-92.

diagnostic imaging and general practice sub-sectors from 2001-2005<sup>10</sup>. The analysis - primarily financial, supported by statements made by senior management of various companies – found that vertically integrated companies were more profitable than the alternative structures investigated.

**“... the real value of general practice, at least to some listed corporations, is not in general practice *per se*, but its ability to generate referrals.”**

*Jones, 2007<sup>10</sup>*

The profit motive can provide incentives for corporate pressure on GPs to refer patients.

Bolton 2003 suggests that there are financial incentives for frequent short consultations and that the brevity of consultations may in themselves necessitate increased referral by GPs to other services<sup>11</sup>. He notes that inducement to a GP to refer to a particular specialist is illegal but that the lucrative referral streams can be captured by making services locally available<sup>11</sup>. The convenient location of large medical centres may also induce demand and increased turnover<sup>11</sup>.

The pathology market is highly concentrated, dominated by the three major players Sonic Healthcare, Primary Health Care and Healthscope. These three companies together account for over 80% of pathology revenue<sup>12</sup>. These players are also the three largest corporate owners of general practices (although the medical centre market has not reached the same level of concentration as pathology). With limited room to move within the pathology sector, it seems natural that pathology companies would consider how their major source of referrals, general practices, might be influenced to improve their results.

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<sup>10</sup> Jones, J., 2007, “Integration and diversification in healthcare: Financial performance and implications for Medicare”, *Health Sociology Review*, Volume 16, Issue 1, April 2007, pp27-42.

<sup>11</sup> Bolton, P., 2003, “Sustaining quality general practice in a flawed market”, *Australian Family Physician*, Volume 32, No.4, April 2003.

<sup>12</sup> Fitzpatrick, N., *Pathology Services in Australia*, IBISWorld Industry Report 08631, IBISWorld, August 2011, p28.

## Publicly listed companies

A number of commentators<sup>13</sup> have expressed uneasiness about the involvement of companies with shareholders in the primary care market. These concerns have generally been expressed in terms of the effect the company's duty to shareholders would have on:

- clinical independence,
- referral practices (where the corporate body is also involved in pathology or diagnostics), and
- whether GPs would still be as responsive to the health needs of their patients when faced with the pressure to make a profit by their shareholders, and whether patients would be aware of these hidden motivations that may not have the doctor acting in their best interest.

Any of these concerns are also potentially relevant for larger privately-held companies.

The AMA also pointed out in 2000 that publicly listed corporations have greater access to capital than other business types. This allows them to purchase large numbers of practices in a short space of time<sup>14</sup> changing the nature of general practice in a particular region, or even the country, rapidly.

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<sup>13</sup> Including:

Collyer, F., and White, K., 2001, *Corporate Control of Healthcare in Australia*, Discussion Paper Number 42, The Australia Institute, October 2001, page v.

Fitzgerald, P., 2002, "General practice corporatisation: the half-time score", *Medical Journal of Australia*, Volume 177, 15 July 2002, page 90.

Kron, J., 2008, "Lifting the lid", *Australian Doctor*, 18 June 2008.

<sup>14</sup> Australian Medical Association, 2000, "General Practice Corporatisation: AMA Scoping Paper", November 2000.

## 5 Sources of information

Finding information on ownership of practices and the corporates that own them has been a challenge.

Companies change hands, change names, merge and demerge, split apart into separate businesses or consolidate, and use multiple different trading names. For example, Primary Health Care has been involved in a number of legal cases. In order to find these, it is necessary to know Primary's subsidiary companies that own the medical centres are Idameneo (No. 123) Pty Ltd and Sidameneo (No. 456) Pty Ltd.

In the case of publicly listed companies, subsidiaries must be listed in the annual report, which gives a record over time of when different subsidiaries were acquired or disposed of. The ownership chain of companies that are not publicly listed is not usually readily available.

A wide range of strategies and sources were employed to find information for this study. Multiple sources were used to identify companies and to seek out and verify information about them.

Sources used, and some of the challenges in assembling a complete picture of the sector, are described in this section.

### 5.1 Literature and public reporting

#### Literature search

The Department of Health and Ageing library conducted a literature search for journal articles discussing and analysing the corporatisation of general practice in Australia. The search returned 18 very relevant results dating from 2000-2010 in addition to a collection of references we already held. As each paper was reviewed, relevant documents cited were noted and obtained where-ever possible.

The results of the literature report provided some historical information, and formed the basis of Section 4: Drivers for and impact of corporatisation.

#### Media reports

The Media Monitors service was used to monitor current news during the project period. A separate log-in to the Media Monitors services was created for the purposes of this project. It is intended that this access will be maintained and the service regularly monitored for items of interest on an ongoing basis.

#### Internet searches

Internet searches were performed for each of the companies mentioned in this paper using Google. Most of the results returned were either the company's own pages, or media outlets with archives online. These often provided a useful starting point, or some serendipitous information that helped piece a story together. Purposeful searches of the other sources described were used to establish a more complete story.

#### Construction of search terms

Construction of effective search terms is an art in itself. Searches on uncommon combinations of words such as "kinetic health" were usually successful in that they provided good coverage of possible results without an excessive number of unrelated items. Searching on names such as "Primary Health Care" were more difficult, as

primary health care is a common expression. In this case the search was refined by use of other relevant keywords, the most useful of which was “Bateman”. Bateman is the surname of Primary’s founder and managing director and also the surname of his sons James who is ‘Chief Operating Officer & General Manager – Pathology’ for Primary and Henry who is ‘General Manager – Medical Centres’. Both sons were elected to Primary’s board in late 2011.

The most effective search terms for each of the major corporates was set as a “Google alert”. As new web pages come on line that meet the search criteria, an email is sent to an email address created for this project. This email address is regularly monitored and the alerts reviewed.

## **Court cases**

Court cases were not comprehensively studied for this report but did provide some information on corporate legal battles, illuminated the more controversial contract terms and conditions, and were also serendipitous sources of information about corporate takeovers and acquisitions.

## **5.2 Business registration**

### **The Australian Business Register (ABR)**

The Australian Business Register (ABR) is a database of information about Australian Business Number (ABN) holders. The ABN is an identifying number that businesses use in their dealings with other businesses, and with Government.

ABN registration is not mandatory, but it *is* mandatory for businesses with a goods and services tax turnover of \$75,000 to register with the tax office and to do so an ABN is required. As the Australian Taxation Office attributes an industry classification to each business this appears at first glance to be a useful means of identifying general practices and their ownership characteristics.

If the correct ABN for a business can be identified, basic details about the business structure, registration dates, and trading names are available. The business register also links to the entry in the Australian Security Investment Commission’s and there is a relationship between the ABN and the Australian Company Number (ACN).

An example public page from the Australian Business Register (ABR) is at Figure 1.

### ***Not suitable as a frame***

Unfortunately, the register is not suitable to use as a frame for this study as there is not a 1:1 match between business registrations and general practices. Doctors working in associateships, and contracted doctors, have their own ABNs so each practice can account for several ABNs. Alternatively, an entity with several similar businesses operating at different premises can use a single ABN for all of them<sup>15</sup>.

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<sup>15</sup> Australian Tax Office, 2012, *ABN Registration*, web page available at <http://www.ato.gov.au/> accessed 20 February 2012.

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The recently released Australian Bureau of Statistics publication *Health Care Services Australia 2009-2010* (Cat No. 8570.0) uses a subset of ANZSIC Category 8511 “GP Medical Services”. It counts 28,374 businesses at 30 June 2010 compared to Departmental general practitioner headcount estimates of 26,613<sup>16</sup>. That is, it counts more general practice medical service businesses than there are general practitioners.

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<sup>16</sup> Department of Health and Ageing, 2011, “General Practice Workforce Statistics”, electronic publication, October 2011 available at <http://www.health.gov.au/internet/main/publishing.nsf/Content/General+Practice+Statistics-1> accessed 16 August 2011.

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**Figure 1: Example of information found on the public version of the Australian Business Register**

Historical details for ABN: 66 091 000 225		
<b>Current details</b>	<b>Historical details</b>	<b>Disclaimer</b>
<b>ABN details</b> <span style="float: right;">help ?</span>		
<b>Entity names</b>	<b>From</b>	<b>To</b>
THE GRIBBLES GROUP PTY LIMITED	22 Jul 2005	(current)
THE GRIBBLES GROUP LIMITED	30 Jan 2002	22 Jul 2005
THE GRIBBLES GROUP LIMITED	02 Feb 2001	30 Jan 2002
MEDICAL CARE SERVICES LIMITED	06 Dec 2000	02 Feb 2001
REVESCO LIMITED	06 Sep 2000	06 Dec 2000
<b>ABN Status</b>	<b>From</b>	<b>To</b>
Active	01 Nov 1999	(current)
<b>Entity type</b>		
<a href="#">Australian Private Company</a>		
<b>Goods &amp; Services Tax (GST)</b>	<b>From</b>	<b>To</b>
Registered	01 Jul 2000	(current)
<b>Main business location</b>	<b>From</b>	<b>To</b>
VIC 3006	07 Nov 2008	(current)
VIC 3168	30 Jan 2002	07 Nov 2008
<b>Trading name(s)</b>	<b>From</b>	<b>To</b>
THE GRIBBLES GROUP LIMITED	27 May 2003	(current)
MEDICAL CARE SERVICES LIMITED	06 Dec 2000	27 May 2003
REVESCO LIMITED	06 Sep 2000	06 Dec 2000
<b>ASIC registration - ACN or ARBN</b>		
091 000 225 <a href="#">View record on the ASIC National Names Index</a>		
<b>Deductible gift recipient status</b> <span style="float: right;">help ?</span>		

Source:

Australian Government, "ABN Lookup", business.gov.au website.

<http://abr.business.gov.au/SearchByAbnHistory.aspx?abn=66091000225> accessed 24 August 2011

## **Historical information**

The Business Register includes historical information such as date of registration and previous entity and trading names. Previous names were used as 'clues' or supporting evidence in following ownership trails. A series of mergers, demergers and takeovers can result in more than one company listing the same previous name and it cannot always be assumed that having used a trading name implies that the company owned the name (it may have been a subsidiary of a company using the name) or that the name is not in use by another company.

## **The Australian Securities and Investments Commission**

The Australian Securities and Investments Commission (ASIC) is an independent Commonwealth Government body, empowered to regulate corporate bodies, markets, and financial services in Australia.

Once the ABN for a business is known, the Australian Company Number (ACN), if it has one, is the last nine digits of the ABN number.

ASIC also hosts the National Names Index, a database of entity names that includes company names, names listed on the Australian Business Register, and state based business name registrations. This also was a useful source.

## **Company information**

Companies are required to display their company name and registration number. This information can be used to look up basic information about the company on the ASIC website, such as their for-profit status or to order more detailed information from a broker. In the case of public companies (which can have wide non-employee shareholding) there are further obligations with respect annual reports and announcements relevant to the stock exchange.

## **Company annual reports**

Publicly listed companies are required to publish annual reports containing specific structural and financial information. Annual reports generally include:

- a description of operations
- factors affecting profit and loss
- separate reporting on the major divisions of the organisation
- information on the management and largest shareholders
- a listing of controlled entities (i.e. subsidiaries)

Companies usually include a copy of their annual report on their website.

## **Company websites**

Company websites often provide details of the company's ownership, size and scope of operations. Many company websites contain an "About us" section that may include the history of the company and ownership. Some corporate bodies will include listings of their practices.

## ***Currency of information***

One of the difficulties in using companies' own websites is determining the currency of the information. For example, a statement of the number of practices owned may not have a date attached to it. Some corporates will list all of their medical centres on their website and may include hours of operation and services offered, but, again, it is not always clear that the listing is kept up to date. Others will provide a search facility to provide details of the nearest clinic to a given location, but not a readily accessible list of locations.

### ***Example – out of date website***

Medeco Pty Ltd is a prime example of the danger of taking a website at face value. Medeco - a company we understood to be a subsidiary of The Doctor's Company which had gone into administration and its assets dispersed – still has a webpage at <http://www.medeco.com.au>. The website lists seven practice locations.

Several interpretations were possible:

- the administrators had allowed Medeco to continue their medical centre businesses,
- Medeco and its practices had been sold to another group and continued to operate under the Medeco name, or
- the website had not been attended to after Medeco ceased operating the businesses.

On careful review we found that each of those practices were now under different ownership and that the last alternative seemed to be correct.

## ***Investor information***

One of the most useful sections of a publicly listed company's website is the investor information (or similar name) page. This often contains annual report, stock exchange announcements, general meeting presentations and media releases. In some cases it is possible to subscribe to email alerts from the page. We have taken out subscriptions to these services where available.

As well as providing access to Annual Reports, the investor materials section of a company's website can include other documents. For example presentations to shareholders and the Healthscope Notes prospectus – these have proved to be good sources of facts, figures and remarks about the company's approach or intentions.

## **“Wayback Machine”**

The Internet Archive is a non-profit organisation based in San Francisco, USA, that aims to preserve and provide access to historical collections provided in digital format. Part of this project is the “Wayback Machine” – a portal to access past versions of websites. The Wayback Machine can be found at <http://www.archive.org/>.

It is not possible to search the archived sites generally, you must know the web address of interest. Coverage of websites is variable and the archiving occurs irregularly. Larger, more popular sites are better covered than smaller ones. We were able to access past versions of websites found for many of the companies of interest dating back to the early 2000s.

We determined the web address for some defunct companies by making an educated guess e.g. [www.nameofcompany.com.au](http://www.nameofcompany.com.au) or if they were mentioned as a source in an earlier paper. It was not possible to find all of the companies that we sought, either through not knowing the correct address, not being included in the archive, or if the company didn't have a web site.

The same cautions apply to archived websites as to current ones.

## 5.3 Other business information

### Domain registration details of practice and company websites

Domain names with the “.com.au” extension are only available to businesses registered in Australia. People wishing to register a “.com.au” name must provide the registrar with their company details. This information can be accessed at several sites including <http://whois.ausregistry.net.au/>.

Domain registration details were a useful indicator of ownership for some of the smaller corporates.

### Telephone directories

An organisation closing down or leaving an address would routinely cancel the phone service for that location. The most reliable source to determine if a practice was still operating was often the online version of the white pages. These were used to determine if a practice was still in operation at a given address. Confirming the name being used was also a way to confirm the current owner of the group, if it was known that the practice had operated under different names with different owners but it was not known which the most recent owner was. For groups that used a standard naming convention for all of their practices it provided a quick, but not infallible, way of checking the status of their practices.

## 5.4 Third party analysis

Some third party analyses were used in creation of this report. These provided a mixture of historical information, analysis and opinion which provided a useful starting point to understanding the sector. However, these reports have been referenced only sparingly in this paper as the process of checking the accuracy of claims has in most cases produced official, administrative or legal documents that report directly on the event, or contemporary media reporting of the events.

### Market research reports

In some cases market research reports by commercial providers are referred to, such as those by IBISWorld. These reports are available for purchase on a subscription basis and can provide a good overview of the sector, at least for the larger companies. They include a history of the company, financial figures and commentary, estimates of market shares and analysis of future prospects.

Market research reports have been used in this report to provide context (e.g. estimates of market share). The reports do not generally cite sources or provide methodologies for their estimates.

## **'Corporate Medicine' website**

The Corporate Medicine website is an extensive collection of historical information and commentary on the corporatisation of general practice. This website has not been referenced as a source in this paper, but is worthy of note.

The pages were created in the 1990s by an individual, Michael Wynne, who had a personal interest in and strong beliefs against the corporatisation of medicine. This website is strongly flavoured with the personal beliefs of its creator and provides a dissenting viewpoint. It was updated with new information on a number of occasions through the 2000s. Updates appear to have ceased in about 2008.

The site includes detailed source citations for the factual claims made. These have been obtained where relevant and have been cited in this report.

The site address is <http://www.bmartin.cc/dissent/documents/health/central.html>.

## 6 Historical overview

### 6.1 Changing environment

#### **“Big companies have trebled the number of family medical practices they control in less than two years”**

*Kerin et al, 2001<sup>17</sup>*

Up to the late 1990s, general practice in Australia was, with some exceptions, a “cottage industry”. The typical practice was small and it was owned by independent practitioners trading as sole traders, partnerships, or associateships.

From the mid 1990s and through the 2000s there was a dramatic rise in the level of corporatisation of general practice in Australia with a number of companies – including Mayne Nickless, Foundation Healthcare, Primary Health Care, Medical Care Services and Endeavour Healthcare<sup>17</sup> - rushing to purchase General Practices.

Anecdotal evidence suggests that there had been substantial corporate activity in Western Australia through the 1990s. Media reports estimated that 30-40% of practices in Western Australia were corporatised by the year 2000<sup>18</sup> although it is not clear where that estimate came from. At that time Primary Health Care was just beginning to make inroads in New South Wales.

Whether or not it started the trend, Primary Health Care quickly became a major player. Having first registered as a company on 17 May 1994<sup>19</sup> it listed on the stock exchange on 3 July 1998<sup>20</sup>. It acquired hundreds of unincorporated medical practices through the 2000s<sup>21</sup>. Further information on Primary’s activities is provided at page 39.

These events were seen as the beginning of a transition from small owner-operated facilities into large scale vertically integrated medical centres that combined general practices and services such as radiology, pathology and, in some cases, hospitals.

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<sup>17</sup> Kerin, J., Price, G., and Stock, S., 2001, “The Great GP Takeover”, *The Australian*, 16 June 2001.

<sup>18</sup> KPMG Consulting, 2000, “Corporatisation of General Practice: Scoping Paper”, report prepared for the Commonwealth Department of Health and Aged Care, May 2000, p19. Similar claims were widely reported in other media articles from the time period.

<sup>19</sup> ASIC “National Names Index” entry for Primary Health Care <http://www.search.asic.gov.au/cgi-bin/gns030c?juris=9&hdtext=ACN&srchsrc=1&acn=064530516> accessed 3 August 2011.

<sup>20</sup> Primary Health Care “Investor Fact Sheet” available on [http://www.primaryhealthcare.com.au/IRM/content/investors\\_factsheet.html](http://www.primaryhealthcare.com.au/IRM/content/investors_factsheet.html), accessed 3 August 2011.

<sup>21</sup> Primary Health Care *Annual Reports* from 2000 to 2011.

By 2000 there were several corporate groups operating in Australia, including six publicly listed companies<sup>22</sup>:

- Mayne Nickless (trading as Health Care of Australia)
- Primary Health Care
- Revesco (trading as Total Care Australia)
- Alpha Healthcare
- Foundation Healthcare
- Sonic Healthcare

As the environment changed, possible benefits were noted and concerns rose. There was little if any analysis of the effect of these changes, but the cumulative evidence of case studies was cause for concern.

**“It has been obvious that pressure, overt or covert, is put on practitioners to see as many patients as possible and suspicion has been aroused that requesting pathology and diagnostic imaging tests is being encouraged.”**

*Professional Services Review, 2000*<sup>23</sup>

## 6.2 Responses to corporatisation

### Australian Medical Association

In November 2000, the Australian Medical Association published a scoping paper, *General Practice Corporatisation*. Particular concerns raised in the paper included the participation of publicly listed corporations in the market. As well as concerns about their profit motive, the AMA voiced concern about the potential for the types of changes being seen or speculated upon being implemented on a large scale in a short period of time, due to the greater access to capital publicly listed companies have and hence their ability to purchase large quantities of smaller businesses.

In 2001 the AMA took up the matter on behalf of its members and convened a summit at which most of the corporations agreed to a voluntary code of conduct. In late 2001 the AMA launched the corporate code of conduct with three critical signatories – Endeavour Health Corporation, Mayne Health and Gribbles Group<sup>24</sup>. A number of

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<sup>22</sup> KPMG Consulting, 2000, “Corporatisation of General Practice: Scoping Paper”, report prepared for the Commonwealth Department of Health and Aged Care, May 2000, pp19-21, 60.

Allen Consulting Group, 2000, “Corporatisation of Medical Services: Issues and Trends”, report prepared for the Commonwealth Department of Health and Aged Care, pp2-4.

<sup>23</sup> Professional Services Review 2000, *Annual Report 1999-2000*, Commonwealth of Australia, 2000. pp8-9.

<sup>24</sup> AMA, Corporate Code of Conduct: Information for Doctors.

groups including Primary Healthcare refused to sign. With only three signatories, the code of conduct drew criticism for being ineffective<sup>9</sup>.

An alternative view held by Perth-based GP and former AMAWA president, Professor Pearn-Ross, is that the AMA *Corporate Code of Conduct* forced a change of culture on the corporates<sup>25</sup>.

## NSW Government response

The New South Wales government introduced legislation that penalised the corporation, not just the practitioner, for influencing the practitioner's referrals. The NSW *Medical Practice Act 1987 (Medical Practice Amendment Act 2000)* could "exclude an employer, manager or director from involvement in any company providing medical services if he or she is found to have incited doctors to unsatisfactory professional conduct, or is party to either payment of pecuniary benefits for unnecessary services or directing referrals".

The legislation was in force from 2000 to 2010 when NSW adopted the *Health Practitioner Regulation National Law (NSW)*<sup>26</sup>, by which time the Australian Government prohibited practices legislation (discussed below) was in effect.

## Australian Government response

The Australian Government also reacted to the growth of corporatised medicine, first by commissioning two reports on the subject.

### **"Corporatisation of medical services highlights the problems for the Commonwealth, rather than creates them"**

*Allen Consulting, 2000*<sup>28</sup>

## Studying the issue

In 2000 the Department of Health and Aged Care commissioned two reports on the subject.

The aims of the first report, by KPMG<sup>27</sup>, included reviewing developments within Australia and considering the implications of general practice corporatisation for GPs, consumers and Commonwealth expenditures. It found that there was a great variety of general practice models in operation, and that there were trade-offs between consumers, GPs at different stages of their careers, and the government involved in any model. In this context they suggested that corporatised approaches could have some merits, but that further research into specific aspects, such as the impact on costs or quality of care, was warranted.

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<sup>25</sup> Kron, J., 2008, "Lifting the lid", *Australian Doctor*, [www.australiandoctor.com.au](http://www.australiandoctor.com.au). Article published 18 June 2008, accessed 2 Aug 2011.

<sup>26</sup> The New South Wales *Medical Practice Act 1992* was repealed by Sch 3 to the *Health Practitioner Regulation Amendment Act 2010* No 34 with effect from 1.7.2010.

<sup>27</sup> KPMG Consulting, 2000, "Corporatisation of General Practice Scoping Paper", report prepared for the Commonwealth Department of Health and Aged Care, May 2000, p11.

The second report, commissioned from Allen Consulting<sup>28</sup>, aimed to identify trends and issues, and implications for government policy. They suggested that problems of over-servicing and inappropriate referrals were not a product of corporatised practices, but of the incentives provided by the fee-for-service Medicare system.

### **Alternative Models to Corporatisation**

In December 2000 the then Minister for Health and Aged Care funded several projects known collectively as the *Alternative Models to Corporatisation* projects. These projects were developed in consultation with local GPs, who were able to choose the type of model they preferred. Five of these six projects were based in Divisions of General Practice, the other in a state-based organisation of Divisions<sup>29</sup>.

All but one of the projects sites opted for a third party service provision model, but there were differences in the form of the service company – whether owned by a Division (or group of Divisions), provided by the relevant Division, or owned by a group of general practitioners<sup>29</sup>.

### **Prohibited Practices legislation**

The 2007 Australian Government moved to address concerns about inducements for doctors to pass on pathology or diagnostic imaging requests to particular providers. The *Health Insurance Amendment (Inappropriate and Prohibited Practices and Other Measures) Act 2007* was passed in 2007 and took effect from 1 March 2008.

The legislation strengthened provisions to prevent inducements or threats in order to gain referrals. It prohibits asking for, accepting or providing a “non-permitted benefit”, and the making of threats in connection with pathology or diagnostic imaging requests or services.<sup>30</sup>

Generally speaking, “non-permitted” benefits that are benefits which are disproportionate to the practitioner’s interest in the body corporate including the disproportionate distribution of profits or shares, salary and wages, and also leasing property at less than market rates.

The legislation applies to anyone who requests or renders request pathology or diagnostic imaging services that would be eligible for Medicare benefits, the people or companies who employ them, and, importantly, the executives of those companies.

The legislation also introduced new criminal and civil penalties including fines of up to \$66,000 for individuals, \$660,000 for corporations, or a five year prison sentence<sup>31</sup>.

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<sup>28</sup> Allen Consulting Group, 2000, “Corporatisation of Medical Services: Issues and Trends”, report prepared for the Commonwealth Department of Health and Aged Care, pp2-4.

<sup>29</sup> Anderson, R., Haywood, P., Usherwood, T., Haas, M., and Hall, J., 2005, “Alternatives to for-profit corporatisation: The view from general practice”, *Australian Journal of Primary Health*, Volume 11, No.2, pp78-86.

<sup>30</sup> Department of Health and Ageing, “Legislation relating to Pathology”, web page, accessed via <http://www.health.gov.au> > For Health Professionals > Services > Pathology Services > Legislation relating to Pathology.

<sup>31</sup> Department of Health and Ageing, “Pathology services”, webpage, <http://www.health.gov.au> > For Health Professionals > Services > Pathology Services, accessed 6 December 2011.

## 6.3 Corporate takeovers

In 2003, concern over corporatisation of general practice was still a hot topic – enough so that the *Medical Journal of Australia's* 'General Practice' issue devoted a section to speculation on the future of general practice<sup>32</sup>.

The number of corporatised practices continued to grow. Through the 2000s the major corporate players would continue to build and purchase practices, and to buy and sell each other.

Through a series of takeovers and mergers, the six publicly listed companies with general practice holdings in 2000 had reduced to three by 2008:

- Primary Health Care
- Sonic Healthcare, and
- Healthscope.

Healthscope has since been taken over and delisted, but its businesses are still operating. These three are still the largest corporate owners of general practices in Australia today.

All three of these companies own other medical services, such as pathology businesses, but they have taken different paths to reach their current position.

### Primary Health Care

Primary Health Care started out as a medical practice owner and operator, and increased this role while also vertically integrating through the purchase of pathology and diagnostic imaging companies. Primary Health Care built the medical centre component of their business by acquiring smaller unincorporated medical practices and consolidating the doctors into Primary's own purpose-built facilities.

No figures are available on the total number of practices Primary has absorbed, but their annual reports<sup>33</sup> show the purchase of 355 practices from 2000 to 2003 (these figures were not published for later years). As far as it is possible to ascertain from the goodwill payments, this rate of acquisition appears to have continued throughout the 2000s. From 2000 to 2011 Primary Health Care spent more than \$400 million on acquisition of "medical practices" and "health-related practices"<sup>33</sup>. Their expenditure on "health-related practices" in the 2010-2011 financial year was \$62 million<sup>34</sup>.

In 2008 they acquired Symbion (formerly known as Mayne Nickless) after a takeover battle with Healthscope (described below). The purchase of Symbion added more medical centres, around 80 pathology labs and 690 pathology collection centres to the Primary fold<sup>35</sup>.

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<sup>32</sup> Medical Journal of Australia, 2003, "The destiny of general practice: blind fate or 20/20 vision?", *Medical Journal of Australia*, Volume 179, 7 July 2003, pp47-56.

<sup>33</sup> Primary Health Care Annual Reports from 2000 to 2011.

<sup>34</sup> Primary Health Care, 2011, *Annual Report*, p84.

<sup>35</sup> Primary Health Care, 2008, "Investor Presentation", ASX announcement, 13 February 2008, p9.

Primary Health Care has consolidated Symbion and the hundreds of smaller practices purchased through the 2000s into 82 medical centres, including 56 large-scale centres<sup>36</sup>.

While Primary has generally shown little interest in buying pre-existing networks of practices, the exception being Symbion, they have vertically integrated pathology and technology services through the purchase of Sydney Diagnostic Services NSW Pty Ltd in 2000 (among others), and Health Communication Network in 2005<sup>33</sup>.

Primary appears to have a strong focus on the core of their vertically integrated business. When they purchased Symbion they retained the general practice and pathology businesses, but were quick to sell off the consumer and pharmacy divisions<sup>33</sup>.

## Sonic Healthcare

Sonic Healthcare, on the other hand, was a reluctant entrant to the primary care market.

In 2000 Sonic was a medical diagnostic company, with a network of pathology laboratories in Eastern Australia and New Zealand. Sonic had noted the changes that were occurring in the primary care market and had already seen their pathology referrals disappear from medical centres purchased by Primary Health Care<sup>37</sup>.

In May 2000 Sonic openly discussed the dilemma they faced of either losing pathology market share to Primary Health Care, or defending their position by buying into the primary health care market, thus entering into competition with the very doctors that were the source of their existing pathology referrals<sup>37</sup>.

While they raised the possibility of establishing a model that would allow a Sonic GP arm to remain independent, Sonic did not buy into the primary care market directly at that time. Rather than vertically integrating directly they purchased a 10% share of one of the players, Foundation Healthcare<sup>38</sup> (later known as Independent Practitioner Network, IPN).

**“Sonic has made the decision not to become involved directly in the acquisition or management of primary care practices [...] we wish to remain an independent diagnostic company, free of any possibility of competition with our own referring practitioners”**

*Sonic Healthcare 2000<sup>38</sup>*

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<sup>36</sup> Primary Health Care 2011, “FY 2011 Results: 12 Months Ended 30 June 2011”, Investor presentation 22 August 2011. Available at <http://www.primaryhealthcare.com.au/IRM/content/home.html> accessed 23 September 2011.

<sup>37</sup> Moynihan, R., 2000, “Owning the whole kit and caboodle”, *Australian Financial Review*, 24 May 2000, p16.

<sup>38</sup> Sonic Healthcare, 2000, *Annual Report 2000*, p6.

Sonic finally bought into the primary care market in 2004, with an increase in shareholding of IPN up to 71.6% - sufficient to make IPN a subsidiary of Sonic<sup>39</sup>. The purchase was driven by Primary Health Care's attempted takeover of IPN, which would have further threatened Sonic's pathology referral base. Shortly after this, Sonic increased its holding of general practices through purchase (by IPN) of Endeavour Healthcare's medical practices on 26 November 2004<sup>40</sup>.

## Healthscope

Like Sonic, Healthscope's primary interest is not medical centres. The majority of their revenue is derived from private hospitals. Although they are the third largest owners of medical centres in Australia, by number of centres owned, the centres play a relatively small part in their operations. Healthscope annual reports do not include the medical centres as a separate line item, reporting on them instead as part of the company's pathology business.

Also like Sonic, Healthscope's involvement in medical centres may be more an effort to protect the referral base of their pathology business than an interest in the general practice market. For instance, some of Healthscope's medical practice purchases appear to have been made in an effort to mitigate the loss of pathology referrals from practices that had been owned by the failed corporate, The Doctors Company<sup>41</sup>.

### ***Symbion takeover attempt***

In 2007, Healthscope attempted to make a friendly takeover of Symbion, but were thwarted by Primary Health Care who also wished to buy the company<sup>42</sup>. Agreement from 75% of Symbion shareholders was required for the sale of Symbion to Healthscope to go through. Although the vast majority of other shareholders voted in favour of the sale, Primary Health Care had increased their ownership of Symbion to a 20% share, which gave them just enough voting power to prevent the takeover. The final vote was 73.8% in favour, just shy of the 75% required<sup>43</sup>.

Healthscope then attempted to work out a deal where they would purchase Symbion's diagnostics assets while two other companies, Ironbridge Capital and Archer Capital, would buy the consumer and pharmacy units. This type of arrangement required agreement from only 50% of Symbion shareholders and was less likely to be prevented by Primary's vote<sup>43</sup>. Not so easily deterred, Primary mounted, and lost, a legal challenge against the deal. While Primary was not able to stop the deal, the Australian Tax Office (ATO) was. The scheme was abandoned when the ATO ruled that it would not qualify for capital gains tax relief<sup>42</sup>.

The battle for Symbion continued. As Primary increased their holdings of Symbion above 35%, Healthscope increased their holdings to 11.9%<sup>44</sup> - a critical figure as it would prevent Primary from reaching the 90% of shareholdings required in order to compulsorily acquire the remaining shares. Eventually however Healthscope allowed Primary to purchase the remaining shares.

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<sup>39</sup> Sonic Healthcare, 2004, *ASX Full Year Information – 30 June 2004*, 23 August 2004, p17.

<sup>40</sup> Sonic Healthcare, 2005, *Annual Report 2005*, p4.

<sup>41</sup> Clare, B., 2011, "Hopes GP back in Eumundi by May", *Sunshine Coast Daily*, 11 March 2011

<sup>42</sup> Smith, P., 2007, "Ruling foils Healthscope deal ambition", *Financial Times*, 28 November 2007, p21.

<sup>43</sup> Washington, S., 2007, "Dr Bateman kills the merger", *Sydney Morning Herald*, 12 September 2007.

<sup>44</sup> Australian Associated Press, 2007, "Primary stake in Symbion nudges ahead", 31 December 2007.

The battle for Symbion was a costly one. Healthscope emerged with a 23% fall in net profit after tax (and a similar fall in earnings per shareholder)<sup>45</sup> compared to the previous year.

**“When the corporatisation of general practice first hit the headlines, the fear that it would compromise GPs’ clinical independence loomed large. Fast forward to today [2006], and even 5-10 years on there still remains no clear answers on the issue. [...] But suspicions continue to exist even though hard facts don’t”**

*Kron 2006<sup>46</sup>*

## 6.4 Corporatisation coverage

**Figure 2** lists companies that were identified as corporate practice owners or key players in reports prepared for the then Department of Health and Aged Care in 2000 by KPMG and Allen Consulting, that we have to date been able to trace. Note that the original lists were not intended to be comprehensive. The same difficulties in identifying corporately owned practices faced when preparing this report also existed in 2000. Brief notes are included on the situation in 2011.

More complete information on the current major groups is included at “Corporate takeovers” on page 25 and “The Current Environment” on page 37. Work to identify practices and their ownership more broadly is ongoing.

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<sup>45</sup> Healthscope Limited, 2008, *Annual Report 2008*, p17.

<sup>46</sup> Kron, J., 2006, “Has corporatisation compromised GPs’ clinical independence? It all depends on who you talk to.”, *Australian Doctor*, 2 August 2006. Available at <http://www.australiandoctor.com.au/news/40/0c042740.asp>

**Figure 2 - Corporate Practice Owners in Australia 2000 - where are they now?**

Company	Status in 2000 <sup>47</sup>	Status in 2011 <sup>48</sup>
<b>Publicly listed</b>		
<u>Mayne Nickless</u> (trading as <u>Health Care of Australia</u> )	Primarily involved with hospitals, the company had three practices in Western Australia which were acquired through takeover of a hospital group.	<u>Mayne Nickless</u> was renamed <u>Symbion</u> in 2005. It was purchased by <u>Primary Health Care</u> in 2008 <sup>49</sup> .
<u>Primary Health Care</u>	Undergoing expansion. Believed to have 300 GPs and specialists under contract. Recently purchased a pathology provider.	Through the 2000s purchased hundreds of small practices which it has consolidated into 82 medical centres (as at 23 August 2011). Claims to have around 3000 GPs on contract. Also owns pathology companies <sup>49</sup> .
<u>Revesco</u> (trading as <u>Total Care Australia</u> . Later known as <u>Medical Care Services</u> )	A newcomer to health care in 1999-2000, formerly a mining company. Believed to have 150 GPs under contract. Owned seven medical centres and a 49% stake in <u>Gribbles Pathology</u> .	<u>Medical Care Services</u> merged with <u>Gribbles Pathology</u> and took on the name <u>The Gribbles Group Pty Limited</u> . It was purchased by <u>Healthscope</u> in 2006.
<u>Alpha Healthcare</u>	Struggling with debt.	Acquired by <u>Ramsay Healthcare</u> (hospital operator) in mid 2001 <sup>50</sup> . Not involved in general practice.
<u>Foundation Healthcare</u>	Entered the WA GP market in February 2000 and by November had operations in six States and Territories. Said to have contracts with 1000 GPs.	Merged with <u>LifeCare Health</u> and was briefly known as <u>LifeCare</u> before being renamed <u>Independent Practitioner Network</u> in 2002. Majority acquired by <u>Sonic Healthcare Limited</u> in 2004 with full acquisition 2006 <sup>51</sup> . <u>LifeCare</u> itself was sold in 2006 and now runs physiotherapy clinics but does not own general practices.

<sup>47</sup> KPMG Consulting, 2000, "Corporatisation of General Practice: Scoping Paper", report prepared for the Commonwealth Department of Health and Aged Care, May 2000, pp19-21, 60.

Allen Consulting Group, 2000, "Corporatisation of Medical Services: Issues and Trends", report prepared for the Commonwealth Department of Health and Aged Care, pp2-4.

<sup>48</sup> Australian Government, "ABN Lookup", website, www.business.gov.au, accessed various dates in 2011.

Australian Securities & Investment Commission, "National Names Index", website <http://www.search.asic.gov.au> accessed various dates in 2011.

<sup>49</sup> Primary Health Care *Annual Reports* from 2000 to 2011.

<sup>50</sup> Ramsay Health Care, 2001, *Annual Report 2001*. Available from <http://www.ramsayhealth.com/Investor-Centre/docs/RamsayAnnualReport2001.pdf>.

<sup>51</sup> Sonic Health Care *Annual Reports* from 2000 to 2010.

# State of Corporatisation

A report on the corporatisation of general practices in Australia

Company	Status in 2000 <sup>47</sup>	Status in 2011 <sup>48</sup>
<u>Sonic Healthcare Limited</u>	Said to be Australia's largest pathology company. Purchased 10% of <u>Foundation Healthcare</u> in August 2000, and entered into a strategic alliance with them.	Subsidiary <u>Independent Practitioner Network</u> claims to have 198 medical clinics under it and is the "business partner" of more than 1000 GPs.
<b>Privately held</b>		
<u>Endeavour Health Care</u>	Described as "soon to be listed". It had purchased the medical businesses of <u>Westpoint Corporation</u> and <u>Corporate Health Care</u> .	Medical centre business was purchased by <u>Independent Practitioner Network</u> , a subsidiary of <u>Sonic Healthcare Limited</u> in late 2004.
<u>Immediate Health Care</u>	Listed by Allen (2000) as a commercial medical centre operator – no further detail.	Now known as <u>Daraban Pty. Ltd.</u> A subsidiary of <u>Sonic Healthcare Limited</u> .
<u>Medi7 Medical Centres</u>	Listed by Allen (2000) as a commercial medical centre operator – no further detail.	<u>Medi7</u> is a group of five GP-run practices located in Victoria <sup>52</sup> .
<u>Medihelp</u>	24 medical centres in Queensland	<u>Medihelp</u> was purchased by <u>Foundation Healthcare</u> in November 2000 <sup>53</sup> and is now a subsidiary of <u>Sonic Healthcare Limited</u> <sup>51</sup> .
<u>Prime Health Group</u>	Listed by Allen (2000) as a commercial medical centre operator – no further detail.	Acquired by <u>IPN/ Sonic Healthcare Limited</u> in March 2010. This subsidiary has been merged with <u>Gemini Medical</u> and trades as <u>Kinetic Health</u> <sup>54</sup> .
<u>Mediplus Healthcare Solutions</u>	Said to be part owner of eight medical centres in Western Australia, and have a stake in a pathology business.	Could not identify this business today.
<u>Brisbane Westside Medical Group</u>	Listed by Allen (2000) as a commercial medical centre operator – no further detail.	Appears to now be part of <u>Independent Practitioner Network</u> , a subsidiary of <u>Sonic Healthcare Limited</u> .

<sup>52</sup> Medi7 website [www.medi7.com.au](http://www.medi7.com.au) accessed 24 August 2011.

<sup>53</sup> Australian Stock Exchange, 2000, "Foundation Healthcare Limited (FNC.AX) Acquisition of Medihelp Group", company announcement, 13 November 2000.

<sup>54</sup> Kinetic Health website <http://www.kinetichealth.com.au> accessed 30 August 2011.

Company	Status in 2000 <sup>47</sup>	Status in 2011 <sup>48</sup>
<u>Westpoint Corporation</u>	Owned four medical centres, with acquisition of three more being finalised and further acquisitions mooted.	<p>The medical businesses were purchased by <u>Endeavour HealthCare</u> (now known as <u>Independent Practitioner Network</u>, a subsidiary of <u>Sonic Healthcare Limited</u>) in around 2000.</p> <p>The company was primarily a property developer. The business was wound up as insolvent in 2006 and found to have operated an unregistered managed investment scheme. Legal action still ongoing<sup>55</sup>.</p>

## 6.5 Government influences

Changes in funding arrangements and in laws surrounding general practice and related fields can have a significant impact on the corporate environment as they provide, or remove, motivations for general practitioners and corporate bodies to behave in particular ways.

Every year there are numerous changes made to Medicare arrangements. These may be routine adjustments to Schedule fees, or a more significant review, addition or removal of items from the Schedule.

These changes have the potential to change the GP environment. Changes to Medicare fee schedules have a direct impact by either increasing or decreasing the profitability of GP services (with further impact on bulk-billing rates), Alternatively, changes to Medicare fee schedules may produce more complex motivations and behaviours.

This section summarises some of the Government policy and funding changes since 2000 that could have influenced general practice.

### **Bulk-billing incentive payments – from 1 February 2004<sup>56</sup>**

Increases to bulk billing rates make a bulk billing model more desirable for a general practice.

- Bulk-billed concession card holders and children aged under 16 attracted an extra \$5 rebate. The incentive is indexed annually and is currently \$6.90.
- Bulk-billed concession card holders and children under 16 attract an extra \$7.50 rebate if in Tasmania, Rural, Remote and Metropolitan Areas 3-7, or from 1 September 2004, to a number of other geographical areas. The incentive is indexed annually and is currently \$10.45.

<sup>55</sup> Australian Securities and Investments Commission, 2006, "06-045 Federal Court orders winding up of Westpoint Corporation", media releases and advisories, 17 Feb 2006. Available from <http://www.asic.gov.au/> > Publications > Media Centre.

<sup>56</sup> Department of Health and Ageing, 2005, "Medicare Statistics March Quarter 2005", website [www.health.gov.au](http://www.health.gov.au) > Publications, Statistics & Resources > Publications > Historical publications accessed 31 August 2011.

## Practice nurse items – from 1 February 2004<sup>56</sup>

Two new practice nurse items were introduced into the MBS covering relevant services on behalf of a general practitioner. An additional item was introduced into the MBS on 1 January 2005. This allowed for doctors to restructure how they use practice nurses.

In 2010, Tristar employed 15 practice nurses across their network of (then) 16 practices. Tristar's experience was that practices nurses could add to practice incomes, but only if their time and pay rates were carefully planned<sup>57</sup>.

## Allied Health Services – from 1 July 2004

Since 1 July 2004, GPs have been able to refer patients on Enhanced Primary Care plans to allied health professionals. Medicare rebates are available for up to five of these consultations per year.<sup>58</sup>

## 100% Medicare Rebate for GP Services – from 1 January 2005

From 1 January 2005, the Medicare benefit payable for most GP services increased from 85% to 100% of the schedule fee. The increase applied to both GP items (whether or not the GP was vocationally registered) and practice nurse items. It was available regardless of whether or not the item was bulk-billed<sup>59</sup>.

For bulk-billing GPs, this would theoretically provide an increase in income of around 17%. Non bulk-billing GPs may have had an incentive to start bulk-billing, or an opportunity to increase their fees without imposing additional costs on their patients.

Primary Health Care noted that average GP billings at their clinics had risen by 20% because of the change<sup>60</sup>.

## Round the clock Medicare initiative – 1 Jan 2005

The Round the Clock Medicare initiative provides a financial incentive for GPs to provide after-hours services. From 1 January 2005 the schedule fee for existing after hours items increased by \$10, and 32 new after-hours items were added<sup>61</sup>.

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<sup>57</sup> McGilvray, A., 2008, "How much is a practice nurse worth?", *Australian Doctor*, 17 September 2008.

<sup>58</sup> Office of the Minister for Health and Ageing, 2004, *Allied health workers to help the chronically ill through Medicare*, media release, ABB074/04, 7 June 2004

<sup>59</sup> Medicare Australia, 2005, *100% Medicare Rebate for GP attendances*, fact sheet, November 2005, available at [http://www.medicareaustralia.gov.au/provider/incentives/files/100\\_per\\_cent\\_Medicare\\_Rebate\\_for\\_GP\\_attendances.pdf](http://www.medicareaustralia.gov.au/provider/incentives/files/100_per_cent_Medicare_Rebate_for_GP_attendances.pdf) accessed 8 November 2011.

<sup>60</sup> Primary Health Care Limited, 2005, *Annual Report 2005*, p2.

<sup>61</sup> Health Insurance Commission, 2004, *Strengthening Medicare: Round the Clock After- Hours GP Services*, software vendor notice, December 2004, available at [http://www.medicareaustralia.gov.au/provider/vendors/news/files/hic\\_after\\_hours\\_rebates\\_for\\_gp\\_services\\_010105.pdf](http://www.medicareaustralia.gov.au/provider/vendors/news/files/hic_after_hours_rebates_for_gp_services_010105.pdf) accessed 8 November 2011.

## Medicare items for GP mental health care plans – 1 Nov 2006

From 1 November 2006 new Medicare items were added to the Medicare Benefits Schedule to cover the early intervention, assessment and management of patients with mental disorders. New review and consultation items were provided for GPs involved in the ongoing management and treatment of patients under a GP Mental Health Care Plan<sup>62</sup>.

## Prohibited practices legislation – from 1 March 2008

From 1 March 2008 new laws covering commercial relationships between requesters (including GPs) and providers of pathology and diagnostic imaging services came into effect. These laws operate in addition to State and Territory laws, and the *Trade Practices Act*.

The laws prohibit requestors from asking for or accepting a “benefit” from a provider, and the provider from offering or providing a “benefit”. A benefit is cash, property, goods or services that are reasonably likely to induce a requestor to request pathology or diagnostic imaging services from a provider.

Importantly, the laws can also apply penalties to people who are “connected to” the requestor or provider by a personal or a business relationship. This means that medical centre operators are not permitted to induce practitioners to use a particular diagnostic imaging or pathology provider.<sup>63</sup>

## Changes to Medicare Rebates for Pathology – 1 November 2009

From 1 November 2009 the Australian Government introduced bulk billing incentives for diagnostic imaging and pathology tests performed out of hospital, in the form of increased rebates for bulk billed services. These changes were funded by a reduction in pathology collection fees funded by Medicare. Diagnostic imaging was expected to benefit by \$601 million for the increased bulk billing. Pathology was estimated to gain \$348 million in bulk billing incentives but was also the source of an estimated \$763 million in savings to Government through reduced collection fees<sup>64</sup>.

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<sup>62</sup> Department of Health and Ageing, 2006, *Better Access to Mental Health Care*, fact sheet, October 2006, available online at [http://www.health.gov.au/internet/main/publishing.nsf/Content/C0AA936E6D40C25CCA2572020002E469/\\$File/Q&As.pdf](http://www.health.gov.au/internet/main/publishing.nsf/Content/C0AA936E6D40C25CCA2572020002E469/$File/Q&As.pdf) accessed 9 November 2011.

<sup>63</sup> Department of Health and Ageing, 2009, *Changes to laws relating to pathology and diagnostic imaging*, brochure, September 2009, available at [http://www.health.gov.au/internet/main/publishing.nsf/Content/health-pathology-legamendpathdi.htm/\\$file/Commun%20Brochure%2025%20Sept%2009.pdf](http://www.health.gov.au/internet/main/publishing.nsf/Content/health-pathology-legamendpathdi.htm/$file/Commun%20Brochure%2025%20Sept%2009.pdf) accessed 9 November 2011.

<sup>64</sup> Minister for Health and Ageing, 2009, “More Support for Bulk Billing Pathology and Diagnostic Imaging Tests”, media release, 12 May 2009.

## **Pathology providers have benefited from increasing automation of pathology tests ... it is reasonable for Australian taxpayers to also benefit from these efficiencies**

*Minister for Health and Ageing, 2009<sup>65</sup>*

The changes lead to howls of protest from the pathology sector. Primary Health Care accused the Government of cost-shifting to individuals<sup>66</sup>. In their annual report of 2010 Primary cited these and other Medicare funding cuts (including non-renewal of some Practice Incentive Programs) in explaining their 2009-2010 results which were slightly down on the previous year<sup>67</sup>.

Sonic moved quickly to introduce “significant billing policy changes” for pathology which were intended to offset the changes<sup>68</sup>. However the billing changes – presumably the introduction of patient co-payments – backfired when they resulted in a significant loss of volume in Queensland. They were subsequently reversed<sup>69</sup>.

### **Deregulation of pathology collection centre licences – from 1 July 2010**

From 1 July 2010 the Government reduced regulation of pathology collection centres and diagnostic imaging. Caps on collection centre ownership were removed, and patients were allowed to choose their preferred pathology service provider, regardless of the provider chosen by their doctor<sup>70</sup>

Before the change, pathology service providers had used their limited licences to target the highest volume areas. With deregulation, the market dynamic changed and placement of pathology collection centres in smaller medical clinics became viable<sup>71</sup>.

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<sup>65</sup> Minister for Health and Ageing, 2009, “More Support for Bulk Billing Pathology and Diagnostic Imaging Tests”, media release, 12 May 2009.

<sup>66</sup> Primary Health Care Limited, 2009, *Annual Report 2009*, p5.

<sup>67</sup> Primary Health Care Limited, 2010, *Annual Report 2010*, pp3-4.

<sup>68</sup> Sonic Healthcare Limited, 2009, *Annual Report - 30 June 2009*, p5.

<sup>69</sup> Sonic Healthcare Limited, 2010, *Annual Report - 30 June 2010*, p6.

<sup>70</sup> Minister for Health and Ageing, Minister for Finance and Deregulation, 2009, *Increasing Competition in Pathology and Diagnostic Imaging*, media release, 12 May 2009, available at [http://www.health.gov.au/internet/budget/publishing.nsf/Content/40AAE74A8C62A0A0CA2575B20039382E/\\$File/hmedia15.pdf](http://www.health.gov.au/internet/budget/publishing.nsf/Content/40AAE74A8C62A0A0CA2575B20039382E/$File/hmedia15.pdf) accessed 9 November 2011.

<sup>71</sup> Healthscope Notes Limited, 2010, “Offer of Healthscope Notes”, prospectus, November 2010, p46.

This triggered a frenzy as the “big three” pathology providers (who also happen to be the big three corporate GP owners) Primary Health Care, Sonic Healthcare and Healthscope, attempted to maintain their market share in respect to each other, and to smaller players entering the market.

- By mid-August 2010, just a month after deregulation, **Primary Health Care** is said to have added 200 pathology centres to their network<sup>72</sup>. In mid 2011 Primary claimed to have maintained their market share of collection centres at around 33% after the changes, albeit with a significant increase in rent and staffing costs<sup>73</sup>.

## **The roll-out of collection centres has imposed additional costs, but Primary has undertaken the task of resetting its cost base and to return to incremental pathology margin gains going forward**

*Primary Health Care*<sup>74</sup>

- **Sonic Healthcare** also purchased collection centres. Sonic claims to have continued to increase their market share of pathology services. Their organic volume growth<sup>75</sup> of 5.4% was greater than the overall growth in pathology of 4.8% (citing Medicare data)<sup>76</sup>. They also claim to have opened relatively fewer collection centres than their competitors<sup>76</sup> with presumably less expenditure on new centres. Sonic claimed to have opened 220 new centres by February 2011<sup>77</sup>.
- Where Primary Health Care and Sonic Healthcare have expanded their pathology businesses by opening new collection centres, **Healthscope** has taken a different approach. In January 2011 they purchased a smaller pathology player, Healthbridge Diagnostics Holdings Pty Ltd<sup>78</sup>, gaining 80 existing collection centres through Victoria and New South Wales<sup>79</sup>.

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<sup>72</sup> Urban, R., 2010, “Funding cuts hit Primary Health Care bottom line”, *The Australian*, 18 August 2010.

<sup>73</sup> Primary Health Care Limited, 2011, Medical Centre Investor Presentation, May 2011, available at <http://www.aspecthuntley.com.au/asxdata/20110503/pdf/01177073.pdf> accessed 15 August 2011

<sup>74</sup> Primary Health Care Limited, 2011, *Annual Report 2011*, p5.

<sup>75</sup> Organic volume growth is growth occurring in existing businesses, rather than through purchases.

<sup>76</sup> Sonic Healthcare Limited, 2011, *Annual Report - 30 June 2011*, p5.

<sup>77</sup> Goldschmidt, C., 2011, *Half Year Results*, power point presentation, Sonic Healthcare, 22 February 2011.

<sup>78</sup> Healthscope Group, 2011, *Aggregated Annual Report for the period ended 30 June 2011*, p39.

<sup>79</sup> Ahmed, N., 2011, “Healthscope about to pounce on Healthbridge”, *The Australian*, 19 January 2011.

The major corporates have continued to establish more new collection centres after the initial thrust. Since deregulation, Primary Health Care has opened 655 new collection centres, Sonic Healthcare has opened 374 and Healthscope has opened 379<sup>80</sup>.

Unlike general practice, where these three large players still have a relatively small share of the market, the pathology market is highly concentrated. Sonic Healthcare (39.4%), Primary Health Care (31.3%) and Healthscope (11.4%) together account for over 80% of the market, by revenue. The only other major player, St John of God Health Care, has a 4.7% share with the remaining 13.2% of the market held by smaller operators<sup>81</sup>.

## **Nurse Practitioner access to Medicare – from 1 November 2010**

On 16 March 2010 the Senate passed legislation to allow nurse practitioners and midwives access to the Medical Benefits Schedule and Pharmaceutical benefits schedule. Access to the Schedules commenced on 1 November 2010<sup>82</sup>. Through the following year, almost 29,000 nurse practitioner services were provided – including the existing practice nurse clinic, Revive (see page 57), and at a new corporate chain specializing in nurse practitioner services, Smartclinic<sup>83</sup>. Smartclinic is discussed further on page 57.

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<sup>80</sup> Department of Health and Ageing data.

<sup>81</sup> Fitzpatrick, Nigel, *Pathology Services in Australia*, IBISWorld Industry Report 08631, IBISWorld, August 2011, p28.

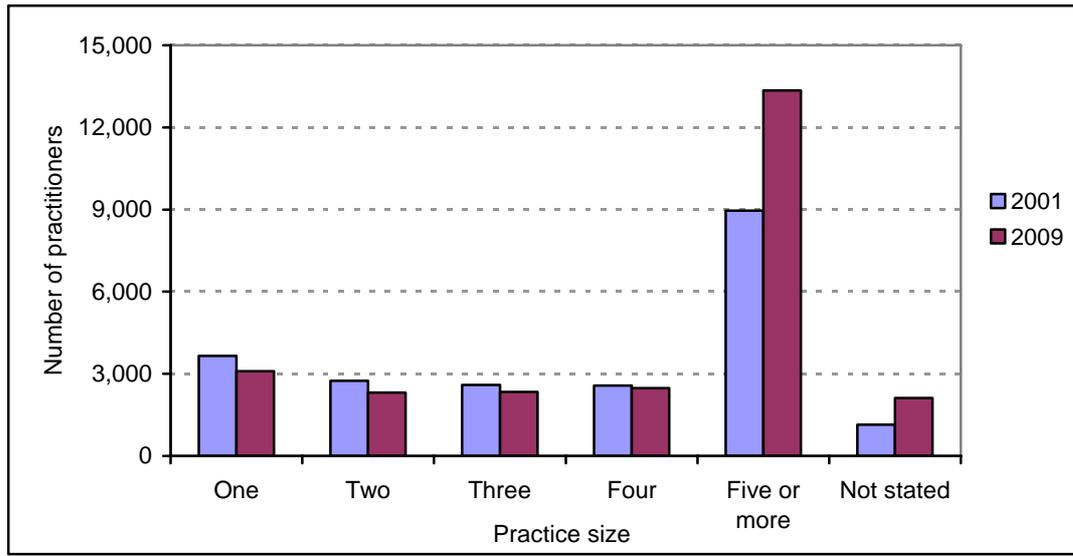
<sup>82</sup> Minister for Health and Ageing, 2010, *A Landmark Day for Australian Nurses and Midwives*, media release, 16 March 2010.

<sup>83</sup> Minister for Health and Ageing, 2011, *One Year on Patients Have More Choice*, media release, 1 November 2011.

## 7 The Current Environment

As described in the previous section, the current environment looks very different compared to 2000-01. Consolidation of smaller practices has seen the number of practitioners working in smaller practices decline, which the number of practitioners working in practices with five or more people has increased. See Figure 3, below.

**Figure 3: Number of primary care practitioners by practice size, 2001 and 2009**



Data sources:

AIHW 2003. *Medical labour force 2001*. National Health Labour Force Series. Cat. no. HWL 28. Canberra: AIHW.

AIHW 2011. *Medical labour force 2009*. AIHW bulletin no. 89. Cat. no. AUS 138. Canberra: AIHW.

### The market for doctors

Corporate groups compete to attract and retain doctors and most of the players actively market themselves to doctors.

Widespread corporatisation has been around for a decade now and the five year contracts doctors signed up to have had time to expire and renew. There has also been time for word of mouth to spread among doctors as to the conditions working for different corporate bodies – despite any non-disclosure clauses there may be in contracts – and for court cases to be heard that illuminate contractual arrangements.

### Market consolidation

There has been considerable consolidation in the corporate market itself, most recently with the acquisition of Allied Medical Group, with 21 medical centres, by Sonic<sup>84</sup>. There are now three major corporate players - Primary Health Care, Sonic Healthcare (operating as IPN), and Healthscope. Primary and Sonic are publicly traded. Healthscope is no longer publicly traded, but recently offered Notes on the Australian Securities Exchange as a fundraising vehicle.

<sup>84</sup> Lynch, J., 2011, "\$200m is just what the former doctor ordered", *The Age*, 8 July 2011.

While we describe the process that has occurred as “market consolidation”, it should be noted that the largest players still account for only a small proportion of total revenue. Market research analysts estimate that the four largest operators account for only 12% of industry revenue<sup>85</sup>. This is in stark contrast to the closely related but heavily concentrated pathology industry, where the key players account for over 80% of the market<sup>86</sup>.

There are also many smaller corporate players, competing with unincorporated businesses in the market. To date they are private companies and are not generally vertically integrated.

## The fragmented nature of the medical centres subsector in Australia provides significant scope to pursue further acquisitions and to participate in the consolidation of smaller clinics

*Healthscope, Nov 2010<sup>87</sup>*

Figure 4 provides a snapshot of some the larger corporate groups in Australia in 2011. This is not a comprehensive list.

**Figure 4 - Snapshot of Corporate GP Practices - 2011**

Name	No Practices	Locations	Vertical Integration?	Company Type
<b>Publicly listed</b>				
Primary Health Care Limited	82 Medical centres . includes 56 large scale centres.	QLD, NSW, VIC, ACT, SA & WA	Yes.	Australian Public Company, Limited By Shares.
Sonic Healthcare <sup>b</sup>	198 medical centres claimed for IPN group <sup>88</sup> . Including: 129 medical centres - IPN <sup>89</sup> 9 medical centres – Kinetic Health <sup>90</sup> 25 medical centres – Allied Medical Group <sup>91</sup>	All States and Territories except NT.	Yes.	Australian Proprietary Company, Limited By Shares.

<sup>85</sup> Fitzpatrick, N., 2011, “General Practice Medical Services in Australia”, IBISWorld Industry Report 08621, IBISWorld, November 2011. The report only discusses Primary Health Care and Sonic Healthcare. It does not mention which companies IBISWorld places as the third and fourth largest.

<sup>86</sup> Fitzpatrick, Nigel, *Pathology Services in Australia*, IBISWorld Industry Report 08631, IBISWorld, August 2011, p28

<sup>87</sup> Healthscope Notes Limited, 2010, *Offer of Healthscope Notes*, prospectus, November 2010, p54.

<sup>88</sup> Independent Practitioner Network, “Company History”, webpage on <http://www.ipn.com.au> > About IPN > Company History, accessed 5 December 2011.

<sup>89</sup> Independent Practitioner Network Limited, “IPN Medical Centre Locations”, webpage, <http://www.ipn.com.au> > Medical centres, accessed 11 December 2011.

# State of Corporatisation

A report on the corporatisation of general practices in Australia

Name	No Practices	Locations	Vertical Integration?	Company Type
Healthscope Limited <sup>c</sup> (not currently trading on the Securities Exchange)	51 Medical centres. 22 Skin cancer clinics.		Yes.	Australian Proprietary Company, Limited By Shares Not currently trading.
<b>Privately owned</b>				
Tristar <sup>e</sup>	30 Medical centres.	Rural NSW and VIC.	No.	Australian Proprietary Company, Limited By Shares.
Ochre Health	14 Medical centres.	Rural NSW, NT, ACT .	No.	Australian Proprietary Company, Limited By Shares.
Eastbrooke	10 Medical centres.	NSW and Vic.	No.	Australian Proprietary Company, Limited By Shares.
Medical One	10 Medical centres.	Vic and SA.	Yes.	Australian Proprietary Company, Limited By Shares.
Medi7	5 Medical centres.	Vic.	No.	Australian Proprietary Company, Limited By Shares.
Revive clinics	16 nurse practitioner clinics (six of these are flu vaccinations only).	WA and NSW.	No.	Australian Proprietary Company, Limited By Shares.
SmartClinics	1 nurse practitioner clinic.	Qld.	No.	Australian Proprietary Company, Limited By Shares.

Sources: See following sections for more details and sources.

<sup>90</sup> Kinetic Health, "General Practice, webpage, <http://www.kinetichealth.com.au> > Key Services > Clinical Services > General Practice, accessed 11 December 2011.

<sup>91</sup> Allied Medical Group Holdings Pty Ltd, "Clinic Locations", webpage, <http://www.alliedmgrp.com.au> > Clinic Locations, accessed 22 December 2011.

## 7.1 Primary Health Care Limited

Primary Health Care Limited (Primary) is an Australian public company, listed on the Australian Securities Exchange (ASX). Primary has operations in all States and Territories (with the exception of Tasmania and the Northern Territory).

Primary describes itself as “a service provider to a wide range of health care professionals who provide comprehensive care to patients”<sup>92</sup>. In practical terms, they own and provide administrative support to a network of medical centres, many of which were purpose built by Primary Health Care.

Primary divides its operations into four separate business segments based solely in Australia: Medical Centres, Pathology, Diagnostic Imaging and Health Technology.

Dr Edmund Gregory Bateman is the Group Managing Director and Mr Robert Ferguson is the Non-Executive Chairman<sup>93</sup>. Edmund Bateman is said to have personal wealth of \$442 million<sup>94</sup>.

Primary Health Care registered as a company on 17 May 1994 under the name Hygristor Pty Ltd<sup>95</sup>, and listed on the stock exchange on 3 July 1998<sup>96</sup>.

Following listing, Primary continued to open additional large scale centres, purchasing smaller practices and employing the doctors in the Primary centres. They also expanded into pathology and other related services. Primary’s expansion into other services is described in more detail in the “Corporate takeovers” section (page 25).

In April 2008, Primary acquired Symbion Health Limited after a takeover battle with Healthscope. By 30 June 2009, nineteen of the Symbion Medical Centres purchased by Primary had been closed or merged into Primary’s operations.<sup>97</sup>

In 2011, Primary had over 10,671 employees in Australia, most of whom worked in the many pathology collection centres, and revenue of \$1,322,094<sup>98</sup>.

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<sup>92</sup> Primary Health Care, website [www.primaryhealthcare.com.au](http://www.primaryhealthcare.com.au) accessed 20 September 2011.

<sup>93</sup> Primary Health Care, 2011, *Annual Report for the year ended 30 June 2011*, p9.

<sup>94</sup> Carson, V., 2010, “Bateman: what he owns and what he is worth”, *Sydney Morning Herald*, 8 October 2010, available at <http://www.smh.com.au/national/bateman-what-he-owns-and-what-he-is-worth-20101007-169wk.html> accessed 15 November 2011.

<sup>95</sup> ASIC “National Names Index” entry for Primary Health Care <http://www.search.asic.gov.au/cgi-bin/gns030c?juris=9&hdtext=ACN&srchsrc=1&acn=064530516> accessed 3 August 2011.

<sup>96</sup> Primary Health Care “Investor Fact Sheet” available on [http://www.primaryhealthcare.com.au/IRM/content/investors\\_factsheet.html](http://www.primaryhealthcare.com.au/IRM/content/investors_factsheet.html), accessed 3 August 2011.

<sup>97</sup> Primary Health Care Limited, 2009, *Annual Report 2009*, p3.

<sup>98</sup> Primary Health Care, 2011, *Annual Report for the year ended 30 June 2011*, pages 65 and 32.

**Figure 5 – Summary of Primary’s operations**

Type	Number	Location	Throughput
Medical Centres <sup>99</sup>	82 Medical Centres including 56 large scale centres. One new centre is planned for the 2012 financial year.	Centres in all states and territories (with the exception of Tasmania and the Northern Territory).	Over 6 million general practitioner consultations per year. Revenue 2010-11 \$274.6m <sup>100</sup> Estimated market share 6.1% <sup>101</sup> .
Pathology <sup>102</sup>	87 Pathology Labs 782 Collection Centres	All mainland states.	Approximately 11.5 million pathology episodes per year <sup>99</sup> . Estimated market share 31.3% <sup>103</sup> .
Diagnostic Imaging <sup>102</sup>	161 Diagnostic Imaging sites.	Diagnostic imaging sites in New South Wales, ACT, Victoria, South Australia and Queensland.	Approximately 2.5 million examinations per year.
Health Technology <sup>102</sup>	"Medical Director" clinical software. Primary's practice management software.		Used by over 16,000 GPs and specialists. Used by 3,500 medical practices.

<sup>99</sup> Primary Health Care, 2011, *Annual Report for the year ended 30 June 2011*.

<sup>100</sup> Primary Health Care, 2011, *Annual Report for the year ended 30 June 2011*.

<sup>101</sup> Fitzpatrick, N., *General Practice Medical Services in Australia*, IBISWorld Industry Report 08621, IBISWorld, August 2011, p22.

<sup>102</sup> Primary Health Care website, "Company Overview", webpage, <http://www.primaryhealthcare.com.au> > About us, accessed 23 November 2011. The last updated date of the page was 18 April 2011.

The number of medical centres quoted on this page was not consistent with the figure in Primary's 2010-2011 *Annual Report*. The annual report figures have been used in preference. Figures for pathology etc were not published in the annual report.

<sup>103</sup> Fitzpatrick, N., *Pathology Services in Australia*, IBISWorld Industry Report 08631, IBISWorld, August 2011, p28.

**Figure 6 - Timeline of Primary's significant events**

Year	Event
17 May 1994	The company was incorporated in NSW as Hygristor Pty Ltd <sup>104</sup> .
1996	Opened Bankstown Medical Centre.
1998	Acquired John R. Elder Pty Ltd (Sydney Eye Clinic)
July 1998	Listed on the ASX as Primary Health Care Limited (PRY).
1999	Acquired Darkrow Pty Ltd, trading as General Clinical Laboratories <sup>105</sup> , a provider of pathology services in NSW. Acquired five unincorporated medical practices. Completed two purpose built medical and dental centres (Campsie and Fairfield). Acquired two freehold sites (Campbelltown and Caringbah).
2000	Acquired Sydney Diagnostic Services (NSW) Pty Ltd, trading as SDS, a provider of pathology services in NSW. Completed two purpose built medical and dental centres (Campbelltown and Castle Hill). Acquired three freehold sites (Darlinghurst, Bondi Junction and Leichardt).
2005	Acquired Abbott Pathology Pty Ltd (Abbott) Acquired Health Communications Network (HCN) a company developing and selling software for medical practices, hospitals and ehealth.
2007	Primary was appointed as preferred provider to supply medical services to a range of federal government Agencies including Centrelink, Medicare, Dep't of Human Services, child Support Agency, Health Service Australia and others.
1 March 2008	Acquired Symbion Health Limited (SYB) <sup>106</sup> .
July 2008	Sold Symbion's consumer business to Sanofi-Aventis Australia Pty Ltd <sup>107</sup> .
October 2008	Sold Symbion Pharmacy to Zuellig Australia Pharmacy Services Pty Limited <sup>107</sup> .
May 2010	Acquired 100% of Campbell town MRI Pty Limited. In addition, it acquired two pathology businesses and two imaging practices during the fiscal year ended June 30, 2010.
May 2011	Primary Health Care considering sale of Health Communication Network <sup>108</sup> .

<sup>104</sup> Australian Securities and Investments Commission database entry for ACN 064 530 516.

<sup>105</sup> At the time, General Clinical Laboratories was the third largest provider of pathology services in New South Wales.

<sup>106</sup> Primary Health Care, 2008, *Annual Report 2008*, p78.

<sup>107</sup> Primary Health Care, 2008, *Annual Report 2008*, p81.

<sup>108</sup> Primary Health Care, 2011, "Response to Article in the Australia", media announcement, 20 May 2011, available at

<http://www.primaryhealthcare.com.au/IRM/Company/ShowPage.aspx/PDFs/1868-55581446/ResponsetoArticleinTheAustralian> accessed 15 August 2011.

## Primary's business model

Primary Health Care builds its own large scale medical centres, staffed with contracted GPs from smaller practices purchased by Primary. Primary Health Care maintains tight central control of costs at its centres<sup>109</sup>.

In July 2009<sup>110</sup> it was reported that Primary had started to allow practices to choose their own billing policies. Prior to this Primary clinics bulk billed but by January 2010 sixteen of Primary's clinics had ceased bulking billing<sup>111</sup>.

In February 2012, Primary announced a return to full-bulk billing at its large-scale centres. Lower than anticipated rises in patient numbers were cited as the reason, with the expected revenue from increased turn-over due to bulk-billing expected to outweigh the fall in payment per patient<sup>112</sup>.

## Expectations for doctors' performance

In an open letter to doctors, Primary Health Care described their typical contract conditions as a commitment to provide medical services for 40 hours per week, 48 weeks of the year, including one 4 hour evening shift per week and a weekend day<sup>113</sup>.

In practice, these terms and conditions can vary considerably. In 2003 Dr Ian Rafter found himself in court with Primary Health Care after failing to meet the rather more onerous conditions of a 70 hour working week (65 providing medical services, 5 providing centre management)<sup>114</sup>.

It has been reported that at the end of the contract period, doctors are expected to make up the shortfall in hours over the course of the contract – which can amount to an obligation of an additional six months or more<sup>115</sup>.

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<sup>109</sup> Kaye, B., 2011, "Bateman cuts jellybean funding and sues GPs for breach of contract", *Medical Observer*, available online at <http://www.medicalobserver.com.au/news/bateman-cuts-jellybean-funding-and-sues-gps-for-contract-breach>, accessed 14 Nov 2011.

<sup>110</sup> Vaughan, J., and Harvy, B., 2009, "No Bulk Billing Doctors charge \$30 per patient", *The Advertiser*, 31 July 2009.

<sup>111</sup> Dunlevy, S., 2010, "Patients hurting as bulk bills cut", *Sunday Mail*, 10 January 2010.

<sup>112</sup> Colyer, S., 2012, "Back to bulk-billing for Bateman", *Australian Doctor*, 24 Feb 2012, p3.

<sup>113</sup> Bateman, E., 2010, "Doctor Contracts: Serious Allegations Refuted", open letter sent to Australian doctors November 2010. Available online at [http://www.australiandoctor.com.au/pdf/Doctor\\_letter\\_re\\_Contracts\\_11\\_10\\_FINAL.pdf](http://www.australiandoctor.com.au/pdf/Doctor_letter_re_Contracts_11_10_FINAL.pdf) accessed 15 November 2011.

<sup>114</sup> New South Wales Supreme Court case: Idameneo (No. 123) P/L v. Ticco P/L & Anor [2003] NSWSC 538

<sup>115</sup> Wallace, N., 2011, "Doctor ordered to stop work after former employer wins injunction", *Sydney Morning Herald*, 12 May 2011.

## Figure 7: Extract of a Primary Health Care Sale of Practice Contract – Performance

### Clause 17.2:

“The Vendor agrees with the Purchaser that it will, under the Practitioner Contract, conduct its incorporated medical practice and procure the Doctor to:

“(a) render medical services from the New Premises for at least 5 years from the Commencement Date under the Practitioner Contract. The Vendor agrees with the Purchaser that it will conduct its incorporated medical practice, and procure the Doctor to render medical services, only from the New Premises during that period. This requirement extends the restraint in Clause 22.1. ... [exceptions were stated]

“(b) render medical services from the New Premises, during those 5 years, for no less than 70 hours per week 48 weeks per financial year. Of those 70 hours per week, the Doctor’s time is to be allocated between rendering medical services as a general practitioner, rendering medical services as a surgeon and performing services as a Medical Director under the Medical Director Contract. ... The Doctor is entitled to be absent for up to 4 weeks per financial year (1 week of which is permitted only for the purpose of the Doctor attending conferences), ...

“(c) [This subparagraph fixed times at which the part of the work must be performed].

“(d) conduct himself in a harmonious way with other practitioners and staff at the New Premises; and

“(e) use its and his best endeavours to, ethically and professionally, expand the turn-over, profitability, quality and image of the services provided at the New Premises.”

*Source: Idameneo (No. 123) P/L v. Ticco P/L & Anor [2003] NSWSC 538*

### Legal Cases

Primary Health Care has been in a number of legal actions against doctors working at its clinics. The Sydney Morning Herald claimed that Primary had sued at least 36 practitioners in the eight years to 2010, and had taken 40 cases against individuals or companies to courts since 2002 in New South Wales alone<sup>116</sup>.

Some examples of court cases involving Primary Health Care and its subsidiaries are:

- Action amounting to \$1.5 million against Dr James Margarey and Dr Robert Ward for allegedly plotting to leave a Primary practice for a rival centre. In their defence, the doctors claimed that Primary Health Care had breached their contract by allowing services at the practice to deteriorate and had attempted to interfere with the doctors’ choice of pathology provider<sup>117</sup>. Primary’s IT systems only allow electronic receipt of pathology results from Primary subsidiary

<sup>116</sup> Wallace, N., 2011, “Doctor ordered to stop work after former employer wins injunction”, *Sydney Morning Herald*, 12 May 2011.

<sup>117</sup> Kaye, B., 2011, “Bateman cuts jellybean funding and sues GPs for breach of contract”, *Medical Observer*, available online at <http://www.medicalobserver.com.au/news/bateman-cuts-jellybean-funding-and-sues-gps-for-contract-breach>, accessed 14 Nov 2011.

Dorevitch Pathology<sup>118</sup>. Primary withdrew their case in November 2011 after a senior Primary member said that Primary had a “basic policy” of encouraging GPs to use its own services<sup>119</sup>.

- Action against Dr Jeremy Cumpston for damages and 50% of his earnings when he left a Primary medical centre and set up a rival practice. Dr Cumpston said that the contract was unfair and unduly restrictive. Settled out of court in October 2010<sup>120</sup>.
- Supreme Court injunction against Primary Health Care subsidiary Sidemeneo (456) Pty Ltd by Dr John Fluit to prevent them from demolishing a practice after their lease had ended. Dr Fluit had sold his practice to Symbion some years earlier, but retained ownership of the premises which Symbion leased from him. When Primary Health Care bought Symbion, doctors at the practice were not happy with Primary Health Care’s systems (such as walk-in appointments). When their lease expired in March 2010 Primary commenced demolition at the practice, ostensibly to complete “make good” provisions under the lease<sup>121</sup>.

### **Restraint of trade**

Some of the workings of Primary Health Care’s purchase model can be seen through the judgments passed down. For example, Figure 8: Extract of a Primary Health Care Sale of Practice Contract quotes the restraint of trade clauses from a Primary Health Care in a 2003 NSW Supreme Court case judgment<sup>122</sup>.

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<sup>118</sup> Australian Doctor, 2011, “GPs take on Primary and win”, 4 November 2011, pp 1,3.

<sup>119</sup> Smith, P., 2011, “GPs’ act of bravery sheds light on Primary’s practice”, *Australian Doctor*, 4 Nov 2011, p3.

<sup>120</sup> Carson, V., 2011, “Primary Health Care settles case against former GP”, *Sydney Morning Herald*, 26 October 2010. Available online at <http://www.smh.com.au/national/primary-health-care-settles-case-against-former-gp-20101025-170x1.html> accessed 14 November 2011.

<sup>121</sup> Strachan, J., 2010, “Owner sues on surgery”, *Newcastle Herald*, 8 June 2010, p5.

<sup>122</sup> *Dr Angel-Honnibal v Idameneo (No 123) Pty Ltd (A.C.N. 002 968 185) [2003] NSWCA 263.*

## Figure 8: Extract of a Primary Health Care Sale of Practice Contract

### Clause 10.1

“The parties agree, that given the Purchaser is acquiring the goodwill of the practice, that the Doctor is to render medical services from the New Premises, and the objective in Clause 3, as a reasonable protection for the business of the Purchaser, the Doctor must not during the restraint period:

- (a) render medical services at any base within the radius of 8 kilometres of the Old Premises; or
- (b) render medical services at any place within a radius of 8 kilometres of the New Premises ...

### Clause 10.2:

“The restraint period under the preceding Clause is the period from completion until the later to occur of:

- (a) the 5th anniversary of completion; or
- (b) the 3rd anniversary of the day on which the Practitioner Contract terminates for whatever reason.”

### Clause 10.4:

“For each time the Doctor renders a medical service in breach of Clause 10.1(a) or Clause 10.1(b) he must pay to the Purchaser, as agreed and assessed damages, 50% of the gross fee payable to the Doctor in respect of that medical service.”

*Source: Dr Angel-Honnibal v Idameneo (No. 123) Pty Ltd (A.C.N. 002 968 185) [2003] NSWCA 263*

## 7.2 Sonic Healthcare Limited

Sonic Healthcare Limited (Sonic) is a public company, listed on the Australian Securities Exchange. It is the parent to companies operating in Australia, the USA, Europe and New Zealand.

Sonic Healthcare was registered as a company in 1934 under the name Gunnerson Nosworthy Pty Ltd<sup>123</sup>, timber merchants. They listed on the stock exchange in May 1948<sup>124</sup>, but evidence of their operation can be seen at least as early as 1923<sup>125</sup>. However, Sonic as we now know it listed on the stock exchange in 1987 as “Sonic Technology Australia Limited”, and purchased their first pathology practice, Douglass Pathologies, in the same year<sup>126</sup>.

By 2000, Sonic had a network of pathology laboratories in Eastern Australia and New Zealand. Sonic took an 18.5% shareholding in Independent Practitioner Network (IPN) in 2002, but they truly bought into the primary care market in 2004, with the purchase of a majority shareholding in IPN<sup>127</sup> after Primary Health Care attempted a takeover that year.

Since then, Sonic has grown its pathology business and expanded into radiology and medical centres. Although one of the largest players in general practice in Australia, medical centres are a relatively small part of Sonic’s total portfolio, accounting for 7% of statutory revenue in 2011. Radiology accounted for 12% of revenue, and pathology – both in Australia and internationally – the remainder<sup>128</sup>.

### Independent Practitioner Network (IPN)

Independent Practitioner Network (IPN) is Sonic’s medical centre business. IPN had been in operation under different names since 1999 and was itself listed on the stock exchange. Sonic Healthcare took majority control of IPN in 2004, and purchased the remaining shares in 2008 to make IPN a wholly owned subsidiary.

IPN has a number of subsidiary companies and claims to have 198 multidisciplinary medical centres across the group serving over 7 million people per year in 2011<sup>129</sup>. This figure probably includes clinics such as skin-cancer and occupational health clinics. IPN’s listing of medical centres includes just 129<sup>130</sup>, and subsidiaries Kinetic Health and

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<sup>123</sup> Australian Securities and Investments Commission, “National Names Index”, database, <http://www.search.asic.gov.au> accessed 5 December 2011, entry for Sonic Healthcare Limited (ACN 004 196 909).

<sup>124</sup> “Gunnerson, Nosworthy”, *The Argus* (Melbourne, Vic. : 1848 - 1956), 7 December 1948, p. 10. Retrieved December 5, 2011, from <http://nla.gov.au/nla.news-article22696231>.

<sup>125</sup> “Money Due on Holiday”. *The Argus* (Melbourne, Vic. : 1848 - 1956), 29 March 1923, p. 7. Retrieved December 5, 2011, from <http://nla.gov.au/nla.news-article1886514>. Report of a court case between Gunnerson Nosworthy Pty Ltd and Ascot Timber Co.

<sup>126</sup> Sonic Healthcare Limited, “Our History”, webpage on <http://www.sonichealthcare.com> accessed 5 December 2011.

<sup>127</sup> Sonic Healthcare, 2004, *ASX Full Year Information – 30 June 2004*, 23 August 2004, p17.

<sup>128</sup> Sonic Healthcare Limited, *Annual Report – 30 June 2011*, p4.

<sup>129</sup> Independent Practitioner Network, “Company History”, webpage on <http://www.ipn.com.au> > About IPN > Company History, accessed 5 December 2011.

<sup>130</sup> Independent Practitioner Network Limited, “IPN Medical Centre Locations”, webpage, <http://www.ipn.com.au> > Medical centres, accessed 11 December 2011.

# State of Corporatisation

A report on the corporatisation of general practices in Australia

Allied Medical Group list nine<sup>131</sup> and 25<sup>132</sup> clinics respectively. IPN has clinics in all States and Territories except the Northern Territory.

Two IPN subsidiaries that own medical centres are Allied Medical Group Limited and Kinetic Health Limited.

## **Allied Medical Group Limited**

Allied Medical Group Limited registered with ASIC as a private company on 14 February 2005. It operates medical centres across Melbourne (Victoria), Brisbane (Queensland) and Adelaide (South Australia). IPN purchased Allied Medical Group, and its 21 clinics, in 2011<sup>133</sup>. The Allied Medical Group website currently lists twenty five clinics<sup>134</sup>.

## **Kinetic Health**

Kinetic Health is a wholly owned subsidiary of IPN that specialises in occupational health. Most of their twenty six clinics focus on occupational health, but their operations include 8 general practices in Western Australia and one in Mount Isa<sup>135</sup>. They have recently been granted \$5 million by the Australian Government to establish the Mount Isa GP Super Clinic<sup>136</sup>.

**Figure 9 - Timeline of IPN's significant events**

Year	Event
1999	Foundation Healthcare established <sup>137</sup> .
2002	Foundation acquires Medihelp, gaining 30 medical centres <sup>138</sup> . Foundation and LifeCare merge under the name of LifeCare <sup>139</sup> .
November 2002	The company is renamed Independent Practitioner Network Ltd (IPN).
December 2002	IPN entered into an arrangement with Sonic Healthcare giving it pathology rights in its centres. Sonic gives support by increasing to 18.5% in IPN.

<sup>131</sup> Kinetic Health, "General Practice, webpage, <http://www.kinetichealth.com.au> > Key Services > Clinical Services > General Practice, accessed 11 December 2011.

<sup>132</sup> Allied Medical Group Holdings Pty Ltd, "Clinic Locations", webpage, <http://www.alliedmgrp.com.au> > Clinic Locations, accessed 22 December 2011.

<sup>133</sup> Lynch, J., 2011, "\$200m is just what the former doctor ordered", *The Age*, 8 July 2011.

<sup>134</sup> Allied Medical Group Holdings Pty Ltd, "Clinic Locations", webpage, <http://www.alliedmgrp.com.au> > Clinic Locations, accessed 22 December 2011.

<sup>135</sup> Kinetic Health website, "General Practices"-<http://www.kinetichealth.com.au/General-Practice-92> accessed 22 Aug 2011.

<sup>136</sup> Minister for Health and Ageing, 2011, "Better Health Care Soon for Mount Isa", media release, 5 July 2011, available at <http://www.health.gov.au/internet/ministers/publishing.nsf/Content/mr-yr11-nr-nr136.htm>.

<sup>137</sup> Independent Practitioner Network website <http://www.ipn.com.au> > About IPN > Company History accessed 22 August 2011.

<sup>138</sup> Australian Stock Exchange, 2000, "Foundation Healthcare Limited (FNC.AX) Acquisition of Medihelp Group", company announcement, 13 November 2000.

<sup>139</sup> Australian Stock Exchange, 2002, "Foundation Healthcare Limited (FNC.AX) Suspension from Official Quotation", company announcement, 6 August 2002.

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Year	Event
August 2003	Primary Health Care buys 9.2% of IPN threatening a takeover bid. It increases this to 20%.
June 2004	Primary Health Care mounts a hostile bid for control of IPN. Sonic mounts a counter bid for control of IPN.
July 2004	Primary abandons its takeover bid selling its shares in IPN to Sonic. Sonic ends up as a 72% owner of IPN.
October 2004	IPN acquires Endeavour HealthCare's general practitioner business and Sonic acquires Endeavour HealthCare's Pathology business <sup>140</sup> .
Feb 2006	IPN sells LifeCare business (18 physiotherapy clinics and a rehabilitation consulting business) <sup>141</sup> .
2008	Sonic increases IPN holdings to 100%
April 2008	IPN acquired Gemini Administration Services Pty Ltd (Gemini) <sup>142</sup> .
March 2010	IPN acquired the Prime Health Group <sup>143</sup> .
2010-2011	Gemini Administration Services and Prime Health Group merge to form Kinetic <sup>144</sup> .

<sup>140</sup> Sonic Healthcare Limited, "Our History", webpage at <http://www.sonichealthcare.com> > About us > Our History accessed 6 Dec 2012.

<sup>141</sup> Independent Practitioner Network Limited, *Annual Report for the year ended 30 June 2006*, p4.

<sup>142</sup> Sonic Healthcare Limited, *Annual Report – 30 June 2009*, p89.

<sup>143</sup> Sonic Healthcare Limited, *Annual Report – 30 June 2010*, p6.

<sup>144</sup> Kinetic Health website <http://www.kinetichealth.com.au> accessed 22 Aug 2011; and comparison of subsidiary company listings in Sonic Healthcare Limited's annual reports for 2010 and 2011.

**Figure 10 – Summary of Sonic’s Australian operations**

Type	No	Location	Throughput
Medical Centres (IPN and subsidiaries)	198 medical centres claimed for IPN group <sup>145</sup> . Including: 129 medical centres - IPN <sup>146</sup> 9 medical centres – Kinetic Health <sup>147</sup> 25 medical centres – Allied Medical Group <sup>148</sup>	All States and Territories except NT.	7 million consultations per year. Revenue of \$221 million in 2011 <sup>149</sup> . Estimated market share 4.1% <sup>150</sup> .
Pathology in Australia (Sonic)	13 subsidiary companies <sup>151</sup> .	All States and Territories except NT.	Estimated market share 39.4% <sup>152</sup> Largest provider of pathology services (by revenue).
Diagnostic Imaging (Sonic)	5 subsidiary companies.	WA, QLD, NSW.	

<sup>145</sup> Independent Practitioner Network, "Company History", webpage on <http://www.ipn.com.au> > About IPN > Company History, accessed 5 December 2011.

<sup>146</sup> Independent Practitioner Network Limited, "IPN Medical Centre Locations", webpage, <http://www.ipn.com.au> > Medical centres, accessed 11 December 2011.

<sup>147</sup> Kinetic Health, "General Practice", webpage, <http://www.kinetichealth.com.au> > Key Services > Clinical Services > General Practice, accessed 11 December 2011.

<sup>148</sup> Allied Medical Group Holdings Pty Ltd, "Clinic Locations", webpage, <http://www.alliedmgp.com.au> > Clinic Locations, accessed 22 December 2011.

<sup>149</sup> Sonic Healthcare Limited, 2011, *Annual Report – 30 June 2011*, p4.

<sup>150</sup> Fitzpatrick, N., *General Practice Medical Services in Australia*, IBISWorld Industry Report 08621, IBISWorld, November 2011, p22.

<sup>151</sup> Sonic Healthcare Limited, "SONIC HEALTHCARE Pathology/Laboratory Medicine and Radiology", webpage, <http://www.sonichealthcare.com> > Practice Locator > Australia, accessed 11 December 2011.

<sup>152</sup> Fitzpatrick, N., *Pathology Services in Australia*, IBISWorld Industry Report 08631, IBISWorld, August 2011, p28.

## 7.3 Healthscope Limited

Healthscope was incorporated in Victoria in 1985 as Salishan Pty Ltd and changed its name to Healthscope Pty Ltd the following year. The company was listed on the Australian Stock Exchange in 1994.

Healthscope Limited's (Healthscope) main business interests are hospitals and pathology, with hospitals accounting for around three quarters of the company's revenue base. Results for medical centres are included under the pathology heading and are not reported separately in their annual reports. In 2011 Healthscope posted a loss of \$64 million dollars, due largely to financing costs<sup>153</sup>.

While medical centres are relatively small part of Healthscope's business, Healthscope is Australia's third largest owner of medical centres after Primary and Sonic, with around 45<sup>154</sup> medical centres under its control.

Struggling financially, in October 2010 Healthscope was acquired by Asia Pacific Healthcare Group Pty Ltd, a company owned by funds advised and managed by The Carlyle Group and TGP Capital. It was subsequently de-listed but the business operations continue, including purchase of other subsidiaries, such as HealthBridge Diagnostics in January 2011.

In November 2011, Healthscope indicated an intention to increase their medical centre holdings<sup>155</sup>.

**Figure 11 - Timeline of Healthscope's significant events**

Year	Event
6 May 1985	The company was incorporated in Victoria as Salishan Pty Ltd.
1985	The Company was formed to acquire The Melbourne Clinic, a private psychiatric hospital.
1986	Changed its name to Healthscope Pty Ltd.
1986	Bought Mildura Private Hospital and Bellarine Private Hospital.
1994	Listed on ASX as Healthscope Limited (HSP).
Dec 2004	Healthscope took over Gribbles Group Pty Ltd <sup>156</sup> .
31 October 2007	Healthscope bought the medical business of NM&IG <sup>156</sup> .
October 2010	Healthscope was acquired by Asia Pacific Healthcare Group Pty Ltd, a company owned by funds advised and managed by The Carlyle Group and TGP Capital. It was subsequently de-listed.
January 2011	Purchased HealthBridge Diagnostics <sup>157</sup> .

<sup>153</sup> Healthscope Group, 2011, *Aggregated Annual Report for the period ended 30 June 2011*, p24.

<sup>154</sup> Healthscope Medical Centres, website, <https://www.healthscopemedicalcentres.com.au> accessed 6 December 2011. Count of medical centres listed.

<sup>155</sup> Healthscope Notes Limited, 2010, *Offer of Healthscope Notes*, prospectus, November 2010, p54

<sup>156</sup> Healthscope Limited, 2007, "Announcement of Acquisition of NM&IG Medical Pty Ltd", ASX Release, 12 November 2007.

<sup>157</sup> Healthscope Group, 2011, *Aggregated Annual Report for the period ended 30 June 2011*, p39.

## Current Operations

**Figure 12 –Summary of Healthscope’s operations<sup>158</sup>**

Type	No	Location	Throughput
Medical Centres	51 Medical centres. 22 skin cancer clinics.		394 GPs 1.5 million consultations per annum.
Pathology	55 Pathology Labs. More than 520 collection centres.		4.6 million patient episodes per annum Estimated market share 11.4% <sup>159</sup> .
Private Hospitals	44 hospitals - 30 owned - 11 leased - 3 operated	Predominantly Vic and NSW, but all States and Territories represented.	2 <sup>nd</sup> largest Australian private hospital operator.

<sup>158</sup> Healthscope Notes Limited, 2010, *Offer of Healthscope Notes*, prospectus, November 2010, pp48-52.

<sup>159</sup> Fitzpatrick, Nigel, *Pathology Services in Australia*, IBISWorld Industry Report 08631, IBISWorld, August 2011, p28.

## 7.4 Tristar Medical Group Pty Ltd

Tristar Medical Group Pty Ltd (Tristar) is an Australian Proprietary Company, Limited by Shares. It is owned and operated by Dr Khaled El-Sheikh with his wife Kylie El-Sheikh. Originally from Egypt, the El-Sheikhs immigrated to Australia in 1995.

The El-Sheikhs purchased five practices in New South Wales before expanding their operations to Victoria in 2006. Tristar has expanded rapidly. By 2008 they had 16 clinics and were considering opening three practices in outer metropolitan areas<sup>160</sup>.

By November 2011 they had 30 practices<sup>161</sup>, and were looking to expand their operations into the Australian Capital Territory and Queensland<sup>162,163</sup>.

### Business model

Key elements of Tristar's business model are:

- Locating medical centres in under-serviced areas, particularly in rural areas.
- Marketing the benefits of country life to International Medical Graduates, and providing them with assistance to get started, including medical training.
- Centralising administration and seeking cost savings across the medical centres that don't compromise medical care. Tristar cites efforts to turn off lights and air conditioning in rooms that are not in use for extended periods as an example that provided an "amazing outcome"<sup>164</sup>.
- Use of technology. Telstra has established a private internet for Tristar that allows their medical centres access to medical records for all Tristar patients. Medical databases only have to be updated once and doctors can access the information through their laptops from any location on Telstra's 3G network<sup>162</sup>.

The El-Sheikhs appear to take a very hands-on approach with respect to recruitment and administration, claiming to take into account the individual circumstances of each doctor when placing them, such as the need for children to attend school and of the doctor's partner to find work<sup>165</sup>.

Dr El-Sheikh attributes the move to outer metropolitan areas as a way of retaining the doctors recruited with Tristar, as their families grow up and want access to further education<sup>160</sup>.

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<sup>160</sup> Kron, J., 2010, "Rural Champions", *Australian Doctor*, 19 November 2008.

<sup>161</sup> Tristar Medical Group website, [www.tristarmedicalgroup.com.au](http://www.tristarmedicalgroup.com.au), accessed 2 November 2011.

<sup>162</sup> Dearne, K., 2011, "Cloud cover for rural GP service", *The Australian e-newspaper*, 22 Feb 2011, accessed via <http://theaustralian.newspaperdirect.com> on 1 November 2011.

<sup>163</sup> The business name "Tristar Medical Group Bruce" was registered in the ACT in June 2011. They do not appear to have registered any business names in Queensland as at November 2011. (Source: ASIC National Names Index).

<sup>164</sup> Killmorgan, A., 2010, "Centralisation is the key", *Medical Observer*, 12 Oct 2010.

<sup>165</sup> Lennon, D., 2006, "Are we really short of doctors?", *ABC Western Victoria*, 3 May 2008; accessed via <http://www.abc.net.au/> 2 November 2011.

The company has had positive articles in the press<sup>160</sup>, and has received \$60,000 Victorian government funding to assist in recruiting more doctors<sup>166</sup> and won an Australian Business Award for Community, Contribution and Innovation<sup>164</sup>. However, they have not been without criticism.

## Criticism of Tristar

The Rural Workforce Agency of Victoria chairman Dr Phillip Webster was dismissive of Tristar's efforts to recruit doctors to rural areas. Using Mildura as an example, he claimed that many of the doctors were from other local practices, were based in Mildura short term, or had come from other Tristar practices<sup>160</sup>.

While acknowledging that there may be some benefits to rural patients such as cheaper services, and access to doctors from their own ethnic group - Bob Birrell of Monash University is critical of Tristar, saying that the Tristar model "vacuums the routine GP services away from established clinics"<sup>167</sup> and raises concerns about the level of supervision of International Medical Graduates.

He attributes Tristar's success in attracting International Medical Graduates to rural areas to an over-supply of doctors, and suggests that their rationale for recruiting them is to have a low cost workforce that can afford to bulk-bill and thus undercut existing GP services.

Dr El-Sheikh has responded to suggestions that the level of supervision of international graduates in his clinic is inadequate saying that he is an examiner with the Royal Australian College of GPs and that his training program is fully accredited.<sup>168</sup>

**Figure 13 - Timeline of Tristar's significant events**

Year	Event
2003	Tristar Medical was established (rural NSW).
2006	Expanded to rural Victoria.
2008	Registered as a company. Expanded to outer metropolitan areas.
2011	Considering expansion to ACT and Queensland.

<sup>166</sup> "Tristar injects GPs into health sector", *Bendigo Advertiser*, 30 August 2008.

<sup>167</sup> Birrell, B., 2011, *Australia's New Health Crisis - Too Many Doctors*, Centre for Population and Urban Research, Monash University, September 2011.

<sup>168</sup> Metherell, M., 2011, "Imports boost doctor numbers", *The Age*, 23 September 2011.

### 7.5 Ochre Health

Ochre Health is an Australian Proprietary Company, Limited by Shares. They started operation in Bourke, New South Wales, in 2002 as a GP recruitment service after two local doctors had difficulty finding replacements for holidays<sup>169</sup>. Ochre now operates 14 medical centres – 12 in New South Wales, one in the ACT and one in the Northern Territory<sup>170</sup>. Their operations include the Grafton GP Super Clinic, which opened on 15 October 2011<sup>171</sup>.

Like Tristar, Ochre's niche is attracting and retaining GPs in rural areas, although they have expanded to outer metropolitan areas. The Ochre Health website promises their recruits assistance in including preparing for Area of Need interviews and obtaining Fellowship of the RACGP.

**You will be assisted by people that  
know what it takes to work and live  
happily in your new town**

*Dr Jolmer Smit<sup>172</sup>*

#### Ochre Health's model

- Ochre Health prefers to affiliate its medical centres with local hospitals<sup>173</sup>. They have implemented a broadband system between both medical centres and hospitals so that patient records are immediately available if an Ochre patient presents at any of their locations<sup>169</sup>.
- Doctors have the option of a guaranteed base income by providing cover at the local hospital at a fixed daily rate<sup>174</sup>.
- Contract terms start from one year, with (typically) 40% of medical centre turnover paid to Ochre and a minimum of six weeks of leave per annum. Ochre may also provide housing, a vehicle and a fuel card as part of the remuneration package<sup>174</sup>.

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<sup>169</sup> Gliddon, J., 2010, "Ochre Healthcare stops regional paper trail", *eHealthSpace.org*, 15 September 2010, available at <http://ehealthspace.org>, accessed 22 November 2011.

<sup>170</sup> Ochre Health website, 2011, [www.ochrehealth.com.au](http://www.ochrehealth.com.au), accessed 21 November 2011.

<sup>171</sup> The Daily Examiner, 2011, "Super clinic patient ready", *The Daily Examiner*, 15 November 2011.

<sup>172</sup> Ochre Health website, 2011, "Case Study", case study of Doctors Jolmer and Christel Smits' experience in moving to Australia and working for Ochre in rural areas, on [www.ochrehealth.com.au](http://www.ochrehealth.com.au), accessed 21 November 2011.

<sup>173</sup> Andrews, A., 2010, "Evandale medical centre closes", *Launceston Examiner*, 20 November 2010, page 6.

<sup>174</sup> Ochre Health website, 2011, "Frequently asked questions", [www.ochrehealth.com.au](http://www.ochrehealth.com.au), accessed 21 November 2011

**Figure 14 - Timeline of Ochre Health's significant events**

Year	Event
2002	Ochre Health was established in Bourke, NSW as a medical recruitment company.
2010	Opens Grafton GP Super Clinic
2011	14 Medical Centres – 12 in NSW, 1 in ACT, 1 in NT

## 7.6 Other groups

There are also a number of other smaller operators. This paper does not attempt to provide a comprehensive list of the smaller corporate bodies currently operating. Other groups noted include:

### Eastbrooke Medical Centres

Eastbrooke Medical Centres is an Australian Proprietary Company, limited by shares<sup>175</sup>. Registered in 1998, they have six clinics in New South Wales, and four in Victoria<sup>176</sup>.

### Medical One

Medical One is a chain owned by Dr Peter Stratmann and Dr Andrew Pascoe with nine clinics around Melbourne and one in South Australia<sup>177</sup>.

The medical clinics operate in partnership with two other companies owned by the same doctors:

- Pathology One, and
- software company Zedmed (purchased by the doctors in 2005<sup>178</sup>).

The Medical Centres use ZedMed software and all but one of the Medical One clinics hosts a Pathology One collection point. Some of the centres offer visiting specialists.

### Medi7

Medi7, an Australian Proprietary Company, Limited by Shares, is a group of five GP-run practices located in Victoria<sup>179</sup>. They were registered as a company in 1998<sup>180</sup>.

<sup>175</sup> Australian Securities and Investments Commission, "National Names Index", online database at <http://search.asic.com.au>, entry for Eastbrooke Medical Centres (ACN 130 596 002).

<sup>176</sup> Eastbrooke Medical Centres, "Our Centres", webpage, <http://eastbrookemedical.com.au> > Locations, accessed 7 December 2011.

<sup>177</sup> Medical One, "Our Directors", webpage, <http://www.medicalone.com.au>, last accessed 23 November 2011; and Pathology One, 2011, "Pathology One Organisational Chart", dated 9 February 2011, accessed via <http://www.pathologyone.com.au>, last accessed 23 November 2011.

<sup>178</sup> Zedmed, "About us", webpage, <http://www.zedmed.com.au> > About us, accessed 7 December 2011.

<sup>179</sup> Medi7 website [www.medi7.com.au](http://www.medi7.com.au) accessed 24 August 2011.

<sup>180</sup> Australian Securities and Investments Commission, "National Names Index", online database at <http://search.asic.com.au>, entry for Medi7 Pty Ltd (ACN 081 425 667).

## Revive clinics

Revive Clinics are nurse-led clinics that claim to give faster, more convenient access to a wide range of affordable basic healthcare and preventative care services. Revive have sixteen clinic locations (six of these offer flu vaccinations only), with fifteen in Western Australian and one in New South Wales.

The Clinics are staffed by nurse practitioners who are trained to diagnose, treat and prescribe for a wide range of minor illnesses, injuries, and to provide vaccinations, prescriptions, health checks and condition management and monitoring. Services have been provided in collaboration with patients GP, pharmacists, allied health or specialists. They are located in pharmacies and no appointments are necessary.

Revive Clinics are a member of The Revive Group Pty Ltd<sup>181</sup>, an Australian Propriety Company, Limited by Shares, that was registered in Western Australia in 2004<sup>182</sup>.

This model received a boost in November 2010 with the introduction of the Medicare rebates for nurse practitioners and midwives.

## SmartClinics

SmartClinics are a more recent entrant and the first stand-alone medical clinics lead by practice nurses and midwives – with an in-house GP on site. The first clinic opened in Chermside, Queensland, in September 2011<sup>183</sup>. At date of writing they have just one clinic at Chermside but have expressed the desire to open at new locations in South East Queensland<sup>184</sup>.

They use an online booking system which assesses patient needs, and post regularly to a twitter account (@smartclinics).

Smart Clinics Pty Ltd is an Australian Private Company, Limited by shares. They were registered in Queensland in February 2010<sup>185</sup>. The SmartClinics domain name ([www.smartclinics.com.au](http://www.smartclinics.com.au)) is owned by Smart Health Solutions Pty Limited, a company specialising in electronic health records and a member of the Smart Card Applications Pty Ltd group<sup>186</sup>.

SmartClinics attribute their existence to the federal government legislation allowing nurse practitioners to access Medicare<sup>187</sup>.

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<sup>181</sup> The Revive Group, "About Revive Clinic", webpage, <http://www.reviveclinic.com.au> > Revive Clinic, accessed 14 December 2011.

<sup>182</sup> Australian Securities and Investments Commission, "National Names Index", online database, entry for The Revive Group Pty Ltd (ACN 109 487 292), accessed 14 December 2011.

<sup>183</sup> SmartClinics, "The Hon. Wayne Swan MP Treasurer and Deputy Prime Minister, officially opens Australia's first-ever SmartClinic", Media Release, undated, accessed on <http://www.smartclinics.com.au> on 7 December 2011.

<sup>184</sup> SmartClinics, "Find your nearest clinic", webpage, <http://www.smartclinics.com.au> > Locate a clinic, accessed 14 December 2011.

<sup>185</sup> Australian Securities and Investments Commission, "National Names Index", online database <http://search.asic.gov.au>, entry for Smart Clinics Pty Ltd (ACN 141 767 679).

<sup>186</sup> Smart Card Applications Pty Ltd, "About Smart Card Applications", webpage, <http://www.smartcard.com.au> > About the Company, accessed 7 December 2011.

<sup>187</sup> SmartClinics, "The Company", webpage, <http://www.smartclinics.com.au> > About us > The company, accessed 14 December 2011.

## 8 Current and emerging corporate strategies

A profitable enterprise requires both the ability to keep down costs and to bring in revenue. The models in use, and that we see emerging, are closely related to the financial incentives available.

With each new government initiative or change in environment, there is a potential new strategy to employ or niche to fill that could see a small corporate become a large one. In this section is a discussion of the models that have emerged since 2000, and the models that are still prevalent and likely to continue.

### 8.1 Reduce costs

On the cost side of the equation the dominant corporate model is one that uses economies of scale in management both at the clinic level, where there has been a trend towards larger clinics, and in central control of administrative processes, down to even the seemingly most minor of costs.

The dominant corporate model at present is the corporation as service provider, contracting GPs to work within their centres.

This model succeeds by taking advantage of economies of scale in management and administration, the desire for GPs to recoup their investment in their business before retirement, and to lose the burden of management responsibilities.

Primary Health Care exercises this model by building its own medical centres and staffing them with contracted GPs whose practices they have purchased.

**“...the number of contracted Primary GPs could increase by at least 40% without any further spending on increasing capacity at existing centres or building new centres”**

*Primary Health Care, 2011<sup>188</sup>*

Within this general model, there are variations. Central control is a feature of the Primary Health Care and the Tristar model.

Primary Health Care is aggressive in monitoring costs at its centres – to the extent that Ed Bateman, the managing director of Primary Health Care, personally stopped funding for jellybeans at one (or more) of his practices<sup>189</sup>.

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<sup>188</sup> Primary Health Care Limited, 2011, Medical Centre Investor Presentation, May 2011, available at <http://www.aspecthuntley.com.au/asxdata/20110503/pdf/01177073.pdf> accessed 15 August 2011.

<sup>189</sup> Kaye, B., 2011, “Bateman cuts jellybean funding and sues GPs for breach of contract”, *Medical Observer*, available online at <http://www.medicalobserver.com.au/news/bateman-cuts-jellybean-funding-and-sues-gps-for-contract-breach>, accessed 14 Nov 2011.

**I don't think we save much.  
It's the principle:  
we don't provide jellybeans.**

*Edmund Bateman, 2011<sup>189</sup>*

Tristar also appears to control costs carefully, with management taking a close interest in the day-to-day running of their centres. For example, Tristar management claims to have reduced costs by making a concerted effort to ensure that air conditioning and lights throughout Tristar practices were turned off when not in use<sup>190</sup>. They also use innovative technology solutions to overcome rural distances, and have successfully created a niche in recruiting and importantly retaining international medical graduates in rural areas.

## **Government super clinics**

Larger scale centres are being promoted by the Australian Government through the financial support of “GP Super Clinics” – regardless of whether owned by a corporate (such as the super clinic in Mount Isa which is owned by Kinetic, a subsidiary of Sonic) or a community or charitable organisation (such as the University of Queensland).

The Government committed \$280.2 million over five years, from 2007-08, to establish GP Super Clinics in 36 localities across Australia. In 2010-11, the Australian Government committed a further \$370.2 million for the establishment of 28 additional GP Super Clinics.

- 36 super clinics announced in 2007
- 28 additional super clinics announced in 2010
- 19 super clinics operational in December 2011<sup>191</sup>

Funding is offered through a mix of direct and competitive funding arrangements for the large and medium GP Super Clinics, and competitive national grant rounds for the upgrades to existing primary care services.

While there is not a prescriptive model for GP Super Clinics, they are expected to go beyond a traditional practice and demonstrate a range of characteristics including provision of multidisciplinary care, responsiveness to the local community, and the efficient and effective use of information technology.<sup>192</sup>

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<sup>190</sup> Killmorgan, A., 2010, “Centralisation is the key”, *Medical Observer*, 12 Oct 2010.

<sup>191</sup> Department of Health and Ageing, “GP Super Clinics”, webpage, [http://access.health.gov.au/Programs & Campaigns > Programs & Initiatives > GP Super Clinics](http://access.health.gov.au/Programs%20&%20Campaigns%20>%20Programs%20&%20Initiatives%20>%20GP%20Super%20Clinics), accessed 10 December 2011.

<sup>192</sup> Department of Health and Ageing, “GP Super Clinics”, webpage, [http://access.health.gov.au/Programs & Campaigns > Programs & Initiatives > GP Super Clinics](http://access.health.gov.au/Programs%20&%20Campaigns%20>%20Programs%20&%20Initiatives%20>%20GP%20Super%20Clinics), accessed 10 December 2011.

## 8.2 *Maintain and gain market share*

Regardless of the business skills of a corporate practice manager, their ability to make a profit depends on having access to a general practice workforce. The strategies being employed by corporate bodies today are a range of carrot and stick approaches aimed at attracting and retaining GPs.

### **Payment models**

General practitioners can be offered substantial sums to sign-up with a corporate. The amount on offer is generally greater if the corporate is buying out the practice, and not just signing up the doctor's services. In return for the lump sum, the GP agrees to work for the corporate for a given period of time, often five years, during which time they pay a proportion of their income to the corporate.

It is difficult to gauge if the amounts on offer are rising or falling over time, as these figures are tied up in contract negotiations and not generally publicly available.

While this model has been in use for quite some time, and so could not be called an emerging trend, it is an ongoing trend and one that has a great impact on general practitioner decisions about joining corporate practices.

### **Geographic restriction clauses**

Geographic restriction clauses are placed in contracts to prevent a departing GP from practising in competition to their former practice. While inclusion of these clauses in contracts is not new, it is an evolving area. The enforceability of such clauses has been tested in court with mixed results. The most likely course for corporates is to modify the wording of these clauses in new contracts in order to make them enforceable. Given the quantity of contracts in place and being renewed, this is likely to be an issue for some time to come.

### **International medical graduates**

Overseas trained doctors are required to spend ten years working in areas of need – usually rural areas – before being allowed full access to Medicare claiming. Tristar is an example of a corporate that specialises in attracting and retaining international medical graduates in rural practices by offering a high level of support and assistance to these doctors as they adjust to rural Australian life.

## 8.3 *Find new or niche sources of revenue*

Each addition or withdrawal of Government financial incentives has the potential to create, or destroy, a corporate approach. Examples of Government incentives over the past ten years are listed in Section 6.5, Government influences.

General practice businesses have also sought out other sources of revenue, and a new feature we have noted in the introduction of non-Medicare charges.

## Non-Medicare charges

An emerging trend over the last few years has been the introduction of non-Medicare charges. For example:

- Waiting fee – Eight large-scale Primary clinics started charging an up-front consultation fee in the order of \$30 to \$40 for the privilege of waiting for an appointment. These fees were forfeited if the patient decided to leave before being seen. Primary Health Care has now announced a return to full bulk billing, citing a disappointing increase in patient volume since the introduction of the co-payment<sup>193</sup>.
- Sign-on fee – Although not part of a chain of corporate practices, Perth GP Gary Ward (father of supermodel Gemma Ward<sup>194</sup>) made the news for charging an annual registration fee of \$100 for adults and \$75 for children to stay on his books. Reportedly, about 400 people signed up<sup>195</sup> earning Dr Ward up to \$40,000 per year before he even saw any patients. He is the only GP at his practice, Rokeby GP, to charge such a fee. The website doesn't mention Dr Ward's joining fee, but they do say that they have "innovative policies" to reduce waiting times for their patients<sup>196</sup>.

Primary Health Care reacted to news of the sign-on fee by launching a "no fees, no appointments" advertising campaign<sup>197</sup>.

Charging any co-payment for a bulk-billed service is prohibited under Section 20A of the *Health Insurance Act*. With the exception of certain vaccines, the patient must be able to obtain the service without having to make any additional payment in connection with the service. This includes an annual 'registration fee', an administration fee, a midwife's 'booking fee' or charges for dressings.

As non-Medicare charges are not submitted with Medicare records, it is not possible to monitor whether these charges are raised on bulk billed services, or to monitor out-of-pocket charges for patients. In addition, the patient is potentially further disadvantaged because non-Medicare charges do not count towards the fee relief threshold under the Medicare Safety Net.

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<sup>193</sup> Colyer, S., 2012, "Back to bulk-billing for Bateman", *Australian Doctor*, 24 Feb 2012, p3.

<sup>194</sup> Rokeby GP website, 2011, <http://rokebygp.com.au/our-subiaco-doctors/dr-gary-ward/> accessed 15 November 2011.

<sup>195</sup> Cousins, S., 2011, "Patients pay \$100 joining fee for VIP service", *Australian Doctor*, 8 August 2011.

<sup>196</sup> Rokeby GP website <http://rokebygp.com.au> accessed 15 November 2011.

<sup>197</sup> O'Leary, C., 2011, "\$100 fee to register with GP", *The West Australian*, 3 August 2011.

## **Nurse practitioners**

Practice nurse items were introduced to the Medicare Benefits Schedule in 2004, allowing nurses to provide certain claimable services on behalf of a general practitioner. In November 2010 Medicare items for nurse practitioners were made available.

Two groups have taken advantage of these items to establish nurse-led clinics – Revive and SmartClinics. Both Revive and SmartClinic have corporate ownership – detail about the companies is provided on page 57.

**SmartClinics was established in 2011  
as the result of federal government  
legislation allowing Nurse  
Practitioners and eligible Midwives  
to access the Medicare Benefits  
Schedule and the Pharmaceutical  
Benefits Scheme for  
the very first time**

*SmartClinics, 2011<sup>198</sup>*

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<sup>198</sup> SmartClinics, “The Company”, webpage, <http://www.smartclinics.com.au> > About us > The company, accessed 14 December 2011.

## 9 Outlook

This paper has given a broad overview of the recent history of corporate involvement in general practice. The current players and their models of operation have also been examined.

It is clear that many of the changes in the past have been driven by environmental factors. For example, the regulations and rebates in place that allow, disallow or change the profitability of almost every aspect of corporate practice; advances in and access to technology; and interaction with other players in the market as business are created or fail, and are bought or sold.

We now turn our attention to the future.

In the long-term, corporate owners will continue to make choices and pursue strategies to maximise profits for their owners. As we have seen, these choices and strategies will depend very much on the market they find themselves in – community needs and expectations, availability and choices of the medical workforce, the regulations and rebates in place, and technology are all likely to influence the market. However, without knowing what that future environment will be like any long-term predictions would be pure speculation.

In the medium-term, it is possible to identify likely areas of corporate activity by considering the opportunities that have not yet been fully exploited.

To date, we have seen the major corporate general practice owners take an interest in pathology and diagnostic imaging. However, there are other areas that may receive more focus in the future.

While many clinics offer allied health services, there remains scope for greater involvement with allied health and dental services. Many allied health services are now eligible for Medicare rebates with a referral from a general practitioner under a care plan. A patient may claim Medicare rebates on up to 5 allied health services a year.

Similarly, Medicare has funded certain dental items on GP referral, up to a value of \$4,250 in Medicare benefits over two consecutive calendar years, since November 2007.

In both cases, there are conditions as to the types of patients that are eligible. Generally, a chronic health care plan is required. Corporates may seek to capture revenue from both the care plan and the referred services that result from it.

The volume limitations applicable to allied health and dental could mean that ownership of separate clinics is not favoured by general practice corporates (or conversely by allied health corporates seeking to own a source of referrals), but inclusion of allied health and dental services on-site at medical larger clinics could become more widespread.

## 10 Conclusion

The corporatisation of general practice which began in the 1990s has continued throughout the 2000s. The entrance of publicly listed companies was the source of much concern, as these companies had far greater access to capital than a “cottage industry” style GP and could buy, sell, build or close down practices at a rapid pace.

Corporate bodies have also bought and sold each other. Through the 2000s a series of mergers and take-overs has reduced the number of publicly listed companies with significant general practice interests from 6 to just 2 that are still publicly listed.

While there has been much concern about corporatisation, the estimated combined market share of the large corporate players Primary Health Care, Sonic Healthcare and Healthscope is less than may be imagined at just 12%<sup>199</sup>.

This paper has outlined some of the strategic reasons that corporate purchases and takeovers took place, such as Sonic’s initial purchase of a 10% share and finally the full acquisition of Foundation Health Care. This purchase took place in order to prevent rival Primary Health Care from purchasing the businesses and diverting their pathology referrals to their own laboratories.

Analysis of the smaller corporate owners demonstrates that they have grown by finding and filling niches. Their capacity to expand to become large corporates depends on the applicability of their model to broader environments and their ability to adapt to new circumstances.

Also relevant are the personal preferences of the individuals making decisions for the corporate bodies. This paper has only lightly touched upon the personal interests of the directors of the companies. A more in-depth analysis of the directors of the companies, their past history in the sector and the personal connections they bring with them to corporate decisions could be illuminating.

Looking forward, we anticipate that corporate general practices will continue to seek market share including referrals to other services. Further, there seems to be scope for practices to broaden and take in more allied health and dental practitioners, which could allow the corporate to claim the Medicare benefits for both the preparation of a care plan and the subsequent referral.

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<sup>199</sup> Fitzpatrick, N., 2011, “General Practice Medical Services in Australia”, IBISWorld Industry Report 08621, IBISWorld, November 2011. The report only discusses Primary Health Care and Sonic Healthcare. It does not mention which companies IBISWorld places as the third and fourth largest.