

Department of Health PBID Debt Capability Review

Final Report

13 July 2018 | Version 1.0





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PBID – Debt Recovery Review

13 July 2018

Any person intending to read this Report should first read this letter

Dear ^s
²²⁽¹⁾

In accordance with your instructions, we have performed the work set out in your Work Order (Deed Reference Number 127074-28) in connection with the consultancy for a review of the current approach to debt management and strategies for enhancing debt management capability into the future.

Purpose of our report and restrictions on its use

This Report was prepared on the specific instructions of the Department of Health (“the Department” or “Health”) under the terms and conditions of the Deed executed in relation to ACBPS Service Provider Panel SON1700081 and should not be used or relied upon for any other purpose.

We accept no responsibility or liability to any party other than to the Department, or to such party to whom we have agreed in writing to accept a duty of care in respect of this Review Report, and accordingly if such other persons choose to rely upon any of the contents of this Report they do so at their own risk.

Nature and Scope of the services

The nature and scope of the services, including the basis and limitations, are detailed in Schedule 9 – Order For Services dated 30 May 2018.

This is an independent review reflecting the findings of our work from the project commencement on 30 May 2018 up until 29 June 2018.

Our Report does not take account of events or circumstances arising after 29 June 2018 and we have no responsibility to update Report for such events or circumstances.

We appreciate the opportunity to provide our services to Health and we look forward to discussion our recommendations with you. Please do not hesitate to contact us if you have any questions about this engagement or if we may be of any further assistance.

Yours sincerely,

Partner
Ernst & Young

**Dashboard**

Table of contents

Dashboard

- 1 Executive Summary
- 2 Fundamentals of Debt ...
- 3 Current State Assessment
- 4 Modern Debt Recovery – ...
- 5 Improvement Opportunities

6 Appendices

Dashboard

Page 4

**Executive
Summary**

1

Page 5

**Fundamentals of
Debt Recovery**

2

In this section, we provide an analysis of the common components and lifecycle of debt ...

Page 12

**Current State
Assessment**

3

An analysis of PBID's debt profile and its current approach to debt management

Page 17

**Modern Debt
Recovery – ...**

4

What are the modern tools available to recover debt faster and with less cost?

Page 25

**Improvement
Opportunities**

5

What can PBID do to improve its debt recovery capabilities and recover more debt in FY19 an ...

Page 28

Appendices

6

Page 37



Dashboard

Abbreviations and Definitions

Dashboard

- 1 Executive Summary
- 2 Fundamentals of Debt ...
- 3 Current State Assessment
- 4 Modern Debt Recovery – ...
- 5 Improvement Opportunities

6 Appendices

| | | | |
|-------------------|---|-----------------|--|
| % | Percentage | Health | Australian Government Department of Health |
| A\$, \$ | Australian dollars, unless otherwise stated | HIA | <i>Health Insurance Act 1973</i> |
| AMA | Australian Medical Association | HSP | Health Services Provider |
| ASIC | Australian Securities and Investments Commission | KPI | Key Performance Indicator |
| Bill | <i>Health Legislation Amendment (Improved Medicare Compliance and Other Measures) Bill 2018</i> | M | Million |
| BPO | Business Process Outsourcing | MBS | Medical Benefits Schedule |
| CDBS | Child Dental Benefits Schedule | MoG | Machinery of Government |
| CDPP | Commonwealth Director of Public Prosecutions | NHA | <i>National Health Act 1953</i> |
| DAR | Debt Approval Document | PBID | Provider Benefits Integrity Division |
| Department | Australian Government Department of Health | PBS | Pharmaceutical Benefits Scheme |
| DBA | <i>Dental Benefits Act 2008</i> | PDF | Payment Deduction Facility |
| DHS | Australian Government Department of Human Services | PPSR | Personal Property Security Register |
| DRIP | Debt Recovery Improvement Program | Provider | Health services provider |
| EYA | EY Australia | | |
| FAS | First Assistant Secretary | | |
| FYXX | Financial year ending in 30 June 20XX | | |

1

Executive Summary

Background, Our Key Findings and
Recommendations for Next Steps





1 Executive Summary

Background to Debt Recovery Project

[Dashboard](#)
[6 Appendices](#)
1 Executive Summary
[2 Fundamentals of Debt ...](#)
[3 Current State Assessment](#)
[4 Modern Debt Recovery – ...](#)
[5 Improvement Opportunities](#)

Background to the Debt Recovery Project

Heath's Debt Recovery function seeks to maximise its ability to collect Health Provider debts in a timely manner and contribute to broader Provider Compliance objectives. The PBID Debt Recovery Team (Debt Team) was established in around October 2016 to accommodate the large scale debt collection required with the transition of Provider Debts from DHS to Health following Machinery of Government (MoG) change in November 2015.

PBID have made progress towards developing recovery capabilities subsequent to the MoG change and will significantly exceed recovery targets for FY18.^{s 47E(d)}

Health engaged EY to review and reaffirm Health's current debt collection approaches in relation to Provider debts and to provide recommendations for the future improvement of Health's debt recovery capabilities. As requested, we have documented the findings from our analysis of various options for the future state of Debt Recovery, with a specific focus on:

1. Assessment of the current state of PBID debt recovery capabilities
2. Legal escalation in relation to unpaid debts
3. Recommendations for improvement opportunities

Key activities:

- ▶ Examination of the Debt Recovery framework and related policies and procedures
- ▶ Walkthroughs of key Debt Recovery processes through sample case analysis
- ▶ Comparing the current state of Health's debt recovery process against best practice to identify improvement opportunities
- ▶ Consultation with various Divisions within Health regarding the raising, recovery and enforcement of debt
- ▶ Consultation and Workshop with Debt Officers and Debt Team in relation to recurrent issues and bottlenecks
- ▶ Assessment of developments, approaches and opportunities to enhance Debt Recovery outcomes

Key deliverables:

Current state analysis – confirm debt collection fundamentals and assessment of Health's current capabilities

Modern debt recovery capability – outline system expectations

Recommendations – provide strategic improvement recommendations



1 Executive Summary

Key Findings

[Dashboard](#)[6 Appendices](#)**1 Executive Summary**[2 Fundamentals of Debt ...](#)[3 Current State Assessment](#)[4 Modern Debt Recovery – ...](#)[5 Improvement Opportunities](#)

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Easy wins to improve recovery %

- ▶ Off-setting through DHS likely to significantly improve recovery in FY19 if 'gross debt' value is KPI measure
- ▶ Appropriate legal escalation in relation to non-compliant and high value debts could provide immediate and material impact on recovery
- ▶ EY suggest use of 'Pilot Program' to establish legal enforcement capabilities. This would also assist in bringing about cultural change in respect of non-compliance activity.
- ▶ Other Debt Improvements and Legislation changes will encourage better debtor behaviour.



1 Executive Summary

Next Steps

Dashboard

6 Appendices

1 Executive Summary

2 Fundamentals of Debt ...

3 Current State Assessment

4 Modern Debt Recovery – ...

5 Improvement Opportunities

Continue with roll-out of Improvement Initiatives

- Debt Improvement through Enhanced Financial Systems / Debt Recovery Improvement Plan (DRIP) (as described in FY18 PBID Business Plan) identified four elements:

- Payment Deduction Facility
- Interest Charging Capability
- Bpay reference number generation (pre-invoice)
- Single view of client capability in CWMS

Advice / Comments

The Improvement Initiatives together with recent legislative changes are anticipated to be highly effective at improving debt recovery in FY19

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Consider further consultation with AMA, Pharmacy Guild and Official Stakeholders prior to implementation of major changes.

Consider further Provider Education Material to provide transparency/notification in relation to new processes

Develop complaints handling mechanism in anticipation of Provider response to new charges and enhanced debtor collection processes

Impact

Status

M

F

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Risk Rating

H High
 M Medium
 L Low
 U Already Underway
 F Future Priority



1 Executive Summary

Next Steps

Dashboard

6 Appendices

1 Executive Summary

2 Fundamentals of Debt ...

3 Current State Assessment

4 Modern Debt Recovery – ...

5 Improvement Opportunities

Legislative Changes and Clarifications

- ▶ New legislation will allow for off-setting of old debts against future payments, garnishee orders and shared cost claiming
- ▶ Some inconsistency with existing legislation
- ▶ Clarification on interpretation of existing and future legislation required prior to roll-out of new policies and procedures
- ▶ Legal 'test cases' may be required

Advice / Comments

Health Legislation Amendment (Improved Medicare Compliance and Other Measures) Bill 2018 passed both Houses of Parliament on 28/6/2018

- We consider that the proposed legislation changes will provide significant enhancements to debtor recovery
- Legislative powers will be most effective if properly supported by integrated information systems and processes
- Agree DoH Legal and DoH Debt team communication protocols
- Settle list of legislative clarifications/interpretations required from Legal

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Update Procedures and Debt Officer Guidelines

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Advice / Comments

Further guidance and training for Debt Officers will improve recovery outcomes. Specifically, we recommend:

- Standardised checklists for recovery methodologies and escalation
- Drafting and implementation of standardised documentation for:
 - Debtor Questionnaire
 - Request for further particulars
 - Financial assessment tool
 - Refining payment plan policy / guidelines
- Undertake training for Debt Officers in relation to new procedures

Impact

Status

H

F

Risk Rating

H High
 M Medium
 L Low
 U Already Underway
 F Future Priority



1 Executive Summary

Next Steps

Dashboard

6 Appendices

1 Executive Summary

2 Fundamentals of Debt ...

3 Current State Assessment

4 Modern Debt Recovery – ...

5 Improvement Opportunities

Information systems

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- ▶ Multiple platforms currently used for maintaining debtor information. Delegation and management reports require extensive manual input.
- ▶ Information Systems do not contain adequate case file data for Debt Officers to efficiently address questions raised by debtors.
- ▶ Enhanced data analytics would help for more efficient resource coordination and task allocation

Advice / Comments

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- Consider establishment/enhancement of 'Debtor Portal' facilities to enable Providers to access detailed debt related information online, submit extension/payment plan requests and address other queries without need for email/telephone correspondence with Health
- Management capabilities would be enhanced allowing focused targeting of ageing debt and building debtor risk profiles through automated connection of cases across systems and the use of debt data visualisation capabilities

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Address "Soft enforcer" perception

- ▶ Some providers appear to have low level of concern for outstanding PBID debts
- ▶ Multiple Providers using same legal representative to dispute debts may indicate debtors are attempting to 'game' the system
- ▶ Inconsistent approach between criminal prosecution and civil debt recovery

Advice / Comments

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Status

- Use Pilot Program to carefully select debtors for Legal Escalation
- Litigation against recalcitrant Providers may help to reduce overall cost and change Provider perception of Health. Consider concurrent issuance of media releases in relation to compliance enforcement outcomes.

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M

F

Risk Rating



High



Medium



Low



Already Underway



Future Priority



1 Executive Summary

Next Steps

[Dashboard](#)
[6 Appendices](#)
1 Executive Summary
[2 Fundamentals of Debt ...](#)
[3 Current State Assessment](#)
[4 Modern Debt Recovery – ...](#)
[5 Improvement Opportunities](#)

Hardship and Complaint Management Capabilities

- ▶ Stronger debt enforcement is likely to result in higher incidence of 'hardship' applications and Provider complaints
- ▶ Strategy and policy in relation to management of hardship and complaints should be formulated in conjunction with other policies
- ▶ High level of public scrutiny in relation to Public Sector Debt Recovery

Advice / Comments

- Obtain legal advice in relation to obligations in relation to debtors raising 'hardship' status
- Agree on appropriate procedures and personnel to deal with hardship applications

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Status

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- Consider digital voice recording and voice analytics to monitor Debt Officer performance and stream/escalate calls that are trigger on key hardship related words and/or mental health concerns

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Outsourcing of certain debts and longer term options

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- ▶ Long term consideration could be given to outsourcing (or sale of) certain debts for recovery by a third party (if possible)
- ▶ Not currently viable as system integration and streamlining of current processes would be required to develop vendor management capabilities if outsourcing is to be considered as part of future state model.

Advice / Comments

- Ongoing best practice monitoring and self assessment

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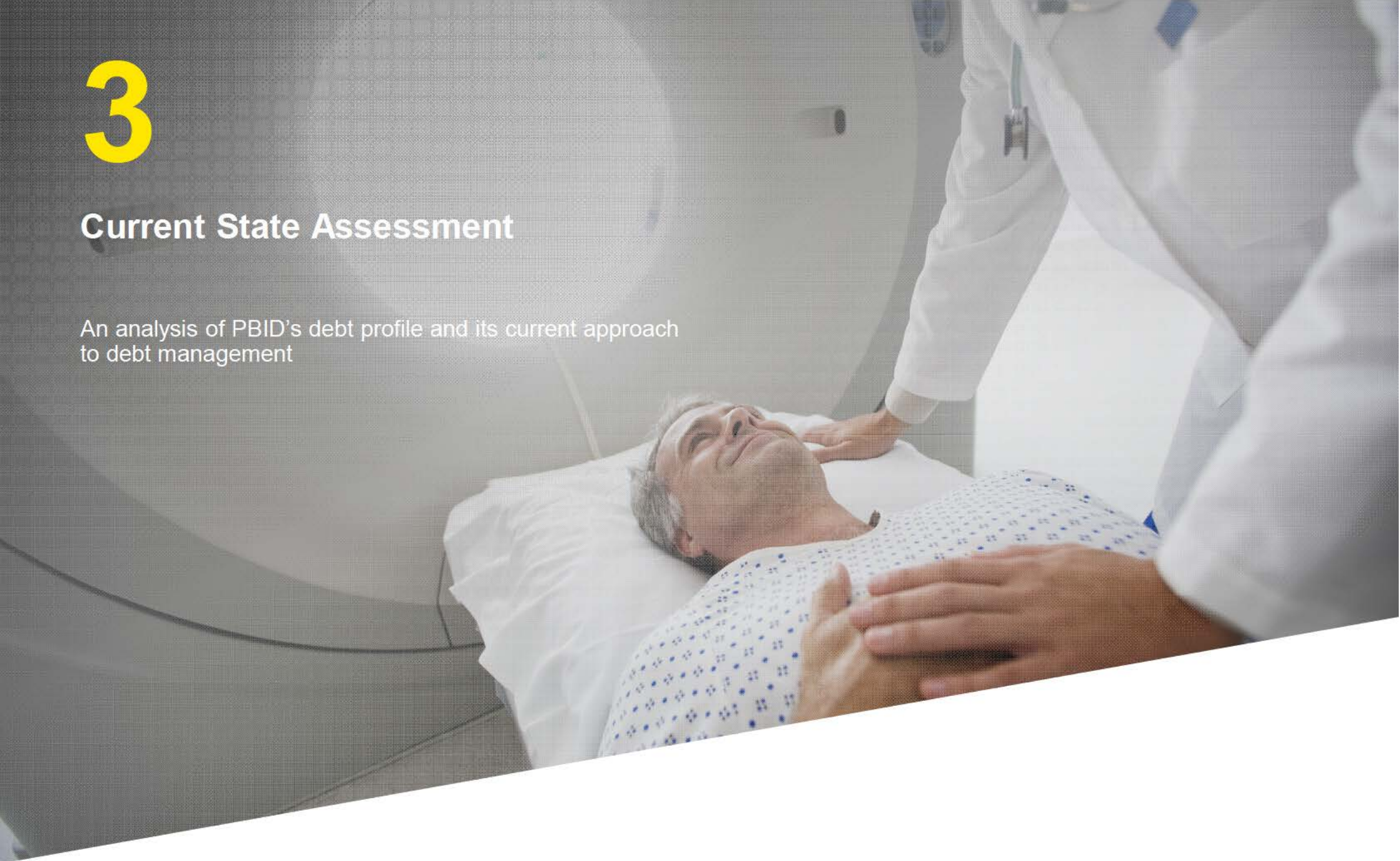
Risk Rating

H High
 M Medium
 L Low
 U Already Underway
 F Future Priority

3

Current State Assessment

An analysis of PBID's debt profile and its current approach to debt management





3 Current State Assessment

Background to PBID debt recovery

[Dashboard](#)
[6 Appendices](#)
[1 Executive Summary](#)
[2 Fundamentals of Debt ...](#)
[3 Current State Assessment](#)
[4 Modern Debt Recovery – ...](#)
[5 Improvement Opportunities](#)

PBID debt characteristics

In September 2015, a Machinery of Government (MoG) transfer was announced, recommended by the Health Functional and Efficiency Review, with responsibility for the Medicare Provider Compliance function transferring from the Department of Human Services (DHS) to the Department of Health.

In response to the enhanced compliance Budget measure announced in May 2016, Provider Benefits Integrity Division (PBID) launched a program designed to increase Medicare provider debt identification and recovery using upgraded systems, analytics capabilities and legislative reform.

In October 2016, responsibility for Health Provider debts was transitioned from DHS to the Health, from this date all data on health provider debtors with an outstanding balance were migrated to the Health's SAP system. The current outstanding balance of DHS migrated debts are estimated to be circa ^{s 47E(d)}, representing approximately ^{s 47E(d)} as at 30 May 2018.

Health undertakes a compliance program to monitor and ensure that costs incurred are correctly claimed in accordance with appropriate schedules and guidelines, and a debt recovery team established within PBID dedicated to facilitating debt collection for health providers consistent with Health's debt collection and management strategy.

Key observations

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Composition of debts (est)

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Total outstanding As at 30 May 2018

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Old debts migrated from DHS and remaining unpaid

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Total aged debts (>90 days) as at 30 May 2018



3 Current State Assessment

Debt characteristic

- Dashboard
- 1 Executive Summary
- 2 Fundamentals of Debt ...
- 3 Current State Assessment**
- 4 Modern Debt Recovery – ...
- 5 Improvement Opportunities

6 Appendices

Debt value and number analysis

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Debt characteristics

- ▶ Current outstanding debt population can be stratified according to following categories:
 - Numbers of accounts
 - Values by age
 - Debt recovery action undertaken
 - Payment collected

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Debt characteristics

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Total outstanding debt as of 30 May 2018

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Total number of accounts

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Cases completed – FY 17/18

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FYTD as at 31 May 2018 (Target \$15.6m)

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Main programs

The main health payments and services programs and the amount of value raised YTD 2017/8 are:

- ▶ Medicare Benefits Schedule (MBS) - s 47E(d)
- ▶ Pharmaceutical Benefits Scheme (PBS) - s 47E(d) ;
- ▶ Child Dental Benefits Schedule (CDBS) – s 47E(d) ;
- ▶ Other health service providers program (HSP) – s 47E(d)

Legislative environment

The Health Legislation Amendment (Improved Medicare Compliance and Other Measures) Bill 2018 (the Bill) is to amend;

- *Health Insurance Act 1973* (HIA) - provides for the MBS ;
- the *Dental Benefits Act 2008* (DBA) - provides for the CDBS; and
- the *National Health Act 1953* (NHA) - provides for the PBS.

The Bill introduces new and standardise debt recovery powers and standardise administrative arrangements across three Acts.

The Bill implements the 2017-18 Budget Measure *Guaranteeing Medicare – Medicare Benefits Schedule- improved compliance*.

The bulk of proposed amendments (Schedules 2-5) commence on 1 July 2018.



3 Current State Assessment

Nature of debts raised

[Dashboard](#)
[6 Appendices](#)
[1 Executive Summary](#)
[2 Fundamentals of Debt ...](#)
[3 Current State Assessment](#)
[4 Modern Debt Recovery – ...](#)
[5 Improvement Opportunities](#)

Value and number of debt crystallised by compliance activity

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Total cases completed

Total debt raised

s 47E(d)

s 47E(d)

| Compliance Activities | Description |
|-----------------------------------|--|
| Targeted Campaigns | PBID Targeted Campaigns team will send compliance feedback letters to health professionals that may also include their claiming data to encourage them to review their claiming (this may result in voluntary acknowledgement or further investigation) |
| Voluntary Acknowledgement | Provider voluntary acknowledges to Health of existence of liability |
| Audit | PBID Audit team conducts audit, which is an evidence based assessment of documents that health professionals supply to ensure the payments they received are correct. If it is determined that an incorrect payment was made, the health professional will be asked to repay any benefit that should not have been received and any associated penalties that may apply. |
| Practitioner Review Program (PRP) | PBID Professional Review team will review the activities of health professionals whose Medicare claiming and/or PBS prescribing data differs from their peers and indicates they may be practicing inappropriately. |
| Investigations | PBID Investigations team conducts criminal investigations when fraudulent activity is suspected. Where intentional fraudulent activity is established, the matter will be referred to the Commonwealth Director Public Prosecution for consideration of criminal prosecution. |



3 Current State Assessment

Overview – General Description (Process Map on following page)

[Dashboard](#)
[6 Appendices](#)
[1 Executive Summary](#)
[2 Fundamentals of Debt ...](#)
[3 Current State Assessment](#)
[4 Modern Debt Recovery – ...](#)
[5 Improvement Opportunities](#)

Debt crystallisation & raising

- ▶ On the completion of compliance activity, a provider can seek a review of a decision on the compliance finding. If review team accepts to undertake a review, a dunning block hold is placed on debt while statements continue to be issued.
- ▶ A delegate will approve the debt to be raised, and an electronic version of Debt Approval Document (DAR), invoice uploads and customer uploads are sent to debt team. During initial case review, the team will check duplicates from existing customer list.

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2nd stage recovery

1st stage recovery

- ▶ Debt team will communicate with shared services team on daily basis to receive customer number via TRIM - Shared services team will generate customer numbers then debt team will add to invoice file then send back to shared services for invoice upload to SAP.
- ▶ Initial invoice notice will be sent to providers , debtors are given 28 days to pay the debt after the original invoice notice. Debts not paid within 28 days are prioritised for subsequent follow up action. Debt officers will conduct search to locate and confirm debtor details.
- ▶ The debt team appear to be at capacity however we noticed some opportunity for efficiency improvement through allocating debt files according to experience and skill.

- ▶ Debt officers generally appear to be passionate, with high standards of work ethic and a desire to recover public funds.

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Legal escalation

- ▶ Refer to page 32 of this Report

4

Modern Debt Recovery – System Expectations

What are the modern tools available to recover debt faster and with less cost?



4 Modern Debt Recovery – System Expectations

System Expectations for Modern Debt Recovery

| | |
|-------------------------------------|--------------|
| Dashboard | 6 Appendices |
| 1 Executive Summary | |
| 2 Fundamentals of Debt ... | |
| 3 Current State Assessment | |
| 4 Modern Debt Recovery – ... | |
| 5 Improvement Opportunities | |

Modern Approaches

Like most business systems, the landscape of debt recovery in Australia is undergoing significant change. Creditors are becoming increasingly sophisticated in terms of their understanding of their debtor demographics and identifying and applying the most relevant tools to help enable them to achieve better recovery outcomes.

Data Analytics and Automation are a key focus for creditors dealing with high volumes of debt

Sophisticated creditors utilise a variety of tools to assist in maximising recovery. Those recovery mechanisms are likely to be influenced by the following questions:

What are the rules governing my recovery actions?

What resources are required to pursue the debt?

How do I better understand my debtors?

What are the risks associated with recovery?

How do my debt recovery initiatives support or detract from my other business objectives?

Data Capture and Visualisation Analytics

- ▶ Analysis of debtor composition allows for resources to be assigned more efficiently for recovery (eg, seniority of Debt Officer assigned, time of day to call debtor, escalation pathway)
- ▶ Detailed recording of debt data is undertaken and visualisation analytics are often used to identify trends and to inform strategy in relation to how resources and escalation pathways can most effectively be utilised for debt recovery
- ▶ Call recording and voice analytics – allows for monitoring of compliance and automatic streaming of risk categories to appropriate personnel (eg hardship and mental health)
- ▶ Tracking and real-time reporting of recoveries for continual improvement
 - ▶ Information systems efficiently capture relevant data (debtor, legal, source documents, other) required for escalation of claim and integration of system processes minimises manual processing tasks

Automated and streamlined processes that require minimal manual handling

- ▶ A streamlined approach to recovery enables less experienced staff to be highly utilised to perform set procedures and have confidence in process. This usually includes stratifying debts according to value and other metrics and having agreed upon procedures in relation to each recovery pathway
- ▶ 'Decision making' not required for less experienced staff and process is driven by pre-determined rules
- ▶ Senior staff have thorough and consistent information on which to make decisions (where required)
- ▶ Automated processes are generally supported by a hierarchy of appropriate trained recovery personnel that can communicate directly with debtors where require



4 Modern Debt Recovery – System Expectations

Modern Debt Recovery Approaches

[Dashboard](#)
[6 Appendices](#)
[1 Executive Summary](#)
[2 Fundamentals of Debt ...](#)
[3 Current State Assessment](#)
[4 Modern Debt Recovery – ...](#)
[5 Improvement Opportunities](#)

Non-traditional communications

- ▶ Whereas traditional debt recovery relied primarily on formal correspondence sent by post, modern recovery uses a variety of medium for communication:
 - ▶ Traditional: Post, Facsimile, Telephone
 - ▶ Non-traditional: Text Message, Email, Online Debtor Portals and Apps, Automated call-back
- ▶ For some debtors whom 'would like to pay but can't', having the option of non-verbal communication channels that enable them to request extensions, payment plans and confirm the balance of their account and answer other queries, may help to improve recovery outcomes (some debtors may be reluctant to discuss their financial status with someone over the phone, despite having a willingness to address the outstanding debt)

Outsourcing of debt recovery function

- ▶ Outsourcing of debt recovery from very early stages of the escalation process is becoming increasingly common with the rise of a large number of sophisticated collection houses.

Sale of unrecovered debt to third parties

- ▶ Selling unrecovered debt (at significantly discounted rates) can be an effective means for some organisations to realise value from debts that would otherwise be written off or deemed uncommercial to pursue

Interest and other penalties

- ▶ Interest and other penalties (financial or otherwise) are often applied to outstanding debt balances as a deterrent to late or non-payment

Payment Plans and Negotiated debt outcomes

- ▶ May be particularly useful for debtors that would like to pay, but have poor liquidity

Garnishee orders

- ▶ A Garnishee order requires a third party (such as a bank) to make payments directly to the creditor. This can be particularly useful where the debtor fails to engage with the creditor to negotiate other outcomes.

Securitisation of debt and possession orders

- ▶ Either with the voluntary consent of the debtor, or obtained through an order of a court, creditors, may in circumstances, be able to take a secured interest in some or all of the debtor's property and/or obtain the assistance of the Court in having assets of the debtor liquidated for the purpose of paying the debt(s).
- ▶ This may include registered and unregistered mortgages over real property, authority for payment from sale proceeds and secured property interests registered on the PPSR.

Positive incentive schemes and deductions

- ▶ Providing payment deductions for early payment, moratorium discounts for overdue debt and other incentives may assist with higher recovery.

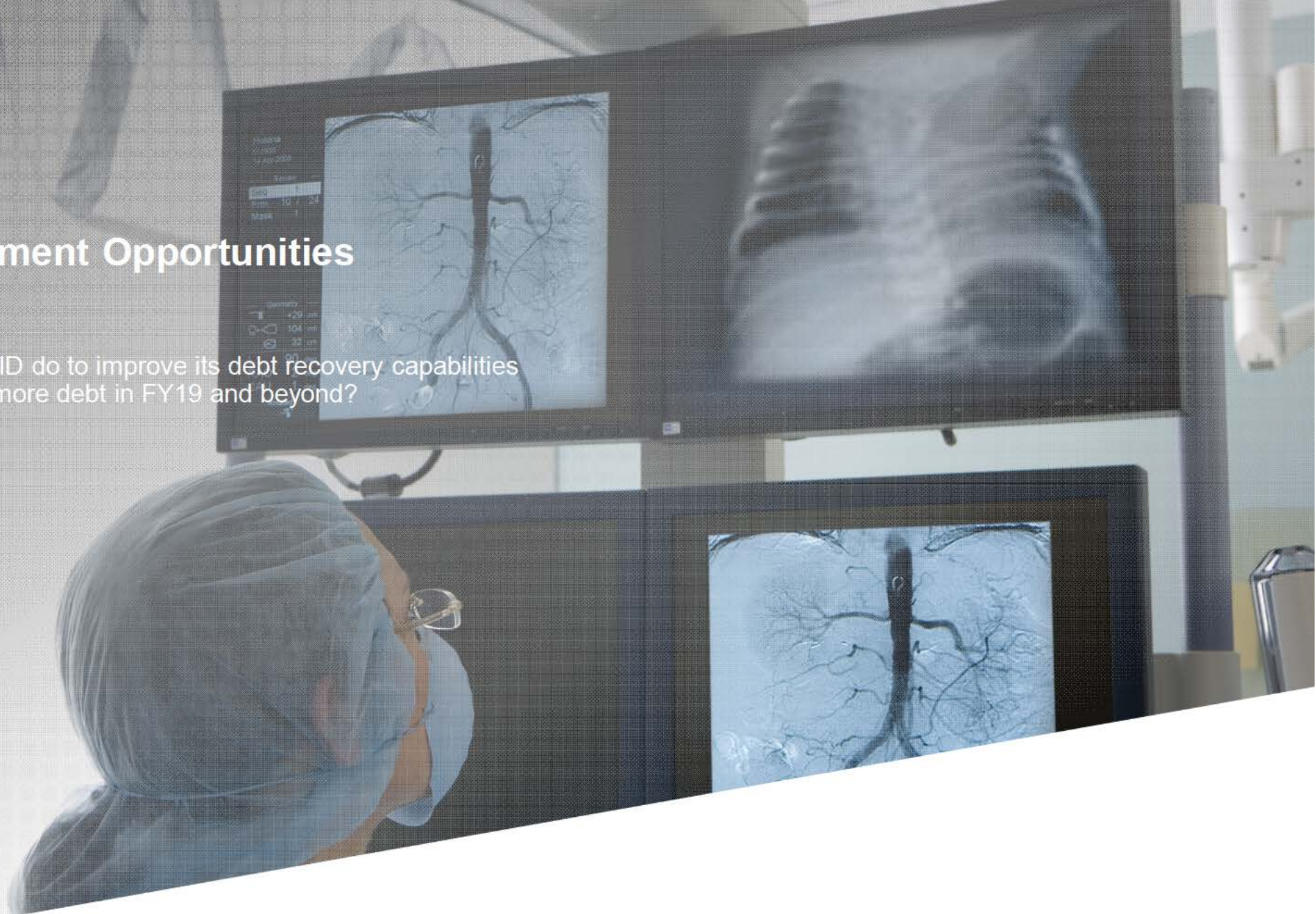
Early stage legal escalation or intervention

- ▶ Creditors with large volumes of debt, typically systemise or automate instructions to solicitors for higher level escalation procedures. We note that this process requires a robust data set and is typically accompanied by thorough complaint handling and dispute resolution methodologies.

5

Improvement Opportunities

What can PBID do to improve its debt recovery capabilities and recover more debt in FY19 and beyond?





5 Improvement Opportunities

Recent PBID initiatives will significantly enhance debt recovery. We have identified complimentary options to support these initiatives.

[Dashboard](#)[1 Executive Summary](#)[2 Fundamentals of Debt ...](#)[3 Current State Assessment](#)[4 Modern Debt Recovery – ...](#)[5 Improvement Opportunities](#)[6 Appendices](#)

Approach to Debt Recovery

In preparing this report, EY has consulted broadly within Health in order that we can better understand the context of your requirements and provide relevant recommendations and options to you. ^{s 47E(d)}

^{s 47E(d)}

Health's Progress towards establishing a stronger debt capability

We note that Health/PBID currently have a number of initiatives underway to establish a capability to appropriately collect, manage and enforce debts raised in relation to Health's health provider compliance function. This includes Legislative changes that were approved by Parliament on 28 June 2018. We comment on each of the initiatives in the table on the following pages.

EY Recommendations

We believe that Health's debt recovery capabilities (in order of our perceived level of importance/impact) can be broadly grouped as follows:

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5 Improvement Opportunities

Proposed Legislation and PBID led initiatives

[Dashboard](#)
[6 Appendices](#)
[1 Executive Summary](#)
[2 Fundamentals of Debt ...](#)
[3 Current State Assessment](#)
[4 Modern Debt Recovery – ...](#)
[5 Improvement Opportunities](#)

The PBID team currently have a number of initiatives underway to improve the debt recovery function. We comment briefly on some of those initiatives below:

| Initiative | Description / Status | EY Impact Assessment | Opportunities / Risks |
|------------|--|----------------------|--|
| s 47E(d) | Payment Deduction Facility (PDF) | H | + Effective means of recovery in instances where debtor does not engage + Minimises resources consumed in other recovery - Will require robust dispute resolution procedures if there is uncertainty in relation to quantification of debt |
| | Garnisheeing of Funds | M | + Effective means of recovery in instances where debtor does not engage + Minimises resources consumed in other recovery s 47E(d) |
| | Interest Charging Capability | M | + Effective deterrent for non-payment of claims s 47E(d) |
| | Bpay reference number generation (before invoice) | M | + Minimises manual procedures required to deal with 'refund' and suspense account issues + Greater recovery outcomes with early payment |
| | Single view of client capability in CWMS and integration with Health's Finance Systems | M | + Information will enable for more efficient recovery and assist with streamlining escalation process + Will reduce manual processes + Better debt tracking / recovery analytics capability |

Impact Rating

High
 Medium
 Low

6

Appendices





6 Appendices

[Dashboard](#)[6 Appendices](#)

- [1 Executive Summary](#)
- [2 Fundamentals of Debt ...](#)
- [3 Current State Assessment](#)
- [4 Modern Debt Recovery – ...](#)
- [5 Improvement Opportunities](#)

Appendices to include:

1. Work Order
2. Bankruptcy Overview
3. Liquidation Overview
4. EY Project Plan
5. EY meeting/consultation record

