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Tips to get your profits up

How can I make more money and maximise my income? **Jeanette Brown*** answers the big questions GPs are asking

The main income streams for GP practices come from a number of distinct areas - global sum or PMS baseline income, QOF, enhanced services and, where relevant, dispensing.

So it is these areas that GPs should concentrate on when seeking to maximise their income levels.

For global sum or PMS monies, it is all about the list size, so the practice should make sure it is not losing patients. If workloads allow it needs to make itself more attractive for new patients to join.

This includes ensuring it is fully compliant with the CQC requirements, where achieving anything less than 'good' or 'outstanding' can adversely affect patients' views of the services offered.

QOF is all about reaching targets. The practice should investigate if any coding issues are causing it to miss out on payments. Mistakes can and do happen. If high numbers of locums are used at the practice, it is important to make sure that they are made aware of the correct procedures at the outset, so everything is coded accurately.

GPs can check their practice's performances against average key performance indicators provided by their AISMA accountant.

More enhanced services are now being based on list size, so efforts to increase this will also help improve income from this source. GPs should also ensure that they are achieving maximum payments on the activities they undertake and the focus should again be on correct recording.

Missing one small step can be the difference between getting paid for the work and not, so it is very important to properly read the details on the Service Level Agreements to make sure everything

has been achieved to qualify for payment.

It is important to make sure claims are submitted in a timely manner and regular checks are made to ensure payments are received from the relevant paying authority. When considering starting a new enhanced service, practices should also look at the likely costs, such as consumables and wages, rather than just focusing on the extra income they will receive.

Dispensing practices should make sure systems are tight enough to ensure all scrips are submitted on time and payments received from the NHS Business Service Authority are monitored.

It is also important to keep an eye on drug stocks to ensure money is not wasted through stock becoming obsolete. With drugs margins being squeezed, monitoring of profits for key drugs is now also a necessity for practices.

Once the key areas have been examined and dealt with, doctors need to explore other ways to increase their incomes from other sources. Keeping an eye out for opportunities to tender for contracts in association with other practices may result in an increase to income.

It is likely that by working together a wider range of resources will be available, which should help to keep costs to a minimum. Speaking to your AISMA accountant should help provide you with information on additional income streams being earned around the country.

The overall ability to increase income will ultimately depend upon time availability and any special interests which the practice doctors have. It may be that in the current climate the only way to generate additional income is to give up large chunks of your time.

Why is my income falling?

Your income streams can fall for any number of reasons and you will need to look at the practice's method of operating to tell you why this is happening. A good starting point would be to ask yourself some major questions about how the practice operates and more importantly, review the answers and implement changes where possible.

The questions should include:

- Is my list size falling, or are patients leaving the practice, and if so, why?
- Has the Local Area Team reduced my baseline PMS income?
- Am I meeting my QOF targets?
- Has there been a significant change to the practice's performance on enhanced services?
- Are there any payments due in for enhanced services performed but not paid?
- Has the practice changed its method of operating in recent months, so for example, has a doctor with a particular special interest recently left the practice without finding a replacement with the same skills?
- Has a senior partner recently retired with the corresponding reduction to seniority payments?
- Does the practice charge for all 'ad-hoc' services, such as the provision of medical reports, travel vaccinations etc?
- Are financial controls on the dispensary tight enough to ensure that scrips are submitted in a timely manner and follow up reconciliations are performed on numbers and claims?

The second thing to ensure is that you have your financial systems set up so that you can constantly monitor the levels of your income. Your AISMA accountant should be able to provide you with a relatively straightforward spreadsheet to help you monitor income streams on a month-by-month basis which can be produced directly from the practice software.

How do I stop my profits falling/how can I improve profits?

Tight financial controls are essential in any business and doctors' surgeries are no exception. You should take the opportunity each year at the accounts meeting to really drill down into the figures and ask for Key Performance Indicators to assess how your practice is performing in comparison to others. AISMA accountants will provide this information as a matter of course.

You should also consider carrying out a budgeting exercise and literally start from scratch on every figure in the accounts. This is known as 'zero based budgeting'. Once you have established what your income streams are likely to be, you can then examine the expenses in detail.

Your biggest expense is likely to be your staff costs, so this is where the greatest focus should be. Spend time with your accountant looking at year-on-year pay rates and what the overall percentage

increase in staff costs has been.

If this falls outside of normal pay deal percentages, then you need to ask why. When looking at annual pay rises, it is important to remember to also factor in the on-costs.

Focus too on your deputising costs and whether there is anything you can do to cover for each other within the partnership, particularly where your locum costs are on the rise. This can be remedied by co-ordinating holidays so that sessions are covered first by other partners where possible.

The rest of it is down to basic business budgeting. For example, are you on the cheapest tariffs for utilities and have you shopped around for supplies, such as stationery and insurance?

Another good example is postage costs as many practices have seen large rises as a result of trying to increase their income streams. It may be cheaper in the long run to consider investing in a franking machine.

Why are my drawings going down/what drawings can I take?/how much can I increase my drawings by?

Your drawings can reduce for a number of reasons.

The first reason could be a reduction in your profits. This means there will be correspondingly less money for the partners to draw out of the practice bank account.

Your profits are used for a variety of purposes as well as funding the practice expenses and partners' drawings. These include paying for tax and superannuation bills, or paying off bank loans or mortgages. Once again if any of these costs increase, then drawings will need to reduce.

Your accountant can help you understand this by preparing an annual 'drawings forecast' for you. This is sometimes also known as a 'drawings policy'.

When looking at future levels of drawings you need to consider a number of issues and you should review these with your accountant. The things you need to consider are:

1 Expected future levels of profit for both yourself and the practice for the coming year. Your accountant will be able to help you with this by looking at last year's level of profits and discussing with you your expectations for the forthcoming year in terms of income streams and any expected changes to expenses.

2 You will also need to consider any expected future changes to profit shares such as new partners coming in, partners leaving or retiring or changes to session numbers or parity arrangements.

3 Once you have established your expected share of profit, you then need to look at the necessary deductions for future superannuation liabilities and where the practice pays your tax, any forthcoming tax bills.

4 Finally you need to take into account any capital payments which need to be made, such as building improvements or the capital element of loan repayments.

Once all of these figures have been established and the necessary amount added/subtracted, the remaining figure will be what is left for you to draw out of the practice. Rather than drawing out the full amount, taking say 80–90% will allow scope for any unforeseen changes to the practice profits.

Remember that any drawings forecast is by its very nature an estimate but if it is prepared correctly it can even out the drawings over the year. While nobody likes to have their drawings cut, forecasting in this way can reduce the need to pay large sums of money back into the practice after the practice accounts have been prepared.

How can I improve profits and reduce workload?

This is a very interesting conundrum to which many self-employed people would like to know the answer!

The answers to the previous questions give some ideas for improving profits. However, reducing workload is more difficult to achieve as it is likely that income will also reduce and so too will profits.

If incomes are to be maintained, someone else will need to be paid to deputise and the additional cost will lead to a reduction in profits. The drawings policy can be used to show the impact of such changes on drawings.

Some income streams may be more profitable than others, and you should always discuss these with your AISMA accountant.

Be smart with a simple start

How friendly will the new Friends and Family test be? **Kathie Applebee** suggests GP practices make a simple start to managing this new relationship monitor

The Friends and Family test, due to be introduced by practices in England from 1 December 2014 as a contractual requirement, poses the question:

We would like you to think about your recent experiences of our service.

How likely are you to recommend our GP practice to friends and family if they need similar care or treatment?

The choice of six answers is somewhat more complicated, ranging from *Extremely unlikely*, through *Neither likely nor unlikely* to *Extremely likely* or *Don't know*, most of which seem difficult for those with limited reading or English language skills.

However, practices are supposed to reach out to such individuals, as well as to more able patients, so this test has hidden challenges.

The numbers of responses for each practice will be published monthly by NHS England (NHSE) and must also be published by the practice.

The second question

In addition to posing this question to registered patients and their carers or family members, practices are also required to ask an additional question which invites a free text answer.

Unlike the first question, which is prescriptive, the second can be chosen by the practice. The prudent practice might chose to involve its Patient Participation Group in its design.

Although the numbers of responses to the first question have to be submitted monthly, preferably via the CQRS payment-claiming system, the responses to the second question have only to be published locally.

Patients have the right to remain anonymous and to opt out of having their comments published. The second question will therefore need an accompanying opt-out tick box for its responses.

The small print

The guidance advises that practices can chose a range of collection options but not via a token posted into a choice of boxes as this does not support the second question.

In addition, the monthly return to NHSE requires that practices sub-total the responses by each method of collection, with expectations that hard-to-reach groups will be included. But at the time of writing there are no details of any penalties attached to any failings in this area.

Practices are also cautioned against effectively pestering patients for responses (for example, after every consultation) but yet are expected to make it as easy as possible for responses to a wide range of circumstances, including 'patients who attend without an appointment but do not wait to be seen'. No, I didn't make this up. Perhaps the receptionists could just tick 'highly unlikely' on their behalf.

Next steps

As with any new initiative, it is advisable to pace yourselves. A simple start should suffice, such as:

- explanatory posters and pre-printed postcards for those visiting the practice (and being visited)
- information about the new system on the practice website in the form of a downloadable form to complete and return and/or a link to an electronic collection option.

The first question has to be asked before any other, so it may be in the practice's interest to explore that first answer in order to obtain information about the reasons for any poor scores.

The guidance document suggests the following possibilities:

- What was good about your visit?
- What would have made your visit better?
- Can you tell us why you gave that response?

As the first two make assumptions about the answers that were given to the first question, a variation on the third of these options seems preferable.

There are various commercial options available to collect data for the practice. This might become necessary if volumes become unmanageable but a simple start within the practice should be within reach of most.

Postcards could have the primary question printed on one side and free text question on the reverse. These could then be grouped and counted to provide the responses to the first question.

A slightly different set of postcards (altered to enable practices to identify a different service delivery area) given out with repeat prescriptions or on home visits, for example, could provide a second delivery option. A simple option for the practice website is a question sheet which patients can print and complete at home.

Postcards could also be given out at clinics (eg immunisations, 'flu) and active PPGs might distribute them at meetings and events. Such variations would demonstrate that the practice was seeking responses across a range of services, as required.

In short, keep it simple while we wait to see whether more resources need to be expended on this latest initiative.

Friends and Family Test in General Practice: Guidance, July 2014, NHS England Gateway reference: 01788

OPINION

Map your finances with a cash flow spreadsheet

Chris Howe, committee member, AISMA

Keep your financial eye focused – but on what? Focus on the big picture or on the details?

In a partnership there will be different characters, and between them hopefully somebody will fill the role of macro viewer and another partner will be skilled at the micro view. Being accountants we are best suited to advise the latter.

With the ongoing changes in practice finances it is even more important today to look at this level of detail.

And adding to the complex mix are items such as withdrawal of the correction factor, reduced QOF achievement pay at year-end, seniority clawbacks, superannuation shortfalls and increased levels of contribution, unexpected prevalence effects on the global sum, enhanced service ins and outs, partners coming and going.

For the partner with responsibility for micro managing practice finances what tools are available? Management accounts, drawings projections, cash flow forecasts, spreadsheets, charts and so on come to mind.

In an ideal world every fair sized entity should have monthly management accounts.

However in my experience, the complexities of GP income streams, both in the number of income headings and in the timing of their receipt, make proper management accounts an impossible or overly expensive luxury.

To have such monthly accounts making any sense would require the considerable input of a qualified accountant each month.

Far better for this purpose and easier to compile is a simple cash-flow spreadsheet. Your AISMA accountant will be able to advise on how to set this out.

Just as your eye needs a certain amount of pressure to keep the eyeball in shape to function properly, the financial partner's reports at monthly partner meetings should force decisions to help keep practice finances on track.

Laying out a clear path ahead and leading the practice forward is better than being at the rear sweeping up the pieces from a financial meltdown.

Resurgence of practice mergers

As practices come under increasing financial and bureaucratic pressure, it is no surprise that more and more are considering merging. **Alison Oliver** explores some of the issues and risks to be considered if a merger is planned. Her article refers primarily to the law and regulations in England, although a number of the issues will be the same or similar in other parts of the United Kingdom.

So what is a merger?

A merger is the union of two or more commercial interests. In some cases it may be achieved in practical terms by one practice continuing and the other practice or practices ceasing to trade, with the partners from any closing practice joining the continuing one.

In some cases, residual commercial activities may remain with the original organisations. So, for example, two GP practices could decide to merge for the purposes of general medical services (GMS) provision but leave certain specialist services to be provided by the original practices.

It is therefore important to identify whether practices will be merging in their entirety or whether certain activities will be outside the scope of the merger.

Why merge? The reasons are well-documented and include:

- Potential savings on staff and other costs
- Increased capacity to achieve targets, win new work and provide a broader range of services
- More partners to share workload and cover absences
- Pooling of expertise
- Sharing the administrative burden
- Reducing the risk of GMS contracts and/or Personal Medical Services (PMS) agreements being terminated in the event of a contractor's death or retirement by ensuring that there are multiple contract holders.

With regard to the last point, recent announcements that Alternative Provider Medical Services (APMS) contracts will replace GMS contracts and PMS agreements when practices close and are re-tendered have caused alarm across the profession. This is primarily on the basis that APMS contracts are time-limited and enable non-GP providers to run practices.

Practices can partly mitigate the risk of closure in the first place by putting in place succession arrangements, with a merger being one way of achieving this.

Financial considerations

The financial benefits of operating as a larger organisation are likely to be one of the prime motivations for a merger. However, it is not necessarily the case that a merger will bring the expected financial rewards.

It is crucial that the merging practices take expert financial and accounting advice about the likely financial consequences of a merger to ensure that it is financially viable.

The costs of the merger itself will need to be taken into account, alongside any potential financial benefits. These will include legal and accountancy costs as well as the costs of attending to various practical matters and, possibly, redundancy costs.

Consideration will need to be given to the merged partnership's banking facilities and loan finance arrangements.

Contractual considerations

In some cases, it may be possible to negotiate a single merged primary care contract. Where this is not possible, practices can still merge at an operational level and run two or more contracts.

In the case of GMS, the partnership changes must be notified to NHS England in order for the contract to continue with the merged partnership. This involves submitting notices regarding the partnership changes at the relevant time as required by the GMS contract regulations.

Provided the notices satisfy the relevant regulatory requirements and that all the partners are eligible to hold a GMS contract, it should be relatively straightforward to achieve the required contract changes to reflect the structure of the merged practice.

It is worth taking specialist legal advice to ensure that the notices comply with the relevant regulatory requirements.

The situation is less straightforward in the case of PMS where the agreement regulations do not set out a process for partnership changes and the consent of NHS England is needed to vary the agreement to reflect these changes.

Another option is for PMS practices to exercise their right to a GMS contract in place of their PMS agreement and to then achieve the relevant contract changes by following the GMS contract regulation procedure. Get advice from a specialist medical accountant and solicitor before pursuing this option.

If the practices hold other contracts to provide services which it is intended will be transferred to the merged partnership, they will need to check the contract terms to see if the contract can be assigned to or novated into the merged partnership, or whether the contract permits the original contract holder to sub-contract the work to the merged partnership.

There will be a host of other contracts which the individual practices hold with suppliers and so on. Arrangements will need to be made to transfer contracts to the merged partnership or they will have to be terminated. In some cases there may be financial penalties for early termination. The practices will need to check the terms of each contract in order to ascertain the requirements in each case.

Regulatory considerations

The merged partnership will need to be registered with the Care Quality Commission (CQC) and the registrations of the original practices cancelled. Where the merger is to be achieved by one practice continuing and the other practice or practices ceasing to trade, the registration of the continuing practice should be amended to include the additional partners and, if applicable, locations.

Similarly, arrangements will need to made, if applicable, for registration of the merged practice with the Information Commissioner's Office, HMRC, and other relevant authorities.

Premises

If it is expected that the merged partnership will cease to use any premises used for NHS services by the original practices, or if the merged partnership is intending to relocate to new premises, NHS England will need to approve these changes.

Where the merged partnership will continue using the premises of the merging practices, steps will be needed to ensure that premises are brought into the ownership of the merged partnership or that it acquires the necessary rights to occupy and use the premises required to carry out its work.

If any of the premises are leased or subject to a mortgage, consent of the landlord and/or mortgagee are likely to be needed and, if the merged partnership is taking out a loan, the lender's requirements will also need addressing. A property

lawyer's advice will be needed to ensure the various requirements are met.

Staffing

The Transfer of Undertakings (Protection of Employment) (TUPE) Regulations are likely to apply when two partnerships merge.

These require employers to inform employees when there is a transfer of their business and, if the transfer is likely to result in material changes to the employees' terms and conditions, consult with them about these matters.

Changes to terms and/or dismissals in connection with the merger will be treated by an Employment Tribunal as automatically unfair except in certain circumstances. Changes to staff terms and conditions purely to bring the terms and conditions of staff from the merging practices in line with each other are susceptible to challenge, as are dismissals, unless there is a genuine redundancy situation which necessitates the changes.

The merging practices will need to work out their staffing requirements and, if it is anticipated that material changes in terms and conditions or redundancies will be needed, seek advice in order to mitigate the risk of claims.

Merger control rules

GP practices might be unaware that they, like other businesses, are subject to laws aimed at preventing anti-competitive activity.

The Competition and Markets Authority (CMA) has jurisdiction to investigate mergers that meet certain turnover or market share thresholds, to establish whether they are likely to restrict competition. The CMA also has powers, in limited circumstances, to require a completed merger to be unpicked.

Although most small-scale GP practice mergers are unlikely to breach the relevant thresholds, it would be sensible to take advice where a merger involves one or more larger practices, to identify or rule out any merger control issues.

Relations between partners

The importance of relationships in GP partnerships should not be underestimated. If a merger is to work, the partners have to be able to get along.

This does not mean they have to be best friends, but they do have to be able to agree a framework for how they will work together and agree to adhere to that.

The process of negotiating terms for a partnership agreement for the merged practice can be helpful in gauging whether the partners have enough common ground to make the merger work.

If they cannot even agree these terms, it may be better for all concerned to cut their losses and walk away.

And don't forget.....

A host of other matters will need addressing which are beyond the scope of this article. These include:

- Agreeing a name for the merged practice
- Changing the practice stationery, literature and website
- Harmonising IT, office systems and human resources policies and procedures
- Harmonising financial and accounting practices and agreeing an accounting reference date (which might in some circumstances have tax consequences)
- Agreeing on which suppliers to use
- Opening bank accounts for the merged practice and ensuring that receipts and outgoings are correctly apportioned between the merging practices and the merged practice.
- Appointing accountants and lawyers to assist with the merger and advise the merged partnership on an ongoing basis
- Agreeing a new partnership agreement for the merged partnership

Alison Oliver works in Ward Hadaway's healthcare practices team and specialises in advising GPs and other healthcare professionals on business structures, contractual matters and practice mergers, acquisitions and disposals.

5 ways to pay more tax

Some GPs are paying more tax than ever. If you want to join them, says **James Gransby****, here is what you can do:

1 Sell your property share before you retire (or more than three years after) and pay up to 28% tax instead of 10%

On relinquishing your profit share the sale of your share of the surgery premises could qualify for entrepreneurs' relief at a 10% capital gains tax rate as opposed to 28% for a higher rate taxpayer without this relief.

If you sell your share of the property while you are still a partner, and if your profit share is not reducing significantly, then any capital gain made on the value of the property is unlikely to benefit from this valuable relief.

You have a three year grace period after relinquishing your profit share to sell your property share and potentially benefit from the 10% tax rate. After this time it will be treated the same way as an investment asset and will be subject to the full capital gains tax rate, which is 28% for a higher rate taxpayer.

The gain is calculated on the sale proceeds, less original cost including accompanying legal fees and capital improvements. If you have not made a gain then you do not have to worry. If the value has increased since you purchased it then specialist advice should be taken as this is a complex area.

The timing of your property sale may be dictated by other factors, such as a new partner entrant before your exit, and so paying more tax may be an inevitable consequence. Planning is key.

2 Renew your equipment just after the year end and pay more tax this year

Capital allowances on the purchase of equipment, such as computers, are a very valuable tax relief. Qualifying expenditure incurred between 6 April 2014 and 31 December 2015 of up to £500k will qualify for 100% allowance against tax.

If the expenditure takes place just after the end of your accounting year then those few days delay will mean you have to wait a further 12 months to obtain the tax benefit from the expenditure, assuming that you have not purposefully delayed expenditure (ie because you expect to be in a higher tax band the following year).

Another important point to note is that the generous limit is set to reduce dramatically to just £25k on 1 January 2016 and so if expenditure in excess of this amount is planned then it is probably worthwhile incurring it before the limit drops.

3 Don't claim all allowable expenses

The larger items of expenditure such as professional subscriptions are very noticeable and are hopefully being claimed for already - either by the practice incurring the expenditure on your behalf, or by you submitting the figure paid from your own pocket to your accountant each year to claim tax relief for it.

Other spending which may be missed include: use of home as office, mileage (for home visits, not travel between your home and the surgery), postage and stationery incurred for work purposes, telephone costs for mobile phones, landline and broadband to the extent that these are used for business, to name but a few.

Your AISMA accountant can help you claim all necessary expenditure. If the expense has been incurred wholly, exclusively and necessarily for the purpose of the trade then it is generally allowable against taxable profits.

HMRC's help sheet 231 explains that such expenses need to either be included in the accounts, or adjusted against profit on the partnership tax return. It is not possible for individual partners to make supplementary claims, whether for expenses or capital allowances, in their own tax return.

To avoid paying more tax than necessary ensure that everything that can be claimed is claimed and that it is included correctly in the tax return with the correct records being kept.

4 In dispensing practices – don't check your VAT method is providing the best result for you

A tax which may not be on your immediate radar is VAT.

Dispensing practices follow the partial exemption rules when preparing their VAT return. Many practices will adopt the standard method of partial exemption but it is possible, with HMRC agreement, to adopt a bespoke method, known as a special method.

If an advantageous special method can be agreed with HMRC then the additional refund, however small, could translate into a significant sum over a number of years.

It may also be possible, by collaborating with other local practices, to form a cost sharing group to obtain bulk discounts on goods purchased and reducing VAT in the process.

5 Fail to plan for Inheritance Tax (IHT)

Although you will not personally pay this tax, your estate will, and the assets you have accumulated over your lifetime will have a potentially substantial sum taken from them. The Inheritance Tax rate is 40% after the nil rate band and other allowances are breached.

Specialist tailored advice is required. At the most basic level advice may be given to gift assets out of your ownership which will then fall outside of your estate completely after seven years. Trusts could be used and also certain forms of investment are available to mitigate an IHT exposure.

Quite often some simple steps and a well drafted Will can save significant sums, if there is an IHT exposure. For those with a large exposure to IHT bespoke planning will enable more of your wealth to be passed on to your heirs.

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AISMA Doctor Newsline is edited by Robin Stride, a medical journalist. robin@robinstride.co.uk

*Jeanette Brown is a director of Dodd and Co
** James Gransby is a partner at MHA MacIntyre Hudson (Maidstone)

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