



ACCOUNTING FOR GENERAL PRACTICE

EAST SOMERSET GP VOCATIONAL TRAINING SCHEME

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Dillington House

General Practice as a Business

GP medical partnerships are similar to any other small business.

As self-employed individuals, the partners within the practice are responsible for the whole business including all staffing and running the practice. All aspects of the business are the responsibility of the partners.

The partnership holds a contract with the PCT for the provision of medical services to a list of patients.

A partnership is made up of the individual partners who are self-employed individuals and it is the partnership who holds the contract with the PCT.

Effectively, the practices are paid money for the provision of health care to patients. The practice received this money and spend it how they decide is appropriate on staff costs, premises and administration costs. Any money left over is effectively the profits which are allocated to the individual partners.

How a Partnership is paid

Generally speaking, there are two types of contracts that the practice can hold with the PCT. Either GMS or PMS. Historically, there were significant differences between GMS and PMS practices however, with the new GMS contract from 1 April 2004, there are now significant elements of funding which apply to both PMS and GMS practices.

For GMS practices, they are paid a Global Sum figure which is currently £54.72 per weighted capitation.

The weighted capitation takes the actual registered population of the practice and applies six separate indices to arrive at the weighted population. This takes into account age/sex indices, nursing and residential patient population, new patient weighting and certain other aspects.

Under PMS contracts, the practice are paid a PMS baseline which again is determined by the list size of the practice.

Any falls in list size will have a significant impact on general practices as it will reduce the income being paid to the practice. This is likely to have a much more significant impact on PMS practices.

The MPIG correction factor is a mechanism by which GMS practices are paid a fixed annual amount on a monthly basis. This correction factor was introduced as part of the new GMS contract and it is to compensate practices who could have been financially worse off as a result of the change to the new contract. At present, this is a fixed annual amount which will not be increasing and is not linked to list size.

The next most significant element of funding is under the quality and outcomes framework. For the current year, practices are paid up to £1,050 quality and outcomes points which are determined on a variety of clinical, organisational and management areas.

At present, the value of the quality and outcomes points are £124.50 per point based on the average practice. The average practice is currently 5,891 patients.

We then have the payment of enhanced service monies. There are three sorts of enhanced service, national enhanced services, directed enhanced services and local enhanced services. Directed enhanced services are those which PCT's must provide according to national terms and conditions. No single practice within the PCT must provide services within this category. Included within this are improved access childhood immunisations and flu vaccinations.

National enhanced services are more common in secondary care context and will require specialist skills facilities and equipment. These include anticoagulation monitoring, management of alcohol misuse, specialised minor injury services, and near patient testing.

Both the directed enhanced and national enhanced services are paid at nationally agreed rates.

The local enhanced services will be priced by negotiation with your PCT. Locally enhanced services may be for medical care for asylum seekers, services for non English speaker's etc.

Practices then get paid separately for seniority. This is linked to the number of year's service an individual GP has within the NHS. It is paid as an allowance which is unrestricted for partners whose income is above around £50,000 is slightly restricted for partners who have income between £25,000 and £50,000 and no penalties made if you are earning below £25,000.

Individuals will have to be partners within a practice for 2 years before any seniority payments are made.

Hospital appointments

In some cases, individual partners within the practice may hold clinical assistant's appointments or carry out casualty or bed fund work at the local community hospital for which they are paid separately.

Non NHS Fees

The partnership then also gets paid for non NHS fees which would include insurance medicals and examinations, private fees, potentially retainers for commercial organisations.

Reimbursements

Generally speaking, practices are reimbursed some element of rent for the surgery premises.

In addition, practices will be reimbursed 100% for rates, water and waste disposal costs which are incurred on surgery premises which are used for NHS purposes.

Computer maintenance costs are generally paid directly by the PCT on behalf of practices now.

Practices get reimbursed for personally administered drugs and dressings. This represents the cost of the drugs plus a dispensing fee. This will be paid for all vaccinations which are purchased by the practice and given to their patients. This will include flu vaccinations. Holiday vaccinations are usually subject to a separate charge by the practice to the patient.

Staff Costs

It is the partnership's responsibility to employ sufficient relevant competent staff in order to provide services to patients and to manage the practice. This will include normally the employment of a practice manager, secretaries, receptionists, nurses and potentially nurse practitioners and salaried GPs. Normally, we would expect to see the cost of salaried GP's shown separately within staff costs.

If the practice are a training practice, they will also pay the salary for the GP registrar and this cost will be fully reimbursed to the partnership.

In general, partnership staff are entitled to join the NHS superannuation scheme and it will be the employers i.e. the medical practice, who are required to pay the 14% employers superannuation contributions for their staff.

The only costs which are not generally borne by the individual practices are the costs of the community nursing team, health visitors, district nurses etc.

Establishment

Property ownership is dealt with in a number of different ways but the general options are for practices to own their own premises or to lease premises. In either situation, the partnership is responsible for heat and light, repairs and renewals and cleaning and laundry.

Administration Costs

As a business, there are a lot of other expenses which need to be incurred by the partnership in order to survive.

Allocation of Net Income

The net income for the partners is effectively the balance of income which is left after paying all relevant practice expenditure. As with any business, this could fluctuate significantly from year to year depending on the performance of the partnership. However as GP practices, the income into the practice tends to be relatively stable and if costs are well controlled and managed, profits should remain fairly stable and potentially increase year on year.

Allocating the net profits between the partners is a major consideration which will need to be understood fully by all parties.

Normally, seniority is paid to the practice based on the number of years service for the individual partner and the majority of practices allocate this separately to each partner.

It is normal for any income and expenditure associated with the property to be divided between the partners in their property owning ratios.

There may be several other prior shares of income such as payment for additional sessions, payment for out of hour's work, and any other items which the partners feel is appropriate to allocate to the individual.

The balance of income is then split between the partners in accordance with their profit sharing ratios. Usually, this is determined by how many sessions a partner works. In this example practice, we have three full time partners and one three quarter part time partner. However, profit sharing can vary significantly from practice to practice.

Golden Hello

Any of you joining a practice for the first time as a principal, or a salaried GP are entitled to a Golden Hello payment. This is taxable and national insurance will be payable. The payment is also superannuable. If as a principal – it should be allocated to you as part of the partnership profit sharing.

Route to Parity

Quite often, a new partner joining a practice will not start on a full profit sharing percentage but will have to work towards parity. For any partner, this period should not extend beyond 3 years under BMA guidance. It is usually a process of negotiation between the new partner and the practice as to the appropriate percentages. In the current market, the norm may be parity after 18 months to 2 years starting at perhaps 80% for 6 months, 85% for 6 months and 90% for 6 months (or 1 year).

It is essential that new partners understand how profits are to be allocated and particularly the route to parity. This should be clear before the interview stage and new partners should be prepared to negotiate.

You will also have to be extremely careful as to how the 80% or 90% is calculated. We set out below two examples which are both calculated as 80% of parity but give very different figures. Example 'A' shows 80% of what you would you earned had you been at parity. Example 'B' shows 80% of what the other parity partners are earning. This can have a significant financial impact for new partners.

Example A

| | Percentage share | Example of profit if total income £400,000 |
|------|------------------|---|
| Dr A | 26.67 | 106,667 |
| Dr B | 26.67 | 106,667 |
| Dr C | 26.67 | 106,666 |
| Dr D | 20.00 | 80,000 |
| | 100.00 | 400,000 |

Example B

| | Percentage share | Example of profit if total income £400,000 |
|------|------------------|---|
| Dr A | 26.32 | 105,263 |
| Dr B | 26.32 | 105,263 |
| Dr C | 26.32 | 105,263 |
| Dr D | 21.05 | 84,211 |
| | 100.00 | 400,000 |

Balance Sheet

A balance sheet is drawn up to the partnership year end. Practices can decide any partnership year end but it would usually be consistent year to year.

It generally shows the assets and liabilities of the practice at that specific date.

Surgery Premises

Normally, premises are either owned by the partnership (or a combination of the individual partners) or are simply rented.

In either case, partners need to be fully aware of the financial implications of owning premises.

If premises are leased, this is seen as significantly less risk. It does however depend specifically the terms of the lease and who they are rented from. Normally, under a commercial lease, you have an automatic right to renew that lease under the existing terms. This does mean that effectively, once the lease expires, you cannot be evicted from the building. You will however need to check the lease and take expert legal advice.

The other problem would be if you are tied into a long term lease with premises which are not particularly good and which are currently too small. The partnership may have to wait for a significant number of years before it can relocate.

You will also need to consider who is responsible for which costs under the lease and how the rent is fixed. In this situation, the PCT would reimburse any rent paid to the practice however, this would be limited to the market rent assessed by the district valuer. The district valuer is appointed by the PCT to review the rentable value of all surgery premises. If your lease allows rent rises above market value, then the practice will only be reimbursed up to the market value.

You will also have to consider any developments or extensions for the building and who is responsible for paying them, either the tenants or the landlord.

Owning Premises

Still the most widespread and popular way for partnerships to function is to own their own premises. The surgery premises are shown in the balance sheet of the practice.

Normally, when there is a change in partnership, the surgery premises will be re-valued in order to determine the amount to be paid out to retired partners and the amount which will need to be contributed by incoming partners.

Where individuals join a practice, there may be a mutual assessment period after which time, you will be required to buy into the property or assume property ownership. This should be clarified with the practice at the outset.

Surgery premises should be valued by expert quantity surveyors. There are several different basis under which premises can be re-valued.

If it is a relatively recent build, it is likely that the actual cost of constructing the surgery will be higher than its market value. As a result, most partnership agreements specify that the value to be used will be the higher of open market value or actual cost. This ensures that retired partners are not penalised.

Normally, the partnership will select a valuer. A retiring or incoming partner will then have the option to appoint their own independent valuer if they are unhappy with the figure that the partnership surveyor estimates. There will then be a process of negotiation between the two valuers in arriving at a suitable figure.

New partners will need to determine exactly what percentage of the property they are buying into.

Funding for Surgery Premises

There are a variety of ways in which partnership premises are funded. Usually, this is a combination of a different sources of borrowing. Either there will be a partnership loan for parts of the premises or there will be separate personal loans for each of the partners.

When buying into any partnership premises, capital may have to be introduced by an individual.

This will be calculated as follows:

| | |
|--|-----------|
| | £ |
| Valuation of the surgery premises say | 800,000 |
| Less any partnership loans outstanding say | (600,000) |
| | <hr/> |
| Total equity in building | 200,000 |
| | <hr/> |

The share being bought is 25% which gives £50,000 to be introduced by the new partner.

The £50,000 to be introduced will normally be by a personal loan raised by the new partner but secured on the surgery premises.

The PCT will be reimbursing a stream of rental income to the partnership. Either cost rent based on the original build cost of the surgery premises or notional rent (assessment of market value). Once a new partner buys into the surgery, they will be allocated their share of this rental income which will be used to pay interest on both the partnership loan and their individual personal loan. In a lot of cases, this will have very little financial impact.

A new partner will be taking on a proportion of the existing partnership loan. In certain partnership arrangements, they will take over a personal loan from a retiring partner. New partners need to be aware of the interest rate on any existing loans and whether these are fixed. Frequently, partnerships have fixed rate loans for 25 years in order to develop new premises.

If there are partnership endowment policies this does become slightly more complicated.

Stamp duty may also be an issue – depending on the value of the surgery.

Partners Current Accounts

Not only do partners have to invest in the surgery premises but they also have to invest in the fixtures and fittings, the stock of drugs and dressings held and the balance in the bank account. This is the working capital of the practice.

The current account balance for each partner will represent this figure. It will vary considerably from practice to practice and dispensing practices have a significantly higher need for capital.

Normally, partnerships will have a capital account of around £6,000. In a lot of partnerships, new partners are allowed to build up to this level of capital over a period of time however in some, new partners are expected to introduce capital.

How Do I Get Paid As A Partner

Unlike a salaried position, a partner is paid a profit share.

The monthly amounts paid to the individual partners are called drawings and the monthly drawings figure will depend on a significant number of factors. Also, partnerships have very different drawings policies. Our preferred approach is for a regular amount to be paid out each month.

Partnerships also treat taxation payments very differently. In a number of partnerships, the taxation liability for the individual partners is saved by the practice and so the drawings each month are net of tax. In other practices, the individual partners are expected to pay for the tax bill personally.

In all practices, the superannuation contributions for the individual partner are deducted by the PCT from the monthly monies paid to the practice. Effectively, the partnership is paying your superannuation on your behalf and this is charged to your current account.

Certain partnerships also have different methods of paying the professional subscriptions. In some, these are paid by the individual partners and in others paid for by the practice.

It is essential that new partners to a practice clearly understand who is responsible for paying which liabilities and how the monthly drawings will be calculated. Prospective partners should also be given an indication of the level of partnership drawings.

As a self-employed partner or locum, you can claim a number of expenses on personal expense claims against your tax liability. These will include:

- 1 Professional subscriptions
- 2 Locum insurance
- 3 Motor expenses
- 4 Use of home claims
- 5 Business use of home telephone
- 6 Mobile telephone bills
- 7 Stationery and postage
- 8 Computer expenses
- 9 Cost of Broadband
- 10 Use of home claim (including proportion of mortgage interest)
- 11 Accountancy fees

From the time you become a self-employed individual, you should keep details of these expenses so that they can be claimed against your tax bills.

For salaried GPs the expenses which can be claimed are a lot more restrictive and these are travelling (not commuting), and professional fees and subscriptions and only other expenses which are directly connected with doing that particular job. This would not include courses.

Your tax return will have to include any other sources of self-employed income such as out of hours and any locum work.

National Insurance

We are all liable for national insurance (other than those who have reached state retirement age).

There are however several sorts of national insurance which we may be paying

Class 1 national insurance is paid on any employment income and is deducted directly at source. This is currently 11% for earnings over £94 per week and 1% on earnings over £630 per week. However this rate is reduced to 9.4% if you are part of the superannuation scheme.

Class 2 national insurance contributions are payable by anyone with self employment income. This includes all locum income. The current rates are £2.10 per week and this is normally paid by monthly direct debit or quarterly bill. If however your self employment earnings are below £4,345 per annum, you can apply for low earning exemption and therefore don't pay. You must however register with the Inland Revenue as a self employed individual.

Class 3 national insurance are voluntary contributions to maintain your national insurance contributions record in order to qualify for full state pension and are payable by individuals who are not working. The rates are £7.35 per week.

Class 4 national insurance contributions are based on profits from self employment and the rates are 8% for earnings between £4,895 and £32,760 per annum and 1% for any profits over this level.

If you have employed earnings and self-employment income, you could easily be overpaying superannuation and you have the right to reclaim this over payment on an annual basis. This can be done either by claiming a refund each year OR by deferring the payment of class 4 national insurance contributions until after the end of a tax year at which stage a review is undertaken of all your sources of income and a bill will be issued for any class 4 contributions required.

Difference Between Salaried GP and Partner

A salaried GP is effectively an employee of the practice, although very well paid and given good holidays and study leave. Effectively, you have no right to share in the profits of the partnership but are given a fixed salary. Any salaried GP should have a contract in line with the BMA standard which is available on their Website which is www.bma.org.uk.

Salaried GPs generally take no involvement in the running in the business of the practice. They equally take no risks over the financial management and as a consequence do not benefit from a share in the partnership profits. Generally speaking, a partners profit share will be significantly higher than a salaried GPs remuneration to reward them for the significant financial risk, the input into running the business and the additional time commitment as a result of being a partner.

As a partner, you are jointly and separately liable with your other partners for the whole of the financial management of the practice. As a salaried GP, you have the security of a contract of employment and a huge range of statutory employee's rights.

Sick Leave

A partnership agreement should cover specifically how sick leave is to be treated for partners in a practice. Normally, a partner can have up to 6 months sick leave in any 12 months and after which time, they will be removed from the partnership. During that period, there will be an agreement as to who will fund the locum costs incurred. Frequently this will be a partnership expense for the first 12 weeks and afterwards will be at the cost of the absent partner. Locum insurance maybe essential in this situation. In other partnerships, the partnership operate a combined locum insurance policy.

Superannuation

Superannuation is based on each individual partner's net NHS profit. NHS profit will exclude any work such as insurance reports and medicals and any private retainers which are paid to the practice. The annual profits will be calculated by your accountant and will be paid by the partnership on your behalf to the PCT.

The contribution to be paid by the individual will be 6% and this can be increased by purchasing added years or making additional voluntary contributions.

Things To Consider When Joining a Practice

The partnership accounts and partnership agreement should be available prior to an interview and these should be reviewed in detail, potentially by an expert accountant who can give a full detailed written assessment of the profitability of the practice.

Practice profits range considerably and for full time partners this can range from around £50,000 per annum up to in excess of £200,000 per annum.

Individuals will need to consider what type of practice they wish to join. The area will largely determine the type of patients they will be dealing with and the work being undertaken.

Individuals also need to consider the dynamics of the partnership, the age profile of the partners as well as the differing personalities.

The attitudes and culture of the partnership as a whole will also be important in this long term ongoing relationship.

Flexibility may be an important factor particularly in the future and the ability for partners to reduce their commitment to part time may become important.

For young partners, the out of hours service may be an important consideration. Whether there will be the scope for partners to earn extra money from the local out of hours service or whether in fact this is permitted or allowed by partnerships.

Potential partners will also need to consider the probationary or mutual assessment period and the typical notice periods.

Conclusion

The finances of general practice are complicated and vary considerably from practice to practice. It is essential that you have a grasp of the basics regarding partnership profitability and funding for surgery premises.

Expert accountancy advice should be sought when applying for partnership positions.