The practice manager guide to accounts

In the first of a two-part guide, Hilary Lowe explains how practice income is made up and how practice managers can ensure their practice receives the maximum amount

Hilary Lowe
Associate Director, Hall Liddy, a member of the Association of Independent Specialist Medical Accountants
For more information call 0161 832 7571 or email hilary@hallliddy.co.uk
To find an AISMA accountant in your area visit www.aisma.org.uk

Medical accounting differs in many ways from business accounting, so new practice managers – even those with prior finance experience – must first become familiar with the basic concepts. Understanding how GP practice income is made up is a good place to start. Most GP practices derive the bulk of their income from the NHS, although it is paid via different streams, with some private and additional income on top. Let's look at each of these in turn.

The global sum

The core part of a practice's NHS income is the global sum and is based on the number of patients registered for each quarter. Therefore, it is important to keep accurate, up-to-date patient lists.

Most GP practices operate under the GMS contract as introduced in 2004 from which they receive a set amount per weighted patient. The baseline is currently £85.35 and the list size is adjusted through the Carr-Hill formula to take account of factors such as age and sex, which may affect demands on GPs' time.

These adjustments can make a big difference to the final sum. Take a practice with 10,000 patients in my firm's area, Manchester. At baseline rate it would receive almost £853,400. In reality, however, across Manchester the actual rates paid vary from 92% of baseline to 124%, so the sum a practice receives could be anything from £785,000 to over £1 million – a difference of £273,000.

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Critics say Carr-Hill fails to cater for the needs of atypical populations and is currently under review. Hopefully, this will result in more funding for such practices but in the meantime practices should consider all available avenues to stabilise their funding.

Some GP practices are still being paid at a preferential rate under the older PMS contracts but these are in the process of being reviewed to bring practices onto a level footing.

Minimum practice income guarantee

Introduced in 2004 to top up the payments to practices that lost out when moving to the new contract, the minimum practice income guarantee (MPIG) has, in the past, helped to make up for the shortcomings in the Carr-Hill formula. However, it is being phased out over a seven-year period and will disappear completely by 2020.

Seniority payments

These quarterly payments, which reflect the number of years' NHS service for each GP, will also be phased out by 2020. Scales for the current year have yet to be published, but are likely to be 10–15% lower than last year, although doctors will, of course, have completed another year of service. In many practices seniority payments are allocated directly to the GPs concerned.

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Quality and Outcomes Framework

The Quality and Outcomes Framework (QOF) was a significant source of income. Since 2012/13, however, the maximum number of points achievable has declined from 1,000 to 559 currently, with funding being recycled into the global sum. In addition, the points have become harder to achieve. Practices are paid a set amount per point which is adjusted for disease prevalence and list size. A working group has been set up to discuss the future of QOF, so watch this space.

Enhanced services

Practices have the opportunity to make extra money by providing enhanced services. What is on offer can vary widely from one clinical commissioning group to another and from year to year. In some cases, work once classed as an enhanced service becomes part of the core contract, an example being avoiding unplanned admissions. So, while the global sum per patient increased by 5.9% to £85.35 in 2017/18, it now includes the £2.87pp previously paid as an enhanced service.

Drugs and devices

Practices receive income from personally administered items – the drugs and devices for which income is claimed from Prescription Services. A profit of £3–5 per patient per year is achievable, although many practices don't have the processes in place to make the most of it.

Non-NHS income

GPs can also charge for non-NHS services, such as medical reports – another area where they should ensure they are maximising profits. However, any non-NHS income should be classified separately in the accounts as it is not pensionable for NHS pension purposes.

Rent and rates

Do remember that rent charged and rates paid on surgery premises are 100% reimbursable. GP owned premises will receive notional rent based on the surgery valuation and this should be reviewed every three years.

Training income

Finally, training GP registrars and students continues to be a valuable additional source of revenue for many practices. As you put the finishing touches to your accounts, there is one other thing to remember in terms of income – and that is to note any sums claimed that have not yet been paid. Your accountant will take this income into consideration in the year in which it is earned.

By understanding the different income streams and how each is calculated, you can ensure that you are claiming your full entitlement for NHS income and making the most of additional revenue sources. With core income for practices declining in real terms, skillful managers can make a big difference to the financial health of their practice. The next article in this series will look at expenditure and drawings. **PM**