



May the best team win!

James Gransby lines up the best tactical moves when seeking a match made in heaven

With falling practice income, a principal driver for practices considering a merger is the opportunity to tender for more services. Another is the push for extended opening hours. The more partners there are to share the workload, the less of a burden on individual doctors. Then there are the attractions of the economies of scale that can be enjoyed by larger practices. Assessing the personality fit, logistics and location are just the beginning of the process when two practices unite as one. From an accountant's perspective, there is plenty more to think about. Whether the practices involved have several partners or are single-handers wishing to combine patient lists as part of a succession planning exercise, many of the factors for the merging parties to consider are the same.

Staff costs

The downside to the economies of scale benefit

is the potential for staff redundancies because roles are duplicated or overlap. The cost for this should not be overlooked.

Decision making

With more people in the business with their own views, this may have the effect of slowing down decision making. If there are sufficient partner numbers as a result of the merger, then the election of a management board, representing the partnership, might help decisions to be made more efficiently and quickly.

Financial balance

At the outset, it is important to determine whether the practices merging are doing so on an equal footing. While it may appear on the surface that the practices are equal (list size, staff numbers, etc), attention should be paid to the financial aspects, including profitability.



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Due diligence

Pre-merger financial due diligence to assess each party's performance is essential. Here are some of the areas that will need to be examined:

Are the accounts prepared on a comparable basis?

While accountants are governed by standardised accounting principles, certain items can be treated differently. For example, employer's superannuation. This can either be charged to the profit and loss account or to drawings. If a different accountant prepares the respective accounts and specific treatment of items differs, then the accounts must be normalised to give an equal comparison.

Is one practice VAT registered (ie dispensing) while the other is not?

If so, profit adjustments will need to be made so the two practices can be compared on a like-for-like basis. After merging, the proportion of recoverable VAT may change. Also the previously non-dispensing practice may be able to reclaim a proportion of VAT that it would not otherwise have been able to. Both will affect the profit of the combined entity.

Is there a difference in the amount of non-NHS income?

One party may receive proportionately more non-NHS income than the other. When the practices come together this will have an effect on superannuable profits and, in a worst case scenario, could mean abatement of the rent reimbursement.

Are drawings equal?

While the correct operation of the partners' current and capital accounts will always ensure they ultimately get their proper entitlement to profit, the cash flow effect of drawings should not be overlooked. Does each practice have the same approach to partners' drawings, for example personal tax payments? Are tax payments paid from the practice bank account or the partners' personal funds? This will need to be determined from day one and communicated clearly.

Is the rest of the house in order?

Through due diligence, a specialist medical accountant can unearth any skeletons in the cupboard, for example establishing if each practice is meeting profitability targets for seniority (where available). Also establishing whether there is a rent abatement in place, (see point 3). Any overdrawn partners' current accounts, or problems with capital accounts can also be identified along with other housekeeping issues.

Is there a role for benchmarking?

Another valuable pre-merger evaluation tool would be to benchmark the financial performance of both practices against national statistics. AISMA members have access to these statistics, which can help signpost areas where each practice may be under (or hopefully over) performing. The decision can then be made whether any issues identified will be remedied on or after the merger. At the very least a thorough analysis of the financial performance means both parties are fully informed before they merge.