The practice manager guide to accounts. Part 2: Expenditure

In the second of a two-part guide, Hilary Lowe explains the different types of outgoings for GP practices and how to keep control of costs

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

The previous article discussed how to maximise practice income. Controlling outgoings, however, is equally important, particularly at a time when inflation is on the rise and practice income is declining in real terms.

Generally, expenditure for GP practices falls into a number of broad categories. Like other businesses, there is the cost of running premises, including rent, rates and repairs; administration costs such as computers, telephones and stationery; and accountancy fees. Then, there are drugs and medical supplies.

GP practices are a 'people business' and by far the biggest outgoings relate to practice staff and the money allocated to GP partners. Therefore, a priority for new practice managers is to understand how the payments to each of the different people in the practice are calculated and how they are treated in the accounts.

Staff costs

The way in which staff are paid will depend on their employment status. In general, regular staff, such as receptionists and nurses, are employed directly by the practice, along with any salaried GPs and some locums. These staff members will be on the payroll and you will pay employer National Insurance contributions (NICs) and pension contributions in addition to their salary. Practices may have locums – casual or agency staff – who are self-employed and will submit invoices for payment. Control of locum and staff costs is key to practice profitability, so ensure you have a clear policy in place for engaging locums and agreeing overtime. You should be aware of the new tax rules that came into force on 6 April 2017. These may force many GP surgeries to put locums on the payroll, as practices are now responsible for assessing workers' employment status and paying tax and NICs if appropriate.

'Notional rent and loan interest payments may be treated similarly as not all partners may own a share of the surgery premises'

GP pay

Most GPs are independent contractors operating on a self-employed basis, usually in partnership with others. Unlike practice staff, they do not receive a salary or submit an invoice, but are allocated a share of the profits left in the practice once other costs have been paid.

The amount that each partner receives will depend on the Partnership Agreement – an essential document you should have in place from the outset of any new partnership. New joiners may be treated differently, moving to a full share (parity) gradually over one to three years or starting on a fixed share for a fixed period. Alternatively, they may start as a salaried GP with a view to partnership. Generally, the money allocated to GPs is based on the number of sessions they work, although not all practice income and expenses are shared equally. For example, seniority payments that reflect length of service are treated as a 'prior allocation' and allocated to the relevant partner. Notional rent and loan interest payments may be treated similarly as not all partners may own a share of the surgery premises. GPs may also retain their own private fees.

Drawings

GPs are paid in the form of drawings, usually a fixed monthly amount into their personal bank account, plus any additional allocations such as seniority payments. Most GPs will need to save for their personal tax bills out of their drawings.

Setting drawings at the right level is crucial for cash flow. You can tell if the overall level is appropriate by monitoring the bank balance – if it is rising, drawings can be increased or a one-off bonus paid. However, it is important to distinguish between the current and the capital accounts to know what cash can be taken out of the practice and what needs to be retained to invest in premises, equipment and so on. The aim is for each GP to leave an amount in the practice that reflects their investment and their profit share – although there may be a reason for some to leave in more than others; for example, new partners building up their investment.

Personal expenses

Certain costs, such as car, professional subscriptions, mobile and broadband are incurred personally by a GP but are also tax deductible, so a statement of these expenses will be prepared so they can be set against their share of profits for tax purposes. Personal income should be declared similarly.

'Pension contributions for each GP are deducted on a monthly basis from the practice's monthly contract income, based on an estimate of a GP's pensionable NHS earnings'

ADOBE STOCK

Remember, only the business use of items such as computers and mobile phones can be claimed and practice managers should be ready to justify their use to HMRC.

Pensions

Pension contributions for each GP are deducted on a monthly basis from the practice's monthly contract income, based on an estimate of a GP's pensionable NHS earnings. The estimate is adjusted to reflect actual earnings by your accountant at the end of the year.

Summary

Once you have completed your accounts, check any payments made after the year end but that relate to costs incurred during the year. Make a note of these for your accountant. Finally, practice managers should note that controlling expenditure and cash flow is easier with a modern accounting system. Online systems that draw in transactions automatically from your bank statement make it hard to overlook any items and are a great time saver.

With GP practices under greater pressure, maximising revenue and maintaining tight control of costs may be critical to survival. A skilful practice manager can play a central role in safeguarding the future of their practice. PM