TAKE STEPS TO COPE WITH THE CREDIT CRUNCH

In today's volatile financial climate it is crucial that GPs are prepared for testing times, warns accountant Ian Tongue

There are a number of important factors that may affect GPs in the overall financing and day-to-day running of the surgery as a result of the credit crunch.

Debt management

Many surgeries make use of overdraft facilities at times during the year. Despite a relatively low base rate of interest, overdraft rates have generally risen significantly as the banks have lost confidence in lending to each other.

So it is more important than ever to manage the cash flow of the practice rigorously to minimise reliance on overdraft facilities and to reduce interest costs.

Raising finance

Many surgeries have sold premises and moved into leased buildings, and many more are planning to. For the latter, the credit crunch and the fall in commercial and residential property may prove a barrier to such plans, certainly in the short term, as funding for such ventures becomes more difficult.

Protecting surgery cash reserves

Many practices have large cash reserves at certain points of the year, especially if they save for individual GPs' tax liabilities. Frequently money is held in a single high-interest account. This is effectively putting all your eggs in one basket.

Much has been said about the level of protection offered to individual savers, with the guarantee increasing from £35,000 to £50,000 and pressure being put on the Treasury to extend this to all deposits. At the time of writing, the level of guaranteed savings is £50,000 per UK institution.

Few individuals are aware that if there are also loans from an institution, these may be offset, with only the 'net' savings covered. This may affect GPs who have loan arrangements with their business or personal bankers. Further details of the compensation scheme can be found at the Financial Services Compensation Scheme website www.fscs.org.uk.

In the context of a partnership, the £50,000 guarantee applies to the partners collectively for the surgery funds and not to each partner. Having all your practice savings in one account may be risky.

A short time ago it would have seemed unthinkable that a major UK bank might be in trouble, but with the continuing turmoil in the banking sector and financial markets it may be worth considering where surgery funds are held.

Effect on staff

With inflation running at significantly above the Government's target of 2%, GPs will face more pressure for wage increases from their members of staff.

This exposes practices to both increased costs and the risk of staff leaving.

It is important that wage increases are managed and the long-term cost of them considered. It may be worth introducing bonuses instead of pay rises, as they are controllable and are cheaper than wage increases, which are paid year after year.

It is also important to assess staffing levels. But be careful to retain essential members of staff.

Non-NHS activities

As pressure on GP practice income has increased in recent years, many surgeries have diversified into performing more non-NHS activities.

Certain non-NHS activities are likely to be affected by the credit crunch. Cosmetic work, such as Botox, dermal fillers and so on may be particularly affected. It is important that any income sources that are likely to be under threat are identified, along with potential new sources of income.

Where income cannot be replaced, it is important that the reduction in income is factored into cash flow forecasts and drawings projections.

The credit crunch and turmoil in the financial markets is likely to continue for some time. Therefore it is vital that GPs understand their exposure from both a business and personal level and take all available measures to reduce their risk.

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