

STARTING A PRIVATE PRACTICE

Don't let the freeze seize up cash flow

Keeping up the cash flow into the practice is vital in the present financial freeze.

Martin Murray pinpoints areas to be aware of

THE ECONOMIC downturn, together with the freeze on credit, has led to a general increase in anxiety over financial matters among the general public. Consultants, unfortunately, are not immune from such fears and the financial impact is, to a large extent, dependent on speciality.

Stability

The majority of consultants are cushioned by their NHS salary. In this present economic climate, the NHS represents stability. The regular monthly salary together with a pension on retirement is invaluable.

It is generally accepted that medical services are subject to what economists call 'inelastic demand'. That is, no matter how the economy is performing, demand for medical services remains immune to its influence.

This may be true for primary and secondary NHS care, but, for the private sector, any changes in the economic climate can impact on the private practice.

Plastic surgeons spring to mind as a group whose dependence on self-paying patients may leave them vulnerable.

However, other specialties such as orthopaedic surgeons may also suffer by the downturn in the economy. Orthopaedic surgeons with a large proportion of medico-legal work administered through intermediary agencies may experience downward pressure on their report fees as these

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organisations themselves begin to suffer in the present economic climate.

Mind-set

Most consultants fail to recognise that their private practices are businesses and, as a consequence, they do not adopt the appropriate mind-set. This is not a failing; it is simply a consequence of the fact that the prime driving force of a consultant is the clinical care of his or her patient.

But just as a consultant would plan a course of treatment for his or her patient, so he or she should plan their finances and adopt a business attitude to it.

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Most businesses use software tools to predict future income and expenses together with changes in their current market. The most straightforward and effective tool is a simple cash flow.

The cash flow

Most consultants are familiar with Excel spreadsheets. This software can be invaluable in financial planning and the cash flow spreadsheet is relatively easy to set up.

Basically, income from all sources is entered separately so that they can be manipulated in 'what if' scenarios. The same applies to expenditure.

Bank balances from the private practice bank account can be incorporated at the starting point and then on a monthly basis the anticipated net banking position for several months in the future can be shown.

In some cases, information from other sources is needed to complete the cash flow spreadsheet. This may include the amounts and dates of future tax payments.

It is also advisable to include actual income and expenditure from the previous year, as this provides not only a good comparison but also can highlight if any income or expenditure has been omitted from the cash flow.

They say a picture paints a thousand words and the Excel spreadsheet has the capability of easily reflecting figures graphically, which is helpful in planning.

The accountant should be able to assist, if needed, in producing the cash flow statement.

Planning

The production of the simple cash flow statement allows planning to ensure that adequate funds are available to, say, meet tax liabilities but also highlight whether certain items of expenditure should be continued with.

More importantly, it can determine what action is required should there be a decrease in certain income streams.

Overdrafts and loans were readily available last year but, with the credit crunch, more stringent requirements are needed to be satisfied before such financial assistance is provided by the banks.

This is where the cash flow comes into its own, particularly for overdrafts. It gives the bank manager more information.

Obstacles

The economic downturn, coupled with the lack of availability of credit by way of overdrafts and loans, have left many businesses struggling to cope. For consultants the biggest obstacle is generally tax payments.

The January payment of tax, particularly January 2009 and 2010, may include large balancing payments for consultants based on previously higher earnings and come at a time when income may have dropped.

Unfortunately, the tax still has to be paid. The accountant should be able to advise on future tax liabilities.

Unnecessary expenses

Private practice expenditure incurred by most consultants is proportionally much lower than what other professionals suffer.

For example, salary costs for accountants and solicitors represent anything from 35 to 55% of gross fee income. This is on top of premises costs.

Many businesses in an economic downturn turn to reducing staff and premises costs. However, very little can be done by consultants to streamline private practice expenditure and, as such, it is domestic expenditure that most consultants need to review to determine whether or not some cuts can be made.

Increasing income

The cash flow tool can also highlight whether additional income can be generated. It is often the case that consultation fees for both initial and follow-ups are lower than they should be.

Most consultants are aware of this but are reluctant to increase them in case they are out of kilter with their colleagues. This attitude needs to be changed, particularly as indemnity costs rise.

Joining a group of other consultants, even if there is very little sharing of income, can increase income for all consultants in that group by simply being associated with each other. Marketing costs can also be shared.

Summary

The downturn in the economy coupled with the freeze on credit has left many consultants anxious as to the future. A simple cash flow can prove to be an invaluable tool to assist in not only organising finances but also to help ensure the practice is run smoothly from a financial perspective.

Most accountants should be able to assist where necessary in preparing a cash flow or in producing a template for the consultant to produce on their own. ■

Martin Murray is a partner at Sandison Easson & Co, specialist medical chartered accountants

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