

STARTING A PRIVATE PRACTICE

Ways of evaluating your performance

Doctors who take time out to properly evaluate their financial performance can only improve their business. **Ian Tongue** (right) shows you how



EVALUATING YOUR financial performance is an important part of running any business. Reviewing your position should ensure that both your costs and income streams are controlled. This, in turn, should ensure that you maximise the profit and ensure consistent cash flow from your private practice.

The exercise should be centred on your specific circumstances to get the most out of it and is not merely comparing yourself to a statistic, but this can be one part of the exercise.

Review of private practice results

The best way to understand the dynamics of your private practice is to review your annual accounts in detail.

If your private practice is of a reasonable size, your accountant should be producing accounts which show both the trading results (income and expenditure or profit and loss account) and the net asset position (balance sheet).

Within the trading results, you should compare your position to the prior year and also have earlier years available so you can see the trend. Note when you reviewed your fee levels or when

circumstances changed to understand the timeline of why income and expenditure changed.

When reviewing your expenses, be critical. Ask yourself whether the costs were more or less than expected in each category and can the variance be explained?

Individually, many costs seem trivial, but collectively could add up to a significant amount and therefore a line by line review of the expenditure with a challenge to these costs is an extremely important part of assessing your performance.

When reviewing costs with a view to saving money, it is important to focus your attention on 'controllable costs'. If a cost is not within your control, then it is unlikely that there could be any savings identified.

The balance sheet shows your

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net asset position, which is your business assets less liabilities. Many consultants gloss over this page, but it does contain useful information, as it will indicate the level of fixed assets (such as equipment), cash in the bank, debtors (monies owed to you) and liabilities.

In relation to fixed assets, it may be that looking at your results over time identifies that investing in new equipment in the past generated additional profit and it may be time to upgrade your assets, given the speed that medical equipment progresses at. This could also work in reverse, as you could identify when an investment did not yield an increase as expected.

The cash at bank figure is useful to see if there is a trend of reducing cash balances either due to factors related to the business or your personal expenditure.

A review of debtors is particularly useful. This could identify the source of any cash flow or bad debt problems.

Debtors expressed as a percentage of sales is a good key performance indicator for a consultant. If the percentage is rising, this could indicate an issue in the collection of debts or could be entirely expected if, for example, you have increased your ratio of medico-legal work.

Ask your accountant whether there are any factors affecting the trading for the year which you should be aware of and compare the taxable profit with the accounting profit. This exercise will bring in areas of additional tax relief such as a large investment in the year which would not necessarily be fully reflected in the trading result.

Benchmarking

If using benchmarking data, the key risk is that you are comparing apples with oranges. Your specific circumstances will inevitably mean that there will be differences between yourself and other colleagues. However, this information can be useful if the data is from similar consultants in your specialty within your geographical region.

Independent Practitioner Today compiles statistics from several specialist sources to indicate aver-



age fee levels for your specialty which can be really helpful in reviewing your fee and turnover levels (see *Profits Focus*, pages 48 to 51).

If your accountant is a specialist, then they should also have information available, should you request it. If they have this information, then ask them to compare you to other similar consultants as well as the higher level statistics.

Setting budgets

Setting a budget, particularly in relation to costs, can be very useful, but you must ensure that you are evaluating yourself and modifying it as you go along, otherwise the time and effort of doing this will be wasted.

If you are setting a budget for next year, then your historical expenditure is a great place to start. Look at the factors that have changed year on year and factor

in any new circumstances going forward.

Cash-flow forecasting is also a very important budgetary tool, particularly if you are looking to invest or see changes ahead in your private practice. Once you have estimated the income and expenditure, don't forget to speak to your accountant to understand your tax liabilities and their timing.

Evaluating your performance is important, as it enables you to ensure that you are maximising your profit from the resource that you have least of – your own time. Speak with your accountant about your specific circumstances and make sure that you spend time reviewing your private practice accounts in detail each year.

■ **Next month: I've found my feet – what next?**

Ian Tongue is a partner at Sandison Easson & Co, specialist medical chartered accountants

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COMPLIANCES

Independent Nursing Services UK Ltd is accredited by the Care Quality Commission. This covers all staff working within the company (healthcare assistants and all grades of nurses who are registered with the Nursing and Midwifery Council).

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