

USING YOUR SURGERY PREMISES TO BEST EFFECT

In the last of our series on practice profits, Ian Tongue advises on how to ensure the surgery building is used to its full financial potential

GPs should consider the current use of the premises and aim to increase the amount they receive by way of rent. Many surgeries have excess space that can be rented to outside providers. It can also be used for generating additional NHS income or private income.

The introduction of practice-based commissioning enables some GP surgeries to provide additional NHS services, which can improve profitability as well as protecting services already provided.

Private income sources can also be developed and provided from the premises. This can be a very effective way of developing income and increasing profitability. Many high earning practices have significant levels of private income.

Rent reimbursement

However, the level of private income must be closely monitored. Where large amounts of private work are performed, this can result in a reduction in the notional or cost rent received by the surgery.

The potential reduction to notional or cost rent is on a sliding scale based upon the amount of medical services that are provided to private patients or a non-public body. This would also include any payment in kind, such as exchange of services.

Clearly, the potential abatement of rent is a key consideration in determining the amount of private work that is performed by a surgery. There is a threshold before any abatement is made, equating to 10%. Therefore, a surgery generating less than 10% private or non-NHS work should not face any reduction to their rent reimbursement.

If you are uncertain regarding which income sources are NHS and which are classified as private, seek the advice of your accountant.

Provision of other services

In addition to the GPs providing additional services themselves, consideration should be given to inviting others into the surgery. Common other services are:

- pharmacist
- dentist
- chiropodist
- optician.

As identified previously, the impact on rent received by the surgery must be considered. However, many of the above businesses can

offer substantial increased income to the practice and therefore an overall commercial decision is required.

Notional rent

One of the most effective ways of increasing the income derived from the surgery premises is to ensure that notional rent is maximised.

Notional rent is received by property owning GPs and is designed to pay them a market rent for the premises.

The notional rent is usually determined by the district valuer and is based upon their opinion of the value. Due to the specialised nature of a GP surgery, these valuations are subjective and can be subject to challenge.

Often the process of challenging the valuation can be lengthy. But in many cases a favourable increase to the amount received can be obtained. Therefore, investing some time in this area is usually worthwhile. As any increase should be an ongoing income stream, the present value of the future increase in rent can be significant.

Challenging a rent figure usually involves engaging a surveyor to give their opinion on market value. Some surgeries choose local surveyors because of their knowledge of the local market.

There are specialist GP surveyors who are usually very effective at challenging and obtaining rent increases. They use their specialist knowledge to reach professional agreement with the district valuer. In most cases they operate on a no-win-no-fee basis. Where a challenge is successful, a typical fee could be up to the first year's increase in rent achieved depending on the terms of business. Given the value of this income stream, this is usually good value for money.

Cost rent

Many surgeries remain on the cost rent scheme although the scheme is no longer used. As the scheme was associated with cost rather than market rent, it was applicable to new, extended or refurbished surgeries. Surgeries under this scheme may have benefited in the early years from additional rent. However, this must be reviewed to ensure that income is being maximised.

Therefore it is important that the

practice reviews any potential benefits that may be obtained from switching to the notional rent basis.

Again, this is an area where a specialist GP surveyor can assist.

Cost reduction

Another vital aspect of maximising profit from the surgery premises is to control the running costs.

It is usual for the PCT or LHB to reimburse certain running costs – for example, business rates.

But there are a number of other expenditures which must be borne by the practice. It is very important that these costs are controlled and minimised where possible.

The costs of heat and light are usually a significant running cost of the premises itself. Significant savings can be obtained by ensuring your energy supplier offers the best value for money based on your usage. Review your supplier on a regular basis. There are also practical considerations in relation to the use of energy saving equipment. For example, ensure that air conditioning and thermostats are set for required levels.

Other costs that can usually be negotiated are insurance, repairs and maintenance contracts. The combination of making small savings in each area can add up to a worthwhile amount.

Your surgery should not be viewed simply as your place of business. By developing income sources, maximising rent and controlling running costs, a significant increase in profitability can be obtained.

Ian Tongue is a partner at Sandison Easson and Co, a specialist medical chartered accountant

KEY POINTS TO CONSIDER

- About 50% of practices own their premises – make sure you are receiving the maximum amount of rent
- Consider renting out a room or rooms to other providers
- Underused rooms offer a chance to generate income by undertaking more NHS or private activity
- Extending opening hours provides greater income earning opportunity
- Be aware of rules involving abatement of rent reimbursement relating to higher level of private earnings
- Use an expert valuer on behalf of practice at triennial rent reviews – this very rarely fails to achieve increases
- Keep a careful eye on running costs