Partnership changes

SUPPORTING GENERAL PRACTICE | Partnership changes

Changes in partners can have a profound effect on the financial and operational aspects of a GP practice. Jeanette Brown of Dodd & Co Accountants discusses what this means in practice.

WHAT ARE THE MAIN ISSUES WITH PARTNER CHANGES?

A change in partnership is a major change for the business and needs careful thought, and – if there is sufficient time through an agreed notice period, for example – careful planning.

Undertaking a SWOT analysis can be particularly helpful in considering both the immediate issues and the future direction of the practice.

Issues for immediate consideration when a partner is leaving the practice include:

- who is going to assume responsibility for the departing partner's workload?
- how is the departing partner going to be paid out?
- are any of the practice's income streams at risk due to the partner leaving, for example, areas of special (clinical) interest or areas of specific responsibility, such as dispensary or staff matters?
- how and when should the departure be announced to patients and staff?

Issues for consideration when a partner is joining the practice, include:

- Is recruitment necessary or is there a viable in-house promotion opportunity – for example, from a salaried GP?
- How will the post be advertised?
- How will the practice define the necessary skills of a partner?
- Financially, should the practice recruit part-time, full-time or job-share?
- What are the buy-in requirements for a new partner and how will this impact property ownership?
- Is there a probationary period and if so, how long is this? When do they progress to parity?

MANAGING POTENTIAL GAPS

If there is a gap between partner A leaving and partner B joining, this can lead to extra expense and workload for the practice. Gaps in GP time availability tend to mean that these have to be filled by locums. In theory, this cost should be covered by Partner A's share of profits, but practices need to budget carefully and keep an eye on the costs.

Larger practices typically fare better in this situation as there are more 'hands' available to cover the work and it may be possible that partner A's sessions can be covered by the remaining GP partners, salaried GPs or appropriately qualified practice nurses.

TERMS OF RECRUITMENT

The decision around whether to extend the partnership or to take on a salaried GP very much depends on:

- the availability of new potential partners, and
- the practice psyche.

Some practices will also prefer a mutual assessment period before offering a full partnership.

Decisions around whether all partners are equal, can depend on the practice agreement and may require specialist advice.

LLOYDS BANK

> If the departing partner leaves on a date other than the practice year end, the practice agreement will normally state whether or not an extra set of accounts needs to be drawn up to the date of departure.

JEANETTE BROWN
Dodd & Co Accountants

FINANCING THE CHANGE

In terms of managing practice finances around changes, this requires careful planning.

When a partner leaves, it is very likely that s/he will need to have a capital payout, which can consist of a share in the equity of any premises (if it is owned by the partnership) and any remaining undrawn profits in the form of the partner's current account. A set of accounts will need to be drawn up to show the sums due and, if practice premises are involved, these will need an up-to-date valuation.

When a partner joins, the practice needs to work with their accountant to arrive at an appropriate figure for the new partner to buy in. The practice then needs to decide whether the new partner needs to pay in their money in one lump sum or over a period of time.

As buy-in values can run into substantial figures, potential partners may require specialist healthcare finance.

There will also be additional professional costs when a partner leaves or joins, which may include solicitors', valuers' or accountants' fees.

TIMING OF PARTNER CHANGES

The date of a partner leaving and a new partner joining the practice can actually make a difference. If, for example, the departing partner leaves on a date other than the practice year end, the practice agreement will normally state whether or not an extra set of accounts needs to be drawn up to the date of departure. This can lead to extra expense if more than one set of accounts is needed in one year.

Joining partners tend to be allocated their profit share on a "pro rata" basis from their date of joining to the end of the next accounting year end.

However, as many factors can affect the decision to leave or join the practice, this can be immaterial. Although arguably the 'best' date is the end of an accounting year, practically speaking this rarely happens.

> Whether to have a trial period or to phase in the joining of a new partner is very much down to the attitude of the practice.

JEANETTE BROWN
Dodd & Co Accountants

TRIAL PERIODS OR PHASED JOINING

Whether to have a trial period or to phase in the joining of a new partner is very much down to the attitude of the practice and any prior experience or knowledge of the potential new partner. Options can include a mutual assessment period, such as taking someone on as a salaried GP or a fixed profit share partner for an agreed length of time.

Once promoted to partner, many practices operate a phased build-up to parity. Whilst there is no general rule on profit share percentages, a common approach is to start a new partner on a profit share of 70% of whole time equivalent (or relevant part-time share), rising by 10% per annum until full parity is reached.

Jeanette Brown is a licensed insolvency partner and healthcare expert for Dodd & Co Chartered Accountants and Business Advisors.
www.doddaccountants.co.uk

Please contact us if you would like this information in an alternative format such as Braille, large print or audio.

M60533I(09/15)