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HEALTHCARE

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BEYOND THE PRACTICE LANDSCAPE

BUSINESS UPDATES FOR 2024

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INCORPORATION OF PRIMARY CARE NETWORKS

Primary Care Network (PCN) funding has been growing inexorably since their formation five years ago. With this increase in funding, and with the number of ARRS employees, risks to the employing practices are increasingly high – particularly under the lead employer or flat practice model.

Whilst the current five-year framework is due to end on 31 March 2024 and, at the time of writing, no contract has been agreed for April 2024 and beyond, we believe the likelihood of PCNs continuing in some form could make 2024 the ideal time for incorporation to be considered.

The current issues that should be considered include:

- Governance – with increasing funds flowing through PCNs and some increasing in size, establishing good governance is key to the effective running of a PCN.
- Staffing - informal payments to employees may become increasingly inappropriate or risky as the PCN grows.
- Unlimited liability – with numerous practices being involved in the PCNs, informal unincorporated structures could raise an issue with unlimited liability.
- VAT - With increasing activity and collaboration, VAT issues could arise where practices recharge the PCN for certain activities, for example staff time. This charge would be a standard rated VAT service and contribute to the practice's total income that is subject to VAT. There is the risk of the practice exceeding the VAT registration threshold (currently £85,000).
- Taxation - Partners are taxed as individuals on the PCN surplus regardless of whether there has been a distribution of funds to the individual practices.

It is possible that the member practices of the PCN could form a limited company (Ltd) to assist with the administration and provide some distinct advantages.

HOW WOULD INCORPORATION HELP?

The limited entity (Ltd) would create a separate legal entity for the PCN. This provides some solutions to the issues above:

- Governance – incorporation provides a legal structure for the PCN via Company Law. It formalises governance and decision making by a delegated board of directors.
- Staffing - can be directly employed by the company - this may make the engagement more transparent and could significantly reduce the risk to the individual practice employing the staff through managing the HR risks.
- A previous concern for the employees taken on by a Ltd was whether they would be able to be members of the NHS Pension Scheme. This was resolved via the open PCN determination access or applying to become an independent provider employing authority.
- Liability - a limited structure could limit any liability for the business activities within it, which would otherwise be putting personal assets at risk if the activities remained within the unincorporated environment.
- VAT – the company being formed could be structured in a way that it is a 'Cost Sharing Group' (CSG). The CSG is a separate, independent entity, set up by the practices to enable its members to supply themselves with certain qualifying services. The supply of the services would be at cost and provided it meets all 7 of the CSG conditions, the supply would be exempt from VAT. Specialist advice would be vital to ensure each of the conditions is scrutinised.
- Taxation - As a Ltd, the PCN would be taxed under Corporation Tax rather than income tax rates potentially up to 45%. Individual partners would only be taxed at the point a dividend is declared to distribute retained earnings for example, providing the PCN with more control.

HOW EASY IS IT TO INCORPORATE?

Setting up a Ltd is straight forward. However, careful consideration should be given to the underlying shareholding as this needs to be right and bespoke articles will likely be required via a specialist solicitor. As the Ltd is a subcontractor to deliver PCN services an agreement is needed. In addition, a shareholders' agreement is also required but this could form part of the PCN agreement. Any employees moved into the Ltd would be via TUPE, and again specialist legal advice should be sought.

Once the future of PCNs are clarified in the 2024 contract, we believe that PCNs should consider addressing some of the risk areas inherent in non-corporate structures. If you would like any further information or advice relating to PCN structures, please do not hesitate to contact us.

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AN UPDATE ON THE MCCLOUD JUDGEMENT

Background: When the 2015 NHS Pension Scheme was introduced, the government linked the NHS Pension Scheme to the retirement age based on Care Average Earnings. At the point of transition, they decided that those within 10 years of reaching their pensionable age should not be impacted by the reforms.

This has been successfully challenged in court due to the discrimination based on age, resulting in the McCloud remedy.

WHO IS IMPACTED?

Individuals are impacted if they meet the following criteria:

- They were a member of the NHS Pension Scheme as at 31 March 2021, and
- They were moved into the 2015 NHS Pension scheme between 1 April 2015 and 31 March 2022. This is also known as the remedy period.

WHAT IS THE MCCLOUD REMEDY?

The McCloud remedy will result in an NHS Pension being 'rolled back' into its legacy scheme, i.e. the 1995/2008 scheme for the remedy period.

HOW WILL THE MCCLOUD REMEDY IMPACT NHS PENSIONS?

The main impact is that, for the 7 year remedy period, the rolling back will result in a recalculation of the pension accrual and growth. Upon retirement, it is possible to opt between the new roll back position, or remain as a 2015 member for those years.

WHAT ARE THE TAX IMPLICATIONS?

Each year, an individual has an annual allowance of tax-free contribution to their pension. This allowance covers all pension schemes. Where an individual's pension contribution exceeds their annual allowance, they are subject to a tax charge at their marginal rate of tax. The annual allowance (currently £60,000), was at a rate of £40,000 per annum during the remedy period (other than £80,000 for 2015/16). However, where income is above a certain threshold, the annual allowance is reduced via tapering. Tapering was introduced in April 2016 and will have impacted many individuals in the NHS Pension Scheme during the remedy period resulting in increased risk of annual allowance charges (which may have been paid via a Scheme Pays Election).

The McCloud remedy may result in an increase in growth of an individual's NHS Pension. This will in turn impact the amount of Annual Allowance they have used and could result in an Annual Allowance tax charge in one or more of the seven years. The tax calculations will need to be updated (by your accountant).

WHAT HAPPENS NEXT?

Those impacted by the McCloud remedy are likely to have been advised by NHS BSA already. Individuals will be sent an updated pension statement (known as a remedy pension savings statement) for the tax years in the remedy period from April 2024.

HMRC will be introducing a new digital service (we expect from January 2025) to enable impacted members to claim any underpaid annual allowance charges (2019/20 to 2022/23), reclaim any overpaid annual allowance charges (2019/20 to 2021/22) or claim compensation for earlier overpayments (2015/16 to 2018/19).

The deadline for 2022/23 Scheme Pays Elections has been moved back 12 months to 31 July 2025. A Scheme Pays Election will also be available for any tax due for the earlier years.

COMPENSATION SCHEME

A compensation scheme has been announced to enable affected members to claim up to £1,000 to cover the costs of professional fees in dealing with the McCloud remedy.

A claim for accountancy services used to complete the application via the HMRC Digital Service is limited to £1,000 inclusive of VAT per piece of advice. Advice from a financial adviser on making a decision on the choice of pension benefits is limited to £500 inclusive of VAT.

If you are concerned you will be impacted by the McCloud Remedy, it is essential you obtain professional advice from a specialist accountant or financial adviser.

CLIENT FOCUS:
TONE VALLEY PCN

Stronger reporting and strategic financial data benefits for PCN Managers and member GP Practices

Since their inception in 2019, Primary Care Networks (PCNs) have become the norm throughout the UK. Combining general practice with additional services within the local network, this requires several funding streams which need expert understanding and robust financial reporting.

ABOUT TONE VALLEY PCN:

- Part of a national scheme for PCNs
- Innovative, proactive collaboration of 5 forward-thinking GP practices in Taunton, Somerset
- PCN manager, Kathryn Kyle joined in 2020.

COMPLEX FINANCIAL AND ORGANISATIONAL NEEDS

For Kathryn Kyle, PCN manager at Tone Valley PCN, no two days are the same. She finds herself liaising with not only general practitioners and practice managers but also patients, mental health practitioners, occupational therapists and many more. Kathryn aptly describes her role as "chief plate-spinner" and "the glue" that holds the system together, ensuring the right people are in the right rooms, while simultaneously maintaining the finances.

Describing the growth that PCNs have experienced over the last 5 years, Kathryn says, "It started off as a really small set of income streams, two or three, and I think in the first year we recruited two or three people. But now there are multiple income streams and we're employing more than 22 people, in addition to the usual practice teams. So it's grown exponentially."

Unfortunately, traditional accounting and financial reports were geared towards singular GP surgeries rather than the more complex PCN, and they were unable to establish a clear picture of the tightly regulated income streams and expenditure.

Kathryn decided to take the advice of an entrepreneurial GP colleague and contact Simpkins Edwards.

REPORTING CLARITY

Knowing that her colleague had success with Simpkins Edwards, the first task was set: present the 2023 year-end accounts meeting clearly and concisely. Kathryn explains, "It really brought the PCN income streams to life for the practices, and Seb [Beard] and the team were easily able to show the PCN Steering Group exactly what we've been doing with recruitment as well as each individual funding stream."

A big part of the service is ensuring everyone present in these meetings fully understands the data presented. To make this possible, the information is presented as a mix of infographics and concise, plain English.

Along with the end of year accounts, Kathryn receives a bespoke service from Simpkins Edwards including real-time data, saving countless hours, and building the PCN's efficiency.

EXPERT ONGOING SUPPORT AND STRATEGIC ADVICE

Kathryn can now glean industry-specific strategic advice from Simpkins Edwards' Healthcare Partner, Seb Beard, who has extensive experience in this field.

GPs typically have a long list of tricky questions to work through following year-end accounts meetings, Kathryn recounts. However, following the first year-end meeting with Simpkins Edwards, she says, "What was illuminating after Seb had finished presenting was there were no questions at all. Everyone understood every step of the way."

As well as the personable team supporting Tone Valley PCN, Simpkins Edwards uses innovative tech to present accurate, tech-driven reports in an unambiguous format. This drives further understanding and analysis, and goes beyond traditional, compliance-based accounting, to aid strategic decisions.

Kathryn feels truly supported by her accountant, and confident that the PCN's finances are in safe hands as they look to the future, develop hub working models, and consider the potential incorporation of PCNs.

"If I've got any funding queries, or I need professional accountancy advice around the primary care networks, I know that I've got Seb and Mark on hand."

Kathryn Kyle,
Tone Valley PCN Manager.

If you are a PCN manager, practice manager or GP lead, contact info@simpkinsedwards.co.uk or call 01392 211233 to arrange a free initial discussion.

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THE BUSINESS OF DENTISTRY

WHAT PRACTICE OWNERS NEED TO KNOW

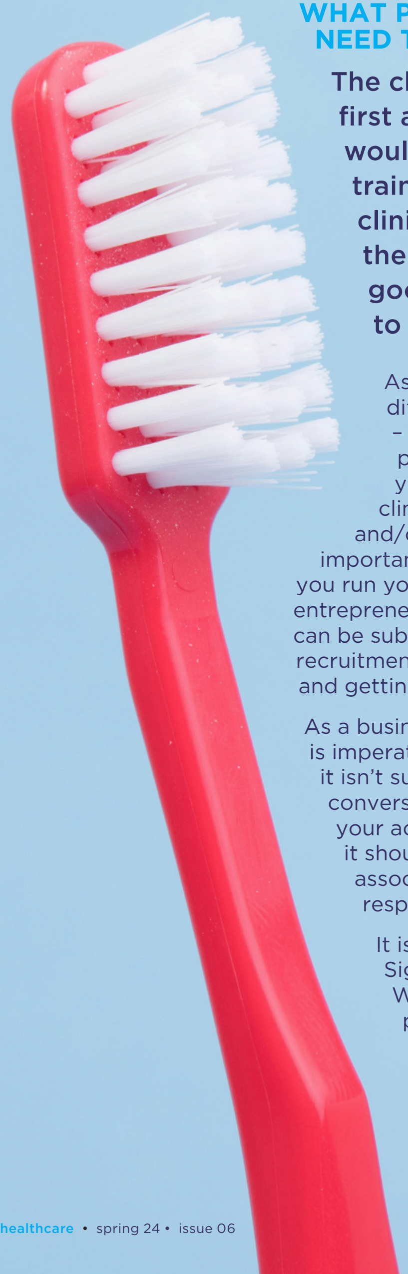

Photo by Alex Padurariu on Unsplash

The chances are you regard yourself first and foremost as a Dentist. Why wouldn't you after all those years of training, and your experience as a clinician? If you are now a principal, the chances are you are a pretty good associate and you now expect to make a success of your business.

As we know, the role of principal is very different. Being a good clinician will help – and if you are operating a modest sized practice, perhaps with a couple of chairs, you can support your business with your clinical work. But if you own a larger practice, and/or you are seeking to expand, the most important determinant of your success will be how you run your business. You are now a healthcare entrepreneur. The rewards, financial and otherwise can be substantial, but so can the pressures of recruitment, training, retaining, leading your team, and getting the business model right.

As a business owner, you are the last to get paid. It is imperative your business is profitable otherwise it isn't sustainable. How profitable it must be is a conversation we would recommend you have with your accountant. Certainly, over the medium term, it should exceed what you can achieve as an associate – why else would you take on the risk, responsibilities, and obligations?

It is a challenging time to be an employer. Significant increases in the National Living Wage and the ripple effects through the payroll means the costs of employment seem to be ever-increasing. As are the expectations of those we employ. How we rise to meet these challenges will be key to our success in 2024.

As industry experts we are having regular conversations with practice principals all over the UK. Here are our top tips for the year ahead:

- **Understand your cost base:** Calculate your anticipated increase in payroll costs over the next 12 months. Don't forget to include the additional employers' National Insurance Contributions and pension contributions. The overall percentage increase in costs should form the basis for your price increases for 2024. If you are unable to pass these costs on in full, the likelihood is that the difference will come out of your profits.
- **Know your numbers:** Review your operating costs per surgery per day. You can calculate this by aggregating all your practice costs excluding costs of sale (associate fees and lab bills etc.) and dividing by the number of occupied surgery days in the month/quarter/year. This number is the minimum level of gross profit (income after deducting costs of sale) a clinician must deliver each day.
- **Commerciality reviews:** Assess the performance of your clinicians against your operating costs to see the contribution to profits made by each associate/hygienist/therapist. Review whether the yield from each one is improving, maintaining, or declining over time. This is vital to identify the commerciality of their approach and identify where more support or mentoring is required.
- **Review your pricing:** We can well-understand the attraction of minimising the increases in check-ups and hygiene visits. But you do need to ensure you charge sufficiently to cover your increased costs. The cost of treatment will inevitably have to rise – this may feel daunting, but your patients will, by and large, understand the economics. Time and time again, we learn it is the patient experience that is key to satisfaction – not the price they pay. Don't forget to regularly review your plan pricing too and if you are relying on an NHS contract for a substantial part of your income it may be time to reflect on this approach – 2024 is a tough time to be a price-taker. Perhaps it is time to take control?
- **Ensure your team is fully trained to minimise whitespace:** As an industry we have enjoyed a sustained period of high patient demand since the onset of Covid-19. Many members of our teams have never experienced the concept of whitespace, but we are starting to see gaps in the diary appear and the inevitable knock-on effects on daily yields. Now is a great time to invest in recall procedures and reception training.
- **Identify efficiencies to make the practice run more efficiently:**
  - Do you have empty surgery days that could be utilised?
  - Are you able to reduce or eliminate short sessions that 'block' a surgery for a whole day but are unlikely to yield sufficient income to cover costs and contribute to profit?
  - Are you able to open surgery days to cover associate holidays?

There are several review areas but each of them can make a difference and cumulatively the effects can be dramatic.

If you could do with expert assistance running your business, please get in touch with our specialist healthcare team. Knowing your numbers alongside a quarterly strategy meeting with an industry expert, aware of challenges and 'tactics' to apply, can make all the difference.

CLIENT FOCUS:
PADDOCK DENTAL

Optimising more than smiles: leveraging financial data for dental practice success

Owning a successful dental practice comes with a myriad of moving parts. To do so effectively, you might find you need more than just the basics of accounting covered, as Paddock Dental Centre owner, Dr Sam Reid, did.

SPOTLIGHT ON PADDOCK DENTAL CENTRE:

- Sam Reid, owner, has been with the practice for 6 years, both patient-facing and as clinical director.
- Serving both NHS and private patients and offering a wide range of treatments from routine dental care to cosmetic dentistry and advanced full arch implants
- 5 surgeries in the Cheshire area

NEEDING MORE THAN TRADITIONAL ACCOUNTING

When Sam took over Paddock Dental Centre, he was used to a traditional annual service from his accountant. Just one report a year meant the practice was coasting, unaware of their financial standing.

Becoming the sole owner two years ago meant Sam needed to become more proactive if he had any hope of creating and sustaining business growth on his own.

He said, *"I needed something where I could see how we performed last month, and what effects a decision I made six weeks ago had on the last month, rather than finding out 12 months, or more, later."*

Set on finding a new accountant, he sought recommendations from respected peers and members of groups he's involved in.

A TECH-BASED ACCOUNTING SERVICE WITH REGULAR REPORTS

Sam ignited his search to find an accountant who would keep his finances in order, but more than that, a firm with his best interests in mind and a more thorough, knowledgeable offering.

One name kept cropping up - Simpkins Edwards.

With Simpkins Edwards, Sam now has a strategic partner on hand for pre-booked meetings and ad-hoc advice.

Digestible, monthly summaries, quarterly reports, and payroll services, powered by Xero and Futrli, keep his business on track.

These valuable insights are then used to make strategic decisions to drive and maintain growth.

"I feel like the old accountant I had was simply providing an accounting opinion, whereas Simpkins Edwards really understand the business of dentistry," Sam shares.

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FINANCIAL CONFIDENCE AND TRANSITION TO LIMITED COMPANY

Paddock Dental Centre's newfound financial clarity, combined with solid industry-specific advice, has given Sam the tools to grow his business.

Along with the reassurance that comes with extra reporting, Sam is grateful for the guidance he received when he transitioned from a sole trader to a limited company, saying, "I genuinely trusted them. They took me through that whole process ensuring the timing was optimal to capitalise on the associated tax benefits."

Now, Sam has the security of knowing his accounting is in safe hands and has knowledgeable experts to support him in his business ownership journey.

From how to buy equipment in the most tax-efficient way, to dealing with staff restructuring and ongoing monitoring of key performance indicators, Simpkins Edwards' tech-based product-stack and excellent customer service means smiles all round.

"I like having an accountant that genuinely has the best interests of my business at heart. And despite having probably hundreds of clients, they understand my business as well as I do."

Dr Sam Reid,
Paddock Dental Centre

To arrange your FREE initial discussion, contact info@simpkinsedwards.co.uk or call 01392 211 233.

NATIONAL LIVING WAGE

The Government recently announced it has accepted the independent Low Pay Commission's recommendations in full and the National Living Wage ("NLW") will increase to £11.44 from April 2024. This is an 9.8% increase, far outstripping the current inflation rate. It also represents the second large increase in a row, with the NLW increasing 20.4% in two years.

Furthermore, in April, the NLW is being extended to 21-year-olds, who were previously entitled to the lower National Minimum Wage ("NMW"). Therefore a 21- or 22-year-old currently being paid the NMW wage will get a 12.4% pay rise. A 20-year-old currently on the NMW is receiving £7.49. From April they will need to be paid a minimum of £11.44. This represents a substantial 52.7% pay increase.

Business owners need to plan carefully for the impact of a significantly higher wage bill. Let's not forget mandatory pay rises for our lowest earners will no doubt have a ripple-effect through the payroll, as many employees will expect the differential between them and more junior or less experienced colleagues to be maintained.

We must also remember it isn't just the headline rate that needs to be funded. There is also employers' National Insurance Contributions (NICs) at 13.8% and auto-enrolment pension at 3% to be paid. The threshold at which employers' NICs must be paid will not be uplifted with inflation so the effect of, fiscal drag means the cost of employing people continues to rise.

We highly recommend employers start planning now. Ensure you know your numbers so that April's payroll does not come as a shock.

If you need any assistance modelling the impact on your business and forming an action plan, please get in touch.

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