

health adviser

Grant Thornton 

Topical business issues

In this edition of the Health Adviser we look into topical business issues which affect your practice.

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What is a business plan?

All practices should prepare a business plan, which is regularly updated. Each business plan should be tailored to the particular circumstances of the practice or business and often may be targeted at lenders or potential investors.

As a management tool, the business plan should be a living document which is a direct reflection of you and your practice. That is:

- do you understand your market place?
- do you have the vision and skills to take your practice forward?
- have you evaluated the risks you face and taken steps to minimise them?

Benefits of having a plan include identifying actions which will improve profitability and cashflow, focusing ideas from within the practice, and providing a framework for cohesive decision working.

When preparing a business plan, the following fundamental points should be addressed:

- the strategic aims of the practice
- how the practice intends to achieve its strategy
- the financial consequences of these actions
- how these initiatives are to be financed
- how to set targets, such as financial projections to measure achievements
- how to monitor the results of implementing these strategies.

The business planning exercise will involve taking stock of where the practice is now before deciding on where it is going. It is often in this area that practitioners find that they are too closely involved in the everyday running of the practice to be objective.

Grant Thornton has helped a number of practices prepare credible business plans. We understand what is important to both practitioners and to finance providers.

Ultimately, a finance provider's lending decision will be based on an assessment of the quality of the management of the practice and the strength of the proposal. But a good business plan will ensure you communicate the basis of your proposal succinctly and effectively.

Contact your Grant Thornton Health Adviser to find out more.

Are you paying more than your share of the practice overheads?

With many practitioners choosing to practice in a cost sharing arrangement, the issue of how to allocate the practice overheads cannot be avoided. It is an area that often causes disagreement among partners/shareholders and needs to be resolved equitably.

Two common methods used by medical practices are:

- Income Based Allocation
- Sessional Based Allocation

Income based allocation

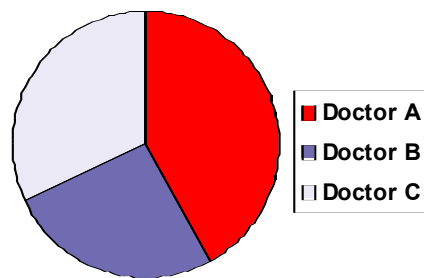
This method may produce unfair results particularly for some doctors who may be more efficient in the throughput of patients than their partners. There is also the issue of the partner who is in a comfort zone. He or she may often be away from the practice and not generating fees in that time, and therefore only picking up a smaller share of the overheads. This hardly seems a fair formula for sharing costs, but it is used by many medical groups.

Sessional based allocation

An alternative to the traditional method of allocating overheads is to base the allocation on the number of sessions each partner has. For example:

	Sessions Worked	
Doctor A	8	42%
Doctor B	5	26%
Doctor C	6	32%
Total	19	100%

Share of overheads based on sessions worked



Advantages of sessional based allocation

We have found that the sessional basis offers a number of advantages, as each partner's net income is determined by their individual efforts:

- A more efficient partner will reap more profits.
- Absenteeism by one partner does not affect the remaining partners, and nor does the quality of a locum employed by an absent partner impact on the other partner's earnings.
- If overheads are allocated based on the number of sessions a partner has, a new partner will be encouraged to attract new patients as soon as possible, rather than have his or her costs subsidised by the existing partners.

This method of overhead allocation is particularly attractive to practitioners with after hours income, as this obviously does not attract any additional overheads for them.

Alternative methods

There are other methods of allocating overheads which may have merit in certain circumstances. The partners may agree to allocate overheads based on a

pre-determined percentage.

Alternatively, it may be appropriate to separate expenses into fixed overheads (such as occupancy costs) and variable overheads. Fixed overheads could be allocated based on fixed percentages, while variable overheads could be allocated according to income levels or number of sessions allocated. In some cases, adjustments for longevity or the administrative responsibilities of a partner/shareholder may be agreed upon by the group.

Simplify your accounting

The trend these days is for each practitioner to take their own gross fees which they generate, and then pay back into the practice cost centre, a management or administration fee to cover practice expenses. Ideally, this would be a fixed amount per month based on budgeted expenditure and the method of overhead allocation chosen.

Summary

The process of deciding on an overhead allocation formula involves evaluating the practice as a whole in order to determine the nature of the services provided, and therefore the way in which the overheads are being incurred.

Whatever arrangement is finally agreed to, it should be simple to administer and control. The method for sharing overheads should be stated in the cost sharing agreement.

We recommend that you contact your Grant Thornton adviser should you require any further advice in this area.

Innovation from IRD... to make life easier

If you are commencing a new business or expanding your current operations, the online services provided by Inland Revenue on their website can save you the inconvenience of completing and posting a paper registration.

The following registration services are now provided on line via the IRD web site:

- Registering for Goods and Services Tax (GST)
- Registering as an employer
- Registering as a payer of Resident Withholding Tax (RWT)
- Registering as a payer of Non Resident Withholding Tax (NRWT)
- Registering as a payer of approved issuer levy (AIL)

As the registration will be received by the IRD the instant you submit it, the process will happen a lot quicker.

File your GST return online

The "eGST return" is a new service that is now available on the IRD web site that allows you to file your GST returns electronically. The eGST service is entirely optional, but can be beneficial from both a timeliness and convenience perspective.

The benefits of filing returns electronically:

- any refund will usually be paid faster, subject to normal checks.
- payment can be made electronically through all trading banks.
- the eGST return arrives at Inland Revenue the same day as you send it.
- you can save on postage costs if you pay electronically.

To use the online services provided, simply access IRD's web site at www.ird.govt.nz and click on the relevant link under online services.

Changes to the Donation Rebate Threshold

The Taxation (Annual Rates, Maori Organisations, Taxpayer Compliance and Miscellaneous Provisions) Bill was given the royal assent on 26 March 2003. This Act contains changes to the amount of donation rebate that can be claimed by individuals per annum. The maximum rebate that can now be paid out on donations paid has increased from \$500 to \$630 per annum. This is effective from the beginning of the 2003 financial year (for most clients on a standard balance date - from 1 April 2002).

Practice data analysis

Is your practice growing, static or declining?

Is the practice attracting the patients it wants?

Most of the answers can be found within your practice files, and the accompanying quiz will help identify the data required.

Try this Quiz

- How many active patients does the practice have? How has this number changed in recent years?
- What are patients' most frequent medical complaints?
- Which procedures do you perform most often?
- What is an average patient profile: age, gender, marital status, employment status, place of residence?
- Is there any dominant occupation among patients? If so, is the practice vulnerable to loss of a major employer in your area or recession in a particular industry?
- Who are your most vital referral sources?
- How else do patients find out about the practice?
- How many patients requested a records transfer during of the last five years?
- To which doctors have patient records been transferred most frequently?

In the computerised practice, records can be sorted to yield the data and produce summary reports. For the practice that is not computerised, data can be obtained by sampling a representative number of files.

Your files are a gold mine of marketing information. Analysing them for this purpose will generate additional marketing ideas and initiatives.

Insolvency law changes announced

The Minister of Commerce recently announced the key decisions made after a major review of New Zealand's insolvency law, which started in 1999. The key decisions are:

- to introduce a business rehabilitation regime based on the Australian voluntary administration provisions
- to address what the Government calls the "phoenix company problem"
- to provide a mechanism to conform with the United Nations model law for cross-border insolvency
- to provide a fast track bankruptcy procedure for insolvent individuals with no realisable assets and very low incomes.

The Government expects to release draft legislation to implement those decisions in mid-2003 for further public consultation. It aims to introduce the legislation into Parliament by the end of 2003.

Two proposals the Government are considering:

Voluntary Administration - The government sees a voluntary administration regime providing opportunities to rehabilitate insolvent companies to preserve businesses and jobs. At present many such companies go into liquidation and their assets are sold.

There is interest in seeing whether the government will introduce additional liabilities for company directors as part of the review given that the Australian system is to be used. In Australia, company directors are liable for unpaid PAYE tax if the directors do not put the company into voluntary administration or liquidation when a notice for unpaid PAYE is served on the directors by the IRD.

The New Zealand Government hasn't indicated whether this would be the case here but the possibility that it might be has concerned some business organisations here.

Phoenix Companies - The reforms are to address the problems creditors have in getting back their money where the assets and the business of a failed company are sold to another company associated with the directors of the failed one, soon before its failure. The Government plans to introduce measures that will prohibit the use of the failed company's name by the new company, thus depriving the new company of the goodwill in the business name.

The Government also wants to legislate for criminal penalties where directors have acted in bad faith to defeat creditor's legitimate interests.

Further developments in this legislation will be reported on in future issues of the Health Adviser.

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