

Preparing for rainy days

Lis Hughes shares how to help your practice weather the storm of difficult economic times

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While many of us in the UK have been desperate for rain clouds to provide some relief from the scorching summer temperatures, many commentators believe storm clouds are gathering on the economic front.

Recent interest rate rises have caused some reluctance from borrowers to either enter or complete mortgage or loan applications, and we await to see the impact on the property market.

Though there may not be a silver lining, there are definitely signs of blue skies coming through.

The forecast isn't as bad as the scaremongers would have you believe. Some simple calculations reveal there isn't much devil in the details after all.

Let's do the maths

Assume you borrowed £680,000 over 15 years to fund the purchase of a practice valued at £800,000

at an interest rate of 4.75% (a bank margin of 3% above the Bank of England base rate of 1.75%). This would mean payments of £5,289 per month.

Had interest rates remained at 1.25%, the bank would likely have lent to you at a rate of 4.25% (with the same 3% bank margin on top of the base rate), costing you £5,115 per month.

Although a monthly increase of £174 isn't trivial, and absolutely needs to be accommodated for in your budget, a 3.4% increase is unlikely to be a 'deal-breaker', given the sums involved.

Good financial management elsewhere in the practice means the increase in costs could be absorbed. Of course, we must also recognise that costs elsewhere in the business will likely increase as well, the prime examples being energy and utility bills.

It's important to have a budget or plan of what you anticipate your business's revenue and costs to be, and to be able to flex this for changes in circumstances. A good understanding of the finances of your business is crucial.

To put it in context, a hygienist appointment

would likely generate £90 in extra revenue, and whitening treatments can bring in £500 to £1,000.

While there will be costs associated with these activities, even small increases in activity can bring in enough revenue to offset the increase in costs.

Making small changes

When it comes to managing costs, take the opportunity to shop around on insurance, maintenance and internet providers, to name a few.

Even apparent small changes can have an impact. For example, how much stationery is needed in a modern paperless practice? Look at the usage patterns and ask if you're paying for materials or facilities that you don't (often) use.

Look at which costs are fixed, and which vary in line with activity.

While this may sound daunting, it'll set a good foundation for ongoing management of your business and, to resume our meteorological analogy, prepare you for future 'rainy days'. **D**

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PRACTICE ONE - HAMPSHIRE

Practice location: this practice is located in a busy town in the heart of Hampshire, with excellent road and rail access. The area is a mix of commercial and residential and has the benefit of several new housing estates being built.

Practice type: this is a five-surgery, associate-led, predominantly NHS practice being sold to release the owner from the burden of practice ownership. It's being sold as leasehold with a 15-year lease in place.

Practice financials: the gross fee income from management information for the past 12 months is in the region of £685,000 per annum and the NHS-GDS contract has a UDA rate of £26.09. The income has been generated by three full-time associates and a hygienist working one day a week. The team is supported by a full-time practice manager, three part-time receptionists, five part-time nurses and two full-time student nurses.

Price achieved: a price of **£850,000** was achieved, which was in excess of the asking price.

Agent's comments: the new owner will be working full-time in the practice, which would normally improve the practice's profitability. However, there are no plans to reduce the working hours of the three associates currently at the practice, as the new owner wants to maximise the private element of the practice.

PRACTICE TWO - HOME COUNTIES

Practice location: this practice is in a desirable and bustling town. It's situated between a pharmacy and GP practice, so it's in an ideal location.

Practice type: this is a very well-established two-surgery mixed practice being sold to allow the current principal to concentrate on other business ventures. The practice has been established for over 30 years. It's being sold as leasehold with a new 15-year lease in place.

Practice financials: the gross fee income from management information for the past 12 months is in the region of £300,000 per annum, and the UDA rate is an impressive £38.29. This makes up 70% of the income, the balance being fee per item. The gross income has been generated by the principal working four days a week. The clinical team is supported by a full-time receptionist and two part-time nurses.

Price achieved: a price of **£650,000** was achieved, which was in line with the asking price.

Agent's comments: this practice proved to be incredibly popular in its location and the UDA rate. It's perfect for a first-time buyer, as it's not too big to be scary, yet there's massive opportunity to develop the private side.



PRACTICE THREE - HAMPSHIRE

Practice location: the practice is across two sites in a very busy town. Both sites are leasehold with leases of eight and 12 years.

Practice type: this is a nine-surgery practice that is over 90% NHS and is being sold by a corporate as part of a portfolio adjustment.

Practice financials: the gross fee income is in the region of £1,075,000 and is made up of 91% NHS-GDS with just over £26 per UDA. The balance of the income is FPI.

Price achieved: a price of **£1,154,000** as a leasehold sale was achieved, which was in line with the asking price.

Agent's comments: this practice was popular amongst the smaller corporates who are looking to increase their portfolio and buy an associate-run practice. The requirements from the NHS going forward meant the practice had to be better organised to ensure appointments are available outside of core hours. This proved exciting to the incoming principals who can see how there will be opportunities to increase the private fee income once the NHS requirements are fulfilled.

PRACTICE FOUR - ESSEX

Practice location: this practice is situated on a busy high road, in a town with great road and rail links.

Practice type: this is a three-surgery mixed practice being sold as leasehold with a new 20-year lease in place. The property is an end of terrace amongst a parade of shops with residential properties nearby.

Practice financials: the gross fee income from management information for the past 12 months is in the region of £400,000, of which 60% is generated from an NHS-GDS contract (with a rate of £28.15 per UDA) and 40% via private dentistry. The income has been generated by the principal working five days a week, an associate working 2.5 days a week and a hygienist working two days a week. The team is supported by a full-time receptionist and three part-time nurses.

Price achieved: a price of **£600,000** was achieved, which was in excess of the asking price.

Agent's comments: like many, this practice has benefited from an influx of patients who stopped commuting and decided to use the services of a local dental practice. The ongoing trend in private dentistry proved evident as the last 12 months have seen a significant increase in private revenue. The new principal has many new ideas on how to expand this element of the practice.