



Practice Finance

Buying and selling goodwill

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Intangible assets are bargaining chips in the primary care market, says Laurence Slavin.

Hardly a week goes by without news stories in GP concerning the expanding role of the private sector in primary care.

On a parallel but related track, the potential value of the goodwill in GP practices is fast becoming topical.

Accountants describe goodwill as an intangible asset. In simple terms it is the difference between the actual physical value of something and the price that somebody will pay for it.

Other partnership-based professionals, such as accountants and solicitors, are used to buying and selling the goodwill in their practices. Partners expect to receive a significant sum - maybe hundreds of thousands of pounds - for the goodwill if they sell their practices.

Releasing value

If you are wondering why goodwill is suddenly an important issue for GPs, the reason is that private enterprises moving into primary care - typically on alternative provider medical services (APMS) contracts - will expect the goodwill value of their activities to be reflected in how much their businesses are worth.

Private companies do not undertake APMS work just for the profits. The enhancement of the organisation's intrinsic value is also at stake. Mergers, acquisitions and takeovers are common in business, and the value of goodwill is central to setting the price at which enterprises change hands.

Sale of goodwill in NHS practices has been prohibited since the NHS came into being in 1948. Selling it is a criminal offence and the penalties are a fine decided by the court, and up to three months' imprisonment.

But there is a conflict between the historical restriction on selling goodwill, and the needs of the private providers entering primary care.

The DoH relaxed the blanket ban in April 2004.

No sale of lists

Trading in goodwill in a GP practice with a list of registered patients is still against the law. However, sale of goodwill by NHS contractors that do not have a list is now permitted.

Also, while sale of goodwill in relation to essential services is not allowed, out-of-hours, additional and enhanced services fall outside the scope of the ban.

Under the relaxed rules, new private APMS contracts can be structured in a way that allows sale of goodwill. It also means that existing PMS and GMS practices can benefit if they convert to APMS contracts - see the example in the box.

GPs and private providers can be creative over the way they set up NHS contracts - to the point where, it seems to me, the ban on realising the goodwill value of essential services could become unenforceable.

The DoH is keeping the existing goodwill rules under review and further guidance is expected in two years' time.

The impact of the current regulations goes further than you might think.

It does not just apply to private providers but also to existing practices.

When accountants and solicitors retire, they usually expect to receive a payment for their share of the goodwill in the practice.

Similarly, when they join a practice they expect to pay for goodwill.

There is no reason to expect that this will not become more common in general practice.

It is difficult to put a price on intangibles, but perhaps the parallel professions can shed some light.

Valuing goodwill

In general, the goodwill of a business is valued on one or more of the following bases: a percentage of turnover (annual income), a multiple of profits, a multiple of 'super profits' or a multiple of the value of the assets. The last is probably not appropriate for general practice.

A goodwill valuation of 50 per cent of turnover is not unusual.

Super profits are the difference between the profits earned by a partner and the cost of replacing that partner with another. In a GP practice this is likely to be the cost of replacing a partner with a salaried doctor.

Trading of goodwill will have a dramatic effect on the development of general practice. In future, if existing GP partners are keen to realise the full value of goodwill in their practice when they retire, incoming partners will have to be prepared, and able, to buy the goodwill.

If an outgoing partner is not replaced, the continuing partners would need to be able to afford to buy out the retiring partner. Otherwise they might be forced to sell to a private provider to realise the funds to pay off their former partner.

Another issue is what will happen if the ban on sale of goodwill relating to the patient lists/essential services is lifted.

A GP partner or single-handed practitioner keen to maximise the wealth created by relaxing goodwill regulations should look to build up the value and size of the practice now, when they do not have to pay for the goodwill, in the hope that they will be able to sell it when they retire.

The number of private APMS providers may increase significantly because they are more likely to pay for goodwill than other GPs are.

To some extent these considerations can be managed by stating in the partnership agreement how goodwill is to be valued. But

the marketplace is powerful, and allowing it into general practice has huge implications for the future.

- *Laurence Slavin is chartered accountant and a partner at north London medical specialist firm Ramsay Brown and Partners, www.ramsaybrown.co.uk*

EXAMPLE - SELLING TO AN APMS ENTERPRISE

A four-partner practice with 10,500 patients owns its premises, and has an annual turnover of £1,250,000. A private APMS provider wishes to take over the practice. With the PCT's agreement, the GP partners convert their NHS contract to APMS. The private provider pays each GP £160,000 for the goodwill represented by non-essential services. The former partners become employees and are eligible for profit-related bonuses.

YOUR VIEWS ON SALE OF GOODWILL

- Should GPs be able to buy or sell goodwill in essential services?
- Do you think a private APMS company might be prepared to buy the goodwill in your practice?
- Is it likely that a new partner joining your practice would be willing to buy an outgoing partner's share of goodwill?

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