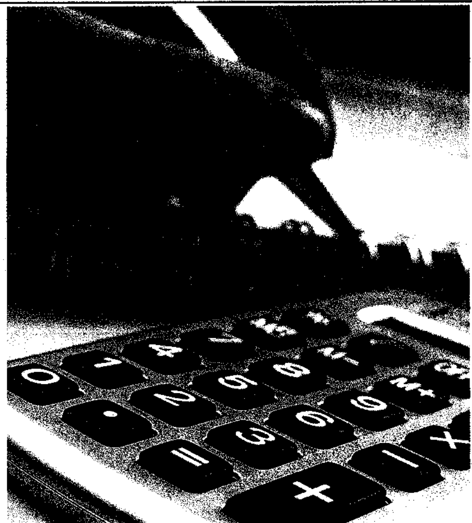
GP MEDECONOMICS

HOW TO...

Calculate GP partners' drawings efficiently

Partnerships should make a yearly projection to avoid excessive drawings and a cash flow crisis, says *Kate Perry*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Drawings schedules should be reviewed throughout the year

The GP pay award for 2009/10 is unlikely to increase overall income for the majority of practices by more than about 0.7 per cent and for some, will result in a sharp fall.

This makes thoroughly reviewing practice finances, with close attention to potential cash flow problems, a priority.

A crucial factor in forecasting cash flow is how much the partners (or a solo GP principal) take out of the practice each month.

Drawings are advance payments of profit share, so if a practice gets into cash flow difficulties due to a downturn in profits, the partners are taking out too much money for themselves.

Preparing a projection is a useful business planning exercise that will enable the practice to pay regular monthly drawings while ensuring there are adequate funds for the practice to run smoothly. Part of this is to estimate future profits as accurately as possible.

Overall profit

Drawings projections should always start with your practice profit as per the accounts of the previous financial year. This will then need adjusting according to additional costs or income losses anticipated in the coming year.

For example, you may want to factor in staff pay increases or estimates of forthcoming expenditure such as surgery redecoration costs. You should use the disease prevalence calculator on the BMA's website at www.bma.org.uk to estimate loss in income due to removing the square rooting from 2009/10 onwards.

As you are looking at cash flow, you should remove any income elements that you know the practice will not receive until after the end of the accounting year.

The same applies to expected capital outlay (not paid out of income) for business assets such as equipment that do not directly affect profits.

A projection will enable the practice to pay monthly drawings while ensuring there are adequate funds

Personal earnings

The next step is to remove partners' personal items. Practices' annual accounts often include income that is not pooled by the partners. These are specific sums paid to the individual partners before partnership profits are divided up according to the profit-sharing ratios.

These sums are commonly seniority pay, out-of-hours earnings or income earned from 'outside' appointments or PCT work. Premises reimbursement may also be paid out first to the property-owning partners.

Profit sharing

When you have calculated the estimated profits that will be shared out, you need to consider the following 12 months' profit-sharing arrangements. This may include taking account of prior allocations of income (such as seniority pay) to partners. Finally, you can allocate the remaining projected profits in the profit-sharing ratios.

Individual partners' deductions

Remember that NHS superannuation is deducted at source by your primary care organisation. So an estimate of superannuation including any added years payments and additional voluntary contributions must be deducted for each partner.

If a partner has taken their NHS pension benefits so is no longer in the pension scheme, they will receive higher monthly drawings as no superannuation deduction is made for them.

If your practice runs a tax reserve to meet partners' individual tax bills, then an estimate of tax due should also be deducted.

Other deductions to be made include capital repayments on a mortgage and expenses the practice has paid but which each partner should personally meet – for example, personal accountancy fees. Then divide the result by 12 to arrive at monthly drawings figures.

Increased cash flow

During the year cash at the bank may build up – for example, when quality framework achievement cash arrives. It is best to pay partners one-off bonuses in their profit-sharing ratios.

Updating drawings

You should review and update the drawings schedule put together at the start of the year throughout the next 12 months.

If practice circumstances change in-year, previous estimates should be updated using current information. If the profit shares change, revise the schedule using the changed profit-sharing ratios.

EXAMPLE

Drawings projection for 12 months from 1 April 2009: three GP partners

		Total (£)	Dr A (£)	Dr B (£)	Dr C (£)
Profits	12 months to 31 March 2009	375,000			
Exclude	QOF achievement expected June 2010	(40,000)			
	Notional/cost rent paid separately	(35,000)			
	Extra sessions paid separately	(3,500)			
	Expected decrease in QOF payments	(8,000)			
		288,500			
Profit allocation					
	Seniority pay prior shares	10,500	8,500	1,300	700
	Balance split 2:2:1	278,000	111,200	111,200	55,600
		288,500	**119,700**	**112,500**	**56,300**
Less	Income tax reserve	79,000	34,000	30,000	15,000
	Premises mortgage repayments	10,000	5,000	5,000	0
	Personal accountancy	1,200	400	400	400
	NHS superannuation:				
	Partners' employee deductions				
	5% (up to £19,682)	0	0	0	0
	6.5% (£19,683–£65,002)	3,250	0	0	3,250
	7.5% (£65,003–£102,499)	7,125	0	7,125	0
	8.5% above £102,500	8,925	8,925	0	0
	Added years contributions	4,500	0	0	4,500
	Partners' employer deductions 14%	35,000	14,700	13,300	7,000
		139,500	56,675	56,675	26,150
Less	Contingencies reserve	5,000	2,000	2,000	1,000
		134,500	54,675	54,675	25,150
	Monthly drawings before tax	**17,792**	**7,390**	**7,056**	**3,346**
	Monthly drawings after tax	**11,208**	**4,556**	**4,556**	**2,096**
Plus	Expected one-off bonus payments June 2010 for QOF achievement	40,000	16,000	16,000	8,000

● *Kate Perry is a partner in north London medical specialist chartered accountants Ramsay Brown & Partners, www.ramsaybrown.co.uk*