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Medical Assurance Society

Business Summit - Financial Management - Pre-conference workshop repeated

Thursday, 09 June 2011	Start 11:00am	Duration: 120mins	Sovereign
	Start 4:30pm	Duration: 120mins	Sovereign

Essentials of financial management

GPCME North – June 2011

Medical Assurance Society

We make it easy

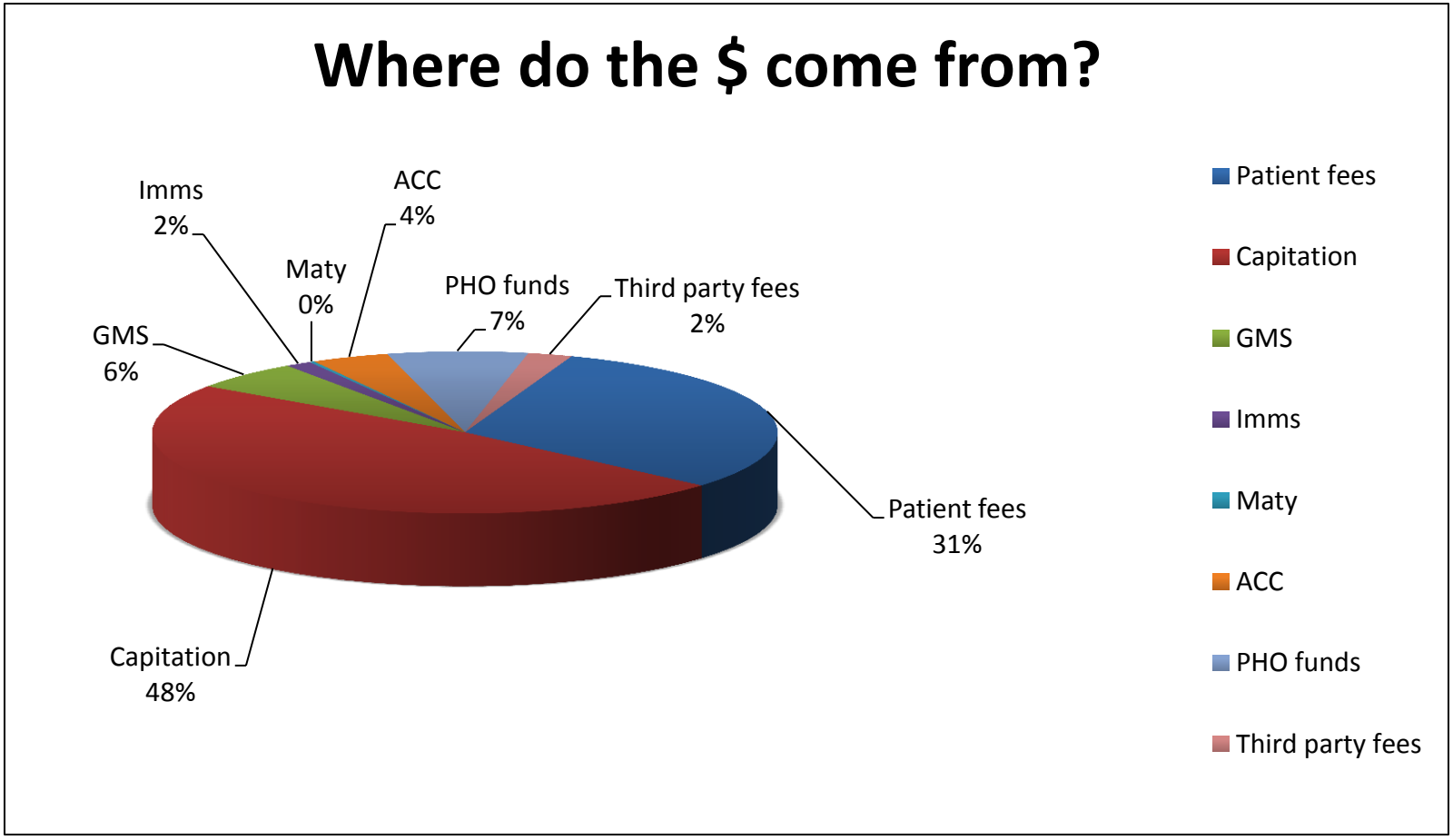
Session overview

1. Maximising income
2. Managing expenses
3. Business planning and budgeting

Eight financial fundamentals

1. Setting and managing budgets
2. Assessing expenditure
3. Building assets
4. Knowing the business net worth
5. Regular financial reporting
6. Managing cash flow
7. Investing profits
8. Managing non-financial areas that impact on financial success

GP revenue – it's complicated!



Fee setting

Annual statement of reasonable GP fee increases

- benchmark for the ‘reasonableness’ of patient co-payment increases

Methodology used to set annual statement = 3 indices

1. Labour cost index
2. Producer’s price index
3. Capital goods price index

Fees review committee

Preparing for fees review

- What revenue is generated by who?
- Are all services being charged for?
- Are services being discounted?
- What are your patient base demographics and utilisation rates?
- What is your fee per GP consultation?
- What is your fee per nurse consultation?
- What are your consultation times?
- What is the average revenue by age band?

Fees review summary example

Practice profitability analysis

	Previous year (12 months)	Current year (12 months)	Budget year (12 months)
Patient fees			
Capitation income			
Other income			
Total group practice income	$0	$0	$0
Less total expenses (incl. business expenses of GP owners)			
Net profit (excl. GP owner clinical remuneration)	$0	$0	$0
Less nominal GP owner clinical remuneration for FTE's*			
Group practice net profit (after GP owner remuneration)	$0	$0	$0
Net profit as % of revenue	0%	0%	0%
Expenses as % of revenue	0%	0%	0%

* GP owner clinical income should be based on market salary e.g. 55% - 60% of fees (incl. internal GMS for capitation), around $95-$100 per hour, $375 - $400 per session or salary (incl. benefits) around $180 - $220,000

Fees increase summary

Fee increase required to achieve budget

	Current year	Budget year
Total patient fees		
Total consultations		
Average fee per consultation	$0.00	$0.00
% increase required for budget		0.00%

Considerations:

Have other ways to increase revenue been considered? e.g. nurse charging, additional services, supplies and materials etc

What are the major expense increases budgeted for? Are they reasonable and how do the compare with others?

Is the nominal GP owner remuneration reasonable? Does it take into account leave and ongoing education etc.?

Is the net profit (after GP owner remuneration) as a return on capital, or a % of revenue, reasonable?

Do practice expenses include all occupancy costs (and reasonable return to owner) if rooms owned by GP principals?

Do practice expenses include all practice expenses deducted at individual GP owner level?

Invoicing

Establish an invoicing protocol:

1. Record all patients attending the practice on appointment book
2. Invoice generated for every service (including no charge)
3. Daily review of patients seen and not invoiced

Invoicing for consumables

Some examples:

- Vaccines: e.g. travel, Pneumovax, Varilix
- Materials: dressings, sutures, TropT blood tests
- Medical devices: pipelles, catheters, syringes

Charging options for consumables

- **Cost-plus pricing** – determine the cost of the product and add the percentage profit that you wish to make to determine the sale price

- **Mark-up pricing –** the mark-up is usually a percentage of cost price and this is added to the cost price to determine the sale price. This method can lead to over/under charging unless there is an industry norm (e.g. 50% mark up)

Income streams

1. Patient co-payments (all services and consumables)
2. First contact care – capitation (+ GMS on casual)
3. Immunisation
4. Maternity
5. ACC
6. PHO funded services
7. Third party payments – e.g. immigration, insurance and employment medicals

Register maintenance

Run regular checks for:

- Missing gender, DOB, NHI numbers
- Duplicate patients and/or NHI numbers
- Updating expired CSCs and HUHC eligibility
- Companies incorrectly marked as patients
- Non NZ resident GMS status correctly marked *Not applic (N)* and enrolment status *declined*
- Patients registered to **inactive providers** reassigned if appropriate
- Transferred patients are appropriately recorded as transferred

NB: Actions from PHO **import report**

....plus a whole team effort

Everyone needs to:

- Understand PHO enrolment criteria
  - casual, registered and enrolled patients
  - eligibility to NZ-funded health services
- Be able to explain benefits of enrolment to patients
  - access to lower cost services, additional services and initiatives provided by the PHO
- Understand the requirements around keeping the patient register and PMS accurate and up to date

Subsidy claiming / recording payments

Set up protocols so a shared knowledge base is available for:

- Regular claiming of all subsidies
- Monitoring to ensure that all claim subsidies are paid
- Follow up of all unpaid claims

Patient co-payment incentives

Our list to consider:

1. Efficient front desk
2. Alternate payment methods
3. Automatic payments
4. Applying account fee
5. Directing patients to WINZ and other agencies

Discounting can be dangerous

50% mark-up can only bear a 33% discount to get to the same level

e.g. $30 cost price plus 50% mark up is $45 sale price

- Discounting 33% reduces the sale price by $15 to get $30
- Discounting 50% reduces to $22.50 – well below cost price

And impact on profit increases with expenses

	Full fees	**20% discount**	
Fee revenue	$100	$100	
Fee discount		$20	**-20%**
less expenses	$50	$50	
Net profit	**$50**	**$30**	**-40%**

Revenue matrix

Give staff tools to invoice well, e.g.

Project	Entry criteria	Invoicing code	Patient co-payment
Sexual health	<20yrs + CSC holder	SH1	$0
Sexual health	20-25yrs + CSC holder	SH2	$10

Getting best use from your PMS

- Powerful reporting tool
- Utilise training and support from
  - PMS vendor – especially to maximise use of their report writing system to develop your own reports
  - Peer support from other managers in your area – share the depth of knowledge and practical application that long term users have

Useful PMS financial reports

These are the types of reports your PMS has to provide the standard information needed to operate the business side of your practice:

1. Invoice receipt record
2. Service analysis
3. Subsidy report
4. Financial summary
5. Income report
6. Daybook – missed invoicing, unapproved discounting, theft
7. Banking record
8. Debtors records

Workshop

How will we develop a financially successful practice?

What are you going to do when you go back to your practice?

Financial success strategies

1. Review fee charging/discounting policy
2. Review material costs/all costs
3. Review debtors management policy
4. Patient service survey
5. Engage staff in practice vision
6. Review opening hours
7. Find a point of difference/increased perceived value
8. Review physical environment – access, child friendly
9. Enhance profile of practice in community

Financial success strategies (continued)

10. Utilise all room space – tenants etc
11. Business systems – efficient, productive?
12. Invest in staff training etc
13. Minimise waste/recycle
14. Review nurse profitability/charging
15. Do patient survey – e.g. are they prepared to pay more for longer consultations?
16. New services? Minor surgery, nurse clinics?
17. Consider amalgamation – economies of scale, additional health services?

Expenses

Sample only: **Expense analysis**	**Medium city practice** **- 3 GP owners**		**Medium rural town practice** **- 4 GP owners**	
	$'s	% of Revenue	$'s	% of Revenue
Gross revenue	$ 2,440,000.00	100%	$ 1,600,000.00	100%
Associate / locums & direct costs	$ 440,000.00	18%	$ 211,000.00	13%
Gross profit	$ 2,000,000.00	82%	$ 1,389,000.00	87%
Gross profit per GP	$ 666,666.67		$ 347,250.00	
Administration & general	$ 64,000.00	3%	$ 54,000.00	3%
Comms & advertising	$ 41,000.00	2%	$ 36,000.00	2%
Cleaning & laundry	$ 31,000.00	1%	$ 12,000.00	1%
Computers, bank, EFTPOS	$ 190,000.00	8%	$ 16,000.00	1%
Depreciation	$ 25,000.00	1%	$ 13,000.00	1%
Med supplies, consumables	$ 87,000.00	4%	$ 89,000.00	6%
Motor vehicle	$ -	0%	$ 18,000.00	1%
Rent & premises	$ 116,000.00	5%	$ 53,000.00	3%
Wages	$ 657,000.00	27%	$ 370,000.00	23%
EBIT	$ 789,000.00	32%	$ 728,000.00	46%
EBIT per GP owner	$ 263,000.00		$ 182,000.00	

Managing consumables

1. Price vs quality
2. Stock volumes and control
3. Damaged goods immediately sent back for crediting?
4. Invoicing for all services and consumables

Expense categories

1. Administration and other
2. Occupancy
3. Medical supplies
4. Utilities
5. Wages
6. After hours
7. Depreciation
8. IT
9. Plant and equipment

Remuneration

- GP and nurse costs – effective recruitment, retention and staff management
- GP expenses – compare to market rates
- Staff ratios – compare with national analysis

Remuneration – market information

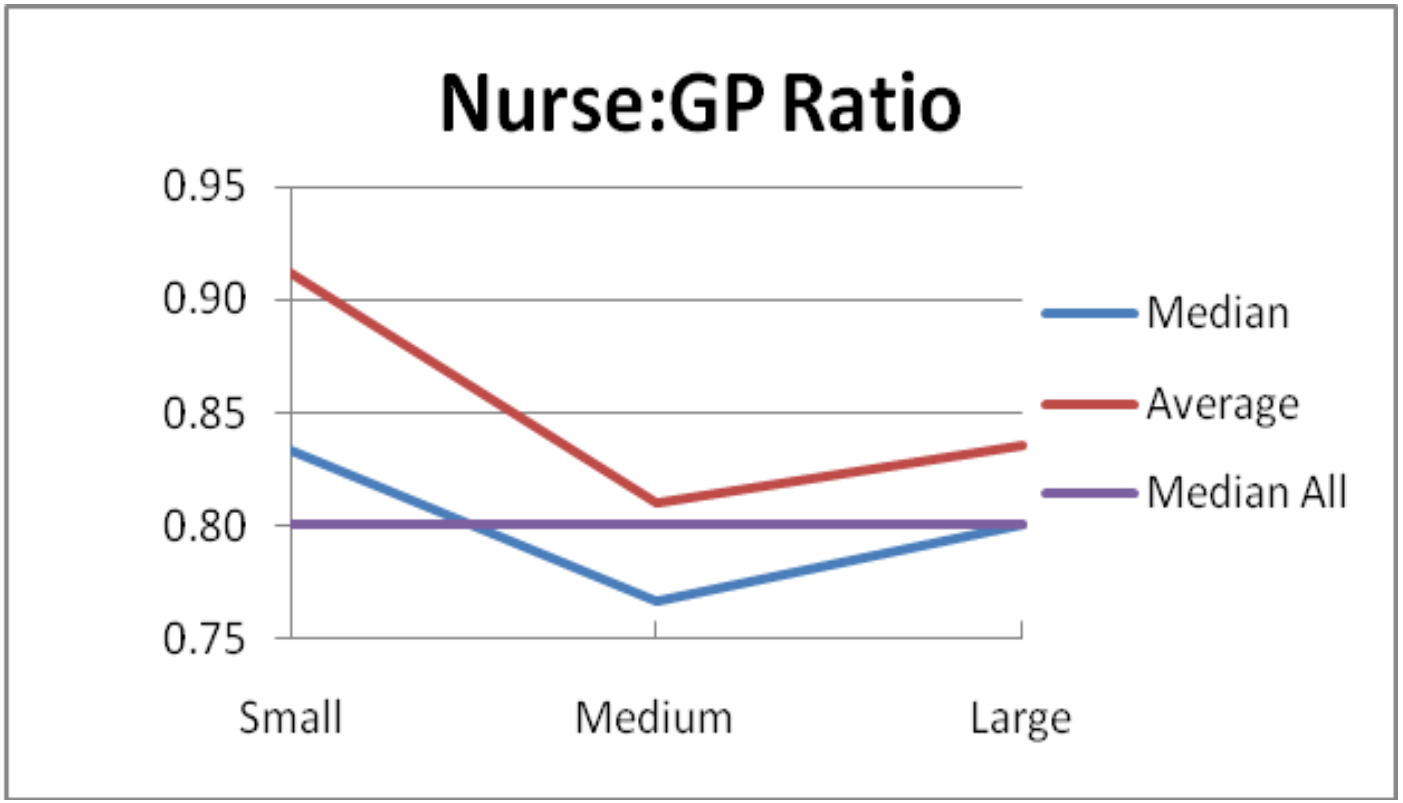
MAS provides: GP locum/associate remuneration and staff ratio analysis reporting: **business@medicals.co.nz**

ASMS/DHB MECA (GP specialists): **www.asms.org.nz**

PMAANZ: Practice manager/admin: **www.pmaanz.org.nz**

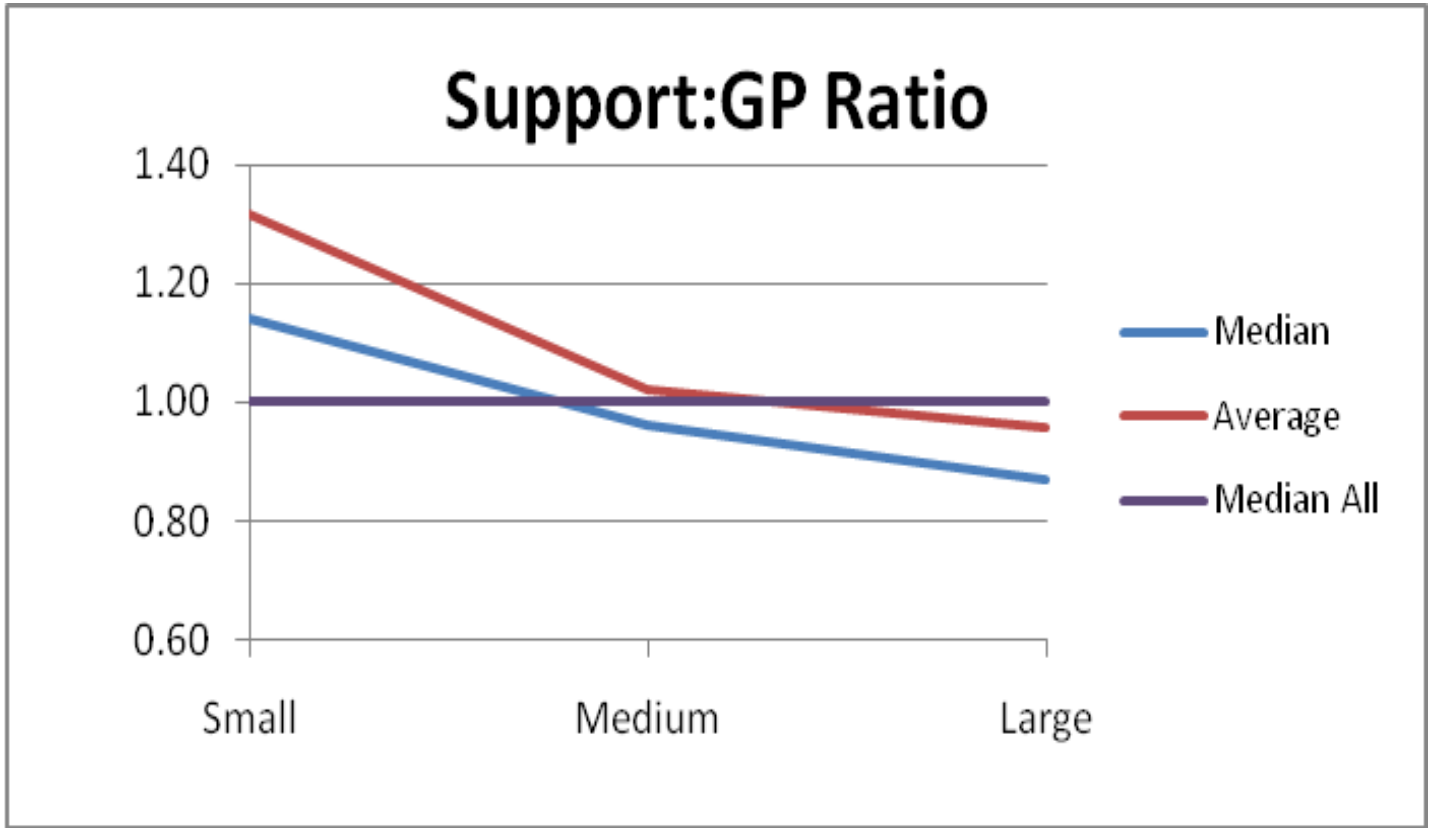
HealthyPractice® subscriber analysis report

January 2011



HealthyPractice® subscriber analysis report

January 2011



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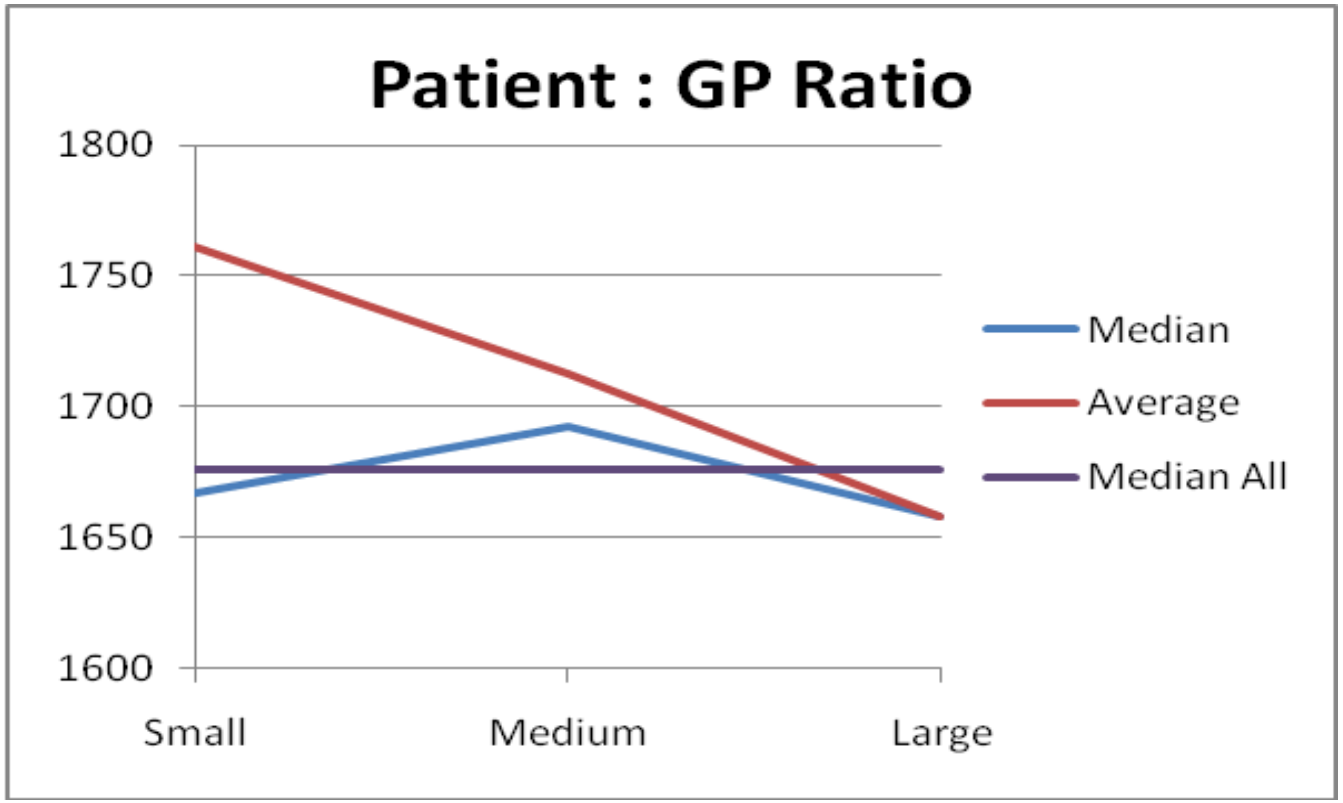


GP remuneration

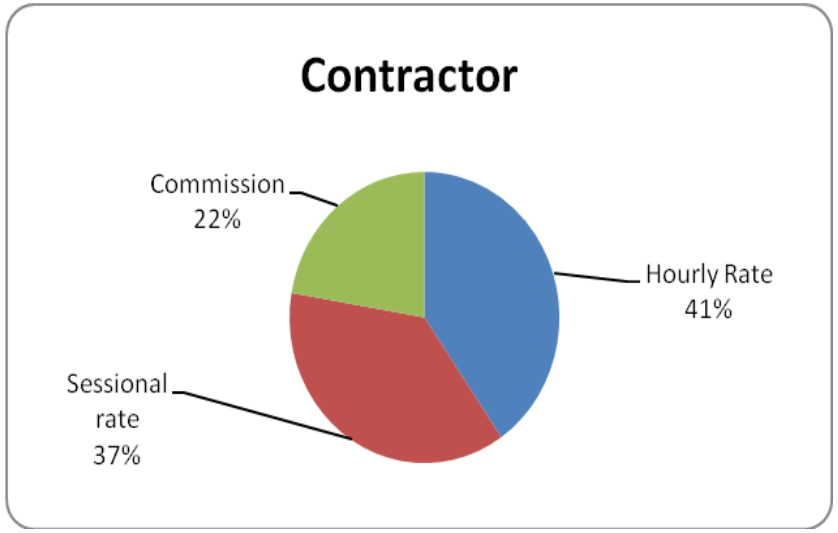
from MAS GP locum & associate survey – Dec 10

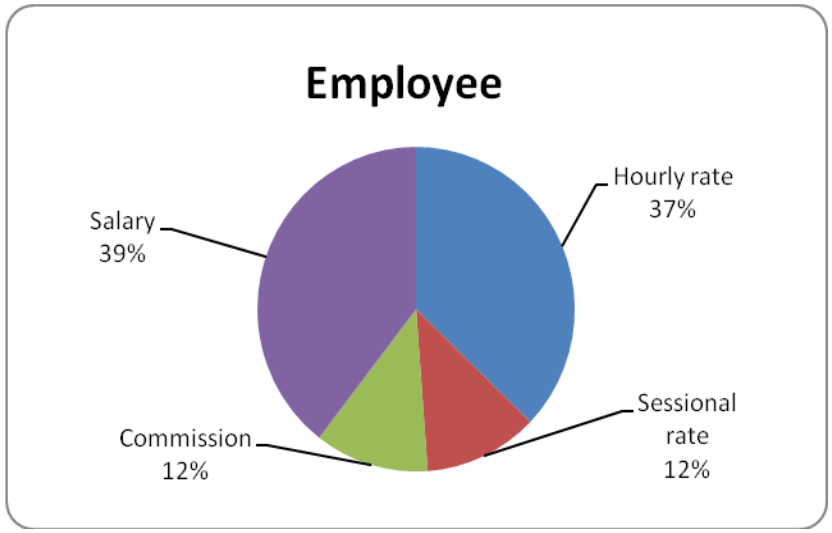
Sent to 650 general practices

- 173 practices responded
- 79% contract for services (81% Dec 2009)
- 21% employees (19% Dec 2009)
- Contractor rates 5% to 7% higher than employee rates

How GPs are paid

from MAS GP locum & associate survey – Dec 10





GP remuneration – contracted GPs

from MAS GP locum & associate survey – Dec 10

Contracted GPs	Urban practices		Rural practices	
	Median	**Average**	**Median**	**Average**
Commission %	55%	58%	60%	62%
Hourly rate	$91-$95	$96-$100	$91-$95	$96-$100
Sessional rate	$351-375	$351-$375	$376-$400	$401-$425

Contractor or employee – what's the difference?

Employee	Contractor
Access to ER Act rights	Must sue for breach of contract
Paid statutory holidays – 11 days	No leave entitlements
Annual leave – 4 weeks minimum	
Sick leave – 5 days cumulative to 20	
Bereavement leave – 3 days	
Security of employment. Fixed term protection.	Less security. No termination protection
PAYE. No deductions	Provisional tax. Business deductions

Important to consider true nature of relationship and formalise arrangements by way of written agreement or contract.

Analysis of nursing expenses

Associated costs:

- Wages
- Medical equipment and supplies
- Office equipment – e.g. computers
- Cost of space occupied

Divide by number of consultations undertaken, compare to revenue generated:

- are the expenses justified vs income generated?

Business planning, budgeting and reporting

The business plan

- Should be aligned with the practice strategic direction and values
- Generally for a 1–3 year period
- Include an overview of practice structure, services provided, current market and SWOT analysis
- Outline current and future major issues, include proposed changes over the period with SMART objectives
- Include a financial plan and budgets

The business plan

How you develop the business plan and budget will depend on the practice structure and the owner requirements.

- Is the group practice a single business or separate practices sharing costs?
- What areas of the practice can the practice manager manage? All revenue and costs? All services?

Financial plan and budget

Financial part of the business plan would generally include:

- Capital requirements and funding
- Financial assumptions
- Cash flow projections
- Budget

Budget components – revenue

Get to know your PMS and review your services reports:

1. What revenue is generated by who?
2. Is everything being charged for that should be?
3. Are services being discounted?
4. Patient register, are you receiving all capitated funding due?
5. What are your patient base demographics and utilisation rates?
6. What are your revenue opportunities?

Budget components – revenue

Now that we have identified the revenue streams into the practice . . .

do you expect these

to increase, remain the same

or reduce?

Budget components – expenses

Likewise with the expenses . . .

do you expect these
to increase, remain the same
or reduce?

Building the budget

Where do you start?

- Start simple… a three column spreadsheet will do

Revenue	**Last year**	**Next year**
Fees		
Capitation		
ACC		
GMS		

The budget

- Detail the last 12 months' income and expense lines (input to HealthyPractice® if you have it)
- What changes will happen over the next 12 months?
- What is the financial impact e.g. additional nurse = increased revenue, higher wages, new workstation?

Workshop 2

The business plan

What do you think are
the important things
to monitor and report on?

Monitoring and reporting . . .

1. New enrolments per week
2. Consultations per week
3. Exception reports (budget vs actual)
4. Monthly debtors analysis
5. Number of complaints per month
6. Patient satisfaction
7. Staff satisfaction
8. Average fee per consultation
9. Length of consultations
10. Fee income per week
11. Staff cost as a % of revenue
12. Dr/nurse/support staff ratio
13. Number of patients leaving the practice per week
14. DNAs
15. GMS clawbacks

HealthyPractice® financial reporting example

HealthyPractice® financial analysis toolkit

Resources and contacts

Business plan template (word format)
Budget and cash flows (excel format)
MAS HealthyPractice® website www.healthypractice.co.nz

Contact	**MAS Business Advisory Services**
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