

Practice Mergers – Beware the Pitfalls

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The number of practices in the UK fell from 9,906 on 30th September 2012 to 9,771 on 30th September 2013, whilst the number of GP's remained fairly constant. Thus, the obvious conclusion is that the loss of 135 practices is due to merger activity. But what, if any, is the attraction of a practice merger? The following reasons are often attributed to merger activity:-

- The age profile of GP's disclosed that there are more GP's aged over 50 than ever before, whilst at the other end entry into medical school and the number of registrars is at an all-time low. It is now difficult to recruit salaried GP's and locums, let alone partners. This recruitment crisis encourages smaller practices to seek a merger in order to provide GP cover for patients.
- Some GP's believe that by merging practices it gives them a better chance of bidding successfully for contracts for enhanced services.
- The pursuit of economies of scale as cost savings will be made. Also, succession problems might be solved particularly if surgery ownership is involved.
- Saving in administration time.
- A belief that many practices will soon become unsustainable if they rely solely on the core contract.

The question is how much of the above is true given that previous activity has identified significant pitfalls with the process. Let us therefore consider the above items in the context of experience to date.

The first issue to consider is that there are hardly any practices in the UK with over six partners in the top 10% of GP earners. One has to remember that GP's receive no business training at

Medical School and medical practice is a "business". The bigger the practice the more difficult it is to manage it and the formalities of business that need to be followed do not come easy to most GP's.

One can understand why the recruitment crisis drives some GP's to merger, but this may not be the only solution to the problem. It is possible for a "federation" of practices to work together to deal with GP cover. In these circumstances, given that the federation is a separate legal entity, practices can remain independent and retain their own characteristics.

The argument that merger can provide better bidding power lacks conviction. The key issue in the bidding process is population coverage and most mergers will still not provide this ingredient. Clinical Commissioning Groups and Foundation Trusts seem to be keen to issue one contract per service and are loathe to issue multiple contracts. This means that even the largest of practices may struggle in the bidding process. Again, "federations" may provide the answer as they will have population coverage, and the work can be sub-contracted to individual practices.

The economies of scale argument i.e. cost savings may have some merit but probably not in the short term.

Practices should not identify staff savings (redundancies) prior to or during the merger process as to do so could lead to an employment tribunal. Rather, staff reduction should not be looked at until the merged practice is well under way, probably after six months at the earliest. Moreover, a merger can only solve a succession problem if recruitment becomes an impossibility, but beware, there is no guarantee that the merged practice will acquire surgery premises.

A saving in administration time may or may not occur depending upon how well the new merged practice is managed.

Given recent contract changes, it is right to question whether certain smaller practices will remain sustainable, particularly those who rely upon the Minimum Practice Income Guarantee (MPIG). However, practices have to consider whether federation would be a better option to follow than merger. Every case is different but great care needs to be taken in finding the right solution.

Sadly, there are even more pitfalls to consider. NHS England has to be brought into the equation to ensure that the core contracts of both practices are protected. Normally, it is easiest to merge two GMS practices, but the situation is more complex if both or one of the practices have a PMS contract. The protection of the core contract must be dealt with at the outset of merger negotiations, otherwise a great deal of time can be wasted.

There is yet another potential pitfall that can often be overlooked by practices and this concerns taxation. Where both parties to the merger have a year end of 31st March then there is no problem. However, where one or both of the parties to the merger have a year end other than 31st March then a problem can occur. The selection of accounting date can be crucial because without care the overlap tax time bomb can be triggered which has the effect of accelerating tax payments.

The overall message is clear. Practices should seek specialist legal and accountancy advice early via the process, not only to ensure that the merger itself makes business sense, but also to avoid the many pitfalls along the way.