

# Management of a Veterinary Practice

*Expert knowledge means success*

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**Note:** This publication has not been updated since it was last published. Some of the hyperlinks may have changed and may need updating. In addition, some of the information in this publication may be out of date.

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## Introduction

Over recent years, there have been significant changes in the veterinary profession. New techniques, new products, new technology and new ways of working – these all conspire to make running a vet's practice today more challenging yet more rewarding than ever before.

## Practical issues facing Veterinary Practices

### Debt Recovery

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Recovering fees due can be a painful experience for some Vets - but it can be much more straightforward than you think.

Debt recovery is often seen as a difficult area for veterinary professionals. Naturally, "getting tough" with non-payers is something that most people will try to avoid. Surveys have indicated that veterinary practices are doing well to get paid on balance within 60 days - in some practices the delay is much longer.

If you are extending ever-increasing credit to your clients for services rendered, a few may be slipping through the cracks. You need help with professional billing approaches – the monthly cost is low and aids in the collection of past due accounts.

Perhaps it's now time to take a new look at the relationship with clients and provide different solutions to the way fees are billed, agreed, understood and paid. New methods to cope with old problems - that's what usually creates a breakthrough.

### Local Competition

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Although there's a shortage of vets in the UK, the profession is highly competitive with some 3,000 veterinary practices vying for clients' attention. The face of the profession is changing - The Royal College of Veterinary Surgeons has some 18,000 members of which about 53% work within the profession in general practice. The number of women Vets is on the increase

(nearly 30% of the total). And Vets are getting younger too - more than half (55%) are aged 30 or younger. In the last 6 years, the number of Vets working in public practice has risen by 21%. Competition drives down fee levels and client loyalty can go out of the window. It makes it even more desirable that practitioners run their practices as efficiently as possible. Competition also means that practices have to work smarter yet maintain the professional and caring characteristics of the profession.

Adopting "soft" touches such as:

- A friendly reception offering freshly brewed coffee or iced water for clients
- A fast appointment system
- "Welcome letters" to new clients
- "Sympathy cards" to clients who have recently lost a loved pet
- "Thank you" notes sent out when referrals are made
- Vaccine and grooming reminders
- Issuing regular newsletters

... are all examples of how to keep in touch with your clients and their pets and animals.

### Practice Management

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Because of the pressure of work experienced by most veterinary surgeons, the pricing of drugs may be a relatively haphazard process and a standard mark-up may not be uniformly applied.

Where a computerised system has been installed which automatically adds a percentage mark-up to the cost of drugs dispensed then, if the practice doesn't discount them, overall recoveries and margins will be improved. With a computerised tracking system, there's a much better chance that clients are properly billed for drugs and medicines dispensed.

From time to time, medicines may be dispensed without being recorded or charged out. This might happen because the practitioner or lay staff simply overlook the drugs that have been used. For example, clients frequently ask the practitioner on a farm visit for drugs that are carried in the vet's car. If several visits are being made, some items may be overlooked when the daybook is completed at the end of the day. In other cases, assistants treat pets belonging to their friends or relations on a free-of-charge basis but use drugs and equipment belonging to the practice.



### Wise Words

*"You can only manage what you can measure"*

Are you managing to measure the important factors in your practice?

Some practices have decided to implement a "minimum dispensing fee" to ensure that administrative costs are fully recovered - is this something that you should consider? All veterinary surgeries are obliged to provide 24-hour emergency cover. This often means that a veterinary surgeon is always available (usually via a mobile phone) and many practices always have a nurse available 'on bleep' to assist if needed. The cost of this support is considerable - do you take it into account when determining fee charge rates?

## Stocking/Merchandise Management

Extra income can be added to your practice through retail sales. In the US, many veterinarians prescribe pet foods and supplies as well as drugs and medications. There's no reason why this should not be the norm in the UK too. There's help available to enable you to set up a stocking and merchandising arrangement and evaluate your mark-up and pricing strategy.

## Key performance Indicators (KPIs)

How well is your practice doing? Do you know how much of your income comes from fees and supplies for small animals and how much comes from larger and farm animals?

On average, veterinary surgeons in the UK in general practice work 48 hours a week and spend 34 hours on call - sole practitioners work on average even longer hours (52 hours a week) and are on call for longer (55 hours a week) - have you calculated your effective hourly rate of pay?

Insert your KPIs on the following list below and then check with us to see how well or badly your practice is performing.

Category	KPI
Expenses as % of Income	%
Average fee/cost per consultation	£
Number of patients per Vet	
Debtor Days	
Profit per hour worked	£
Revenue per consultation hour	£
Creditor Days	
Average fee per consultation	£
Return on Capital	%
Patient satisfaction index	
Salaries as % of Income	%
Marketing as % of Income	%
Capital Costs as % of Income	%
Retirement plan fully funded?	Yes/No
Hours worked per Partner per year	

## Financial and Management Advice

Most Vets will benefit from engaging experienced professionals to advise on all aspects of finance and business management. They should be able to assist your practice to improve its profitability and efficiency in providing the following services:

### Traditional Services

- Accountancy and Bookkeeping
- Taxation
- PAYE and National Insurance
- Value Added Tax
- Raising Finance
- Legal Requirements
- Retirement Planning and Pension Provision
- Buying or Selling a Practice
- Admitting New Partners

## Marketing

- Coaching staff in understanding how small businesses work and how to accept responsibility
- Teaching modern telephone techniques
- Marketing training
- Management coaching
- Running regular Patient Advisory Boards (ask for our Information Pack on this exciting new service)
- Maximising income opportunities
- Database marketing

## Accountancy and Bookkeeping

It's very important for any business to have their accounting and bookkeeping affairs up to date. It's a vital tool for any business owner to have accurate and timely financial information in order to assess the ongoing position of the business.

## Taxation

The taxation of a Veterinary practice operating as a sole trader or partnership is similar to most other professionals and their main sources of income are taxed under schedule D Case II. There are specific rules to observe in the following areas:

- Partnership changes
- Rules on self-assessment
- Private use adjustments
- Use of home for business purposes
- Timing of status changes (for example - moving from associate or locum to partner)
- Income accounted for on the cash basis (be aware of new rules dealing with this)

Increasingly, Vets have become a target for investigation by the Inland Revenue. It's possible to insure against the professional costs that you'd have to pay if you were randomly selected for an investigation – check with us for details.

Many veterinary practice partners have a number of income sources outside general practice such as:

- Work for the Ministry of Agriculture Fisheries and Food
- Local Government Posts
- Appointment as Vet to Horse or Greyhound Tracks
- Food Hygiene Work
- Consultancy Work to large farms

## PAYE and NIC

The main problems arise in establishing whether the following categories of practitioners should be treated as employed or self-employed:

- Associates and independent contractors
- Locums
- Marketing and other similar professionals
- IT personnel

Failure to treat these individuals in the correct way can lead to expensive problems later on.

## Value Added Tax

There are a number of VAT considerations that are specific to Vets:

- Liability to VAT
- Voluntary registration
- Recovery of VAT on substantial building works and other capital expenditure - including practice equipment, computers and motor cars

## Raising Finance

There are many occasions when Veterinary practices require loan finance for items such as:

- Buying practice property
- Practice extensions;
- Practice refurbishment
- Purchase of goodwill
- Purchase of equipment
- The provision of working capital

It's very important that providers of finance are presented with proposals that are structured in the correct way.

One good example of the issues involved in buying assets is the purchase of a car. It isn't an easy task when it gets down to the question of how best to pay for the vehicle - should it be cash, bank loan, hire purchase (HP) or leasing? Even if you've decided on HP or leasing there are further options available - such as fixed rate or variable rate finance deals or perhaps balloon payments.

Some forms of financing may look good on paper but when the full impact is considered, there may be VAT and other factors that need to be taken into account that might



make the financing package unattractive. Good financing isn't just to do with cars - for example, not everyone realises that an organisation can be profitable and yet be unable to continue in business. Essential matters to address include:

- Preparing regular cashflow forecasts to ensure that adequate bank facilities are available or that surplus funds are used properly. It is particularly important to ensure that your tax liabilities can be met when they fall due.
- Ensuring that your bank provides competitive terms.
- Avoiding borrowing on mortgage to buy your home when you have capital tied up in the practice - making the most of personal finance arrangements, particularly to ensure that interest paid qualifies for tax relief in full, can make a significant difference to your tax liabilities.

## Retirement Planning

This is a major area where Vets benefit from knowledgeable advice, such as:

- Succession planning
- Selling the practice or admitting new partners
- Pension planning
- Setting up your own Self-Invested Personal Pension Scheme (called a SIPPS) – perhaps to buy your practice property and get tax relief for doing so.
- Capital gains tax on retirement or sale of a practice - were you relying on a tax-free sale?
- Pension planning for retirement - can you afford retirement?

## Buying or Selling a Practice

In common with many other business types, the process of buying or selling a business is a complicated matter and the following are common matters requiring careful advice:

- Identification of assets that are being bought or sold
- Considerations on whether to buy or rent property
- Valuation of goodwill
- Valuation of work in progress
- Restrictive covenants
- Considerations in relation to staff working within the practice

## New Partners and Partnership changes

With the introduction of self-assessment, the taxation of self-employed income for new partners in the early years is very complicated. The timing of admission as a partner is crucial and interim arrangements may be necessary to avoid large taxation bills arising.

Every practice needs working capital to survive. Funds are provided either by the partners or the bank or sometimes by both. When new partners are invited to partnership, the responsibility for sharing the repayment obligations to the bank often causes the new partners to suffer a few sleepless nights!

Factors such as repayment of capital of retiring partners, purchase of goodwill, profit shares, interest on capital and car purchase arrangements - these are some of the emotive issues that arise when changes in the constitution of the partnership is being considered.

## SIPPS - Self- Invested Personal Pension Schemes

Veterinary practices now have a unique opportunity to take advantage of SIPPS. A pension is a very tax efficient way of saving money to build up a sufficiently large nest egg for you to be able to retire on when you get to your chosen retirement age.

Self-Invested Personal Pension Schemes (called "SIPPS") are particularly attractive for professional people wishing to purchase their own practice building because they provide value for money and:

- Flexibility and control of pension fund investment
- Flexibility and control of retirement age and income level

A SIPPS is similar to a Directors Small Self-Administered Pension Scheme:

- It offers complete investment control and freedom (within Inland Revenue guidelines) to the investor
- Non-residential property can be purchased although the loans to the business will need to be secured
- As with a director's scheme, you'll need a special Pensioner Trustee to see that the pension rules and regulations are observed

SIPPS were launched by the Government in the 1989 Budget to allow independent investors to choose and control their own tax-free investments:

- No tax on investment income
- No tax on capital gains
- Easy to establish
- Your funds are easy to see
- Cost effective
- Self Administration
- Fund-boosting by gearing

The problem with conventional pension arrangements is that, once invested, your contributions are beyond your control until you are ready to take retirement benefits. While you could transfer to another scheme, there might be heavy cash penalties and further setting up charges on the new arrangement and you are usually locked into the investment performance of your chosen pension manager. Most self-employed professionals understand the need for retirement provisions and take advantage of tax benefits available through personal pensions.

Most will leave all investment decisions to a chosen insurance company, even though legislation allows you to take a more active part.

A SIPPS aims to provide you with a means of saving for your retirement while giving you more control over the way in which your money is invested. With a SIPPS, you can make the investment decisions yourself as the policyholder - but there are certain Inland Revenue restrictions. As well as the normal insurance companies you can consider unit and investment trusts, deposits, direct share holdings and commercial property.

People who might consider a SIPPS include those wishing to:

- exercise greater control over and be involved in the investment strategy
- purchase commercial property - particularly attractive for partnerships who want to buy new premises in a tax-efficient manner
- know exactly what their pension arrangements are costing and controlling their cost in a "fee based environment" - SIPPS charges are normally fixed and are not a percentage of the fund
- bring existing policies together in one contract
- invest lump sums to make effective use of the investment flexibility
- use the experience if they're already running successful private investment portfolios for others and who would like to continue this strategy for their own pension investment

### Purchase of practice property

The purchase of practice property by the pension fund from which to run your practice can be an attractive proposition:

- The property appreciates free of capital gains tax
- Your business or professional practice will pay a tax-deductible commercial rent to the pension fund that's not liable to income tax within the fund.

Because the Trustees of a SIPPS can borrow against the security of assets within the fund, it's possible to "gear-up":

- SIPPS can borrow without restriction - except the commercial constraints as, quite rightly, a mortgage lender will only lend against adequate security and ability to service any loan repayments.
- Gearing up can mean that every £100 in your SIPPS can become £400 generating tax-free investment income and capital growth.



SIPPS are cost effective and easy to understand

- Set up costs are low (usually £750 to £1,000)
- You make all the investment decisions.
- There are no hidden charges and the value of your scheme is easy to see.

## Further Information

This guide is for general interest - it is always essential to take advice on specific issues.

We believe that the facts are correct as at the date of publication, but there may be certain errors and omissions for which we cannot be responsible.

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Publication issued or updated on:  
10 May 2012

Ref: 202

