



SPECIAL REPORT  
BAD DEBTS

# PAYBACK TIME

Consultants have an estimated £25m of bad debt on their books and more of it coming their way. But now they can fight back. In this special Independent Practitioner report, Tom Acworth examines the causes and outlines the road to recovery

IT'S NOT just multinational banking corporations that are suffering from soaring bad debt levels. Across the private healthcare sector, consultants are sitting on significant levels of unpaid fees. And they are often unaware of the scale of the problem or how to tackle it.

So what constitutes bad debt? One accountant has defined it as 'accounts receivable that will likely remain uncollectable and will be written off'.

Bad debts are bad news. They appear as an expense on a practice's income statement and reduce your net earnings.

It is important to note here the new HM Revenue and Customs' approach to bad debts.

Many 'bad debts' as defined above are regarded as merely 'slow-paying debts' and as such a consultant will still have to pay tax on gross income because provisions for slow-paying debts are not allowable as a deduction.

This can further exacerbate the problem, with the underlying bad

debt rate potentially soaring, making the estimates given throughout this article somewhat conservative.

The problem of unpaid bills is a growing one for consultants and it is forcing them to consider more efficient means of debt collection.

## The causes

In my experience the real issue is not an inherently uncreditworthy customer base of patients, but that of the variable standards of record-keeping and collections activity. It is also the busier practices that suffer most from bad debt.

This may not be surprising when the focus is on servicing more and more patients and not on chasing outstanding fees – collections always become the lowest priority in a busy practice.

But bad debt also has an uncanny habit of creeping up on you.

Small, unpaid bills begin to accumulate under the radar and

when individual consultants finally discover the issue they don't have the time or process to effectively chase the debt.

Specialist hospital doctor accountants Stanbridge Associates has accumulated a wealth of data about bad debt over the years indicating which type of consultants are more likely to be hit by the problem (see box opposite).

Inevitably, a number of factors contribute to the escalation of bad debt within a practice. The primary cause is inefficient, tardy invoicing.

The secondary, and rather obvious, cause is the patient not settling the bill – however, one must urge caution here as this is very rarely intentional.

The third is the process used – or not in some cases – to chase payments. However, the most common cause of rising bad debt levels is lack of time and resource to effectively manage the whole finance process.

It is important here to note that the GMC's *Good Medical Practice* section 53 'financial and commercial dealings' clause 2, states that consultants 'must not exploit patients' vulnerability or lack of medical knowledge when making charges for treatments or services'.

In the event of chasing unpaid invoices, consultants should consider how the patient might interpret vulnerability within this clause.

Considering this process could escalate into a legal minefield,

potentially ruining the reputation of a consultant and the practice, my advice would be for consultants not to undertake bad debt collections activity directly, but to get a secretary or a third party to do it for them.

Conservative estimates suggest bad debt levels after six months to be on average two per cent of UK private consultants' total revenue. This may not sound a great deal on paper, but factor in the tax implications of bad debt versus slow-paying debts and that figure can quickly rise above ten per cent in real terms.

In fact, with tax paid up front on slow-paying debts, the real cost of £1,000 of unpaid invoices is in the region of £1,410. We have come across consultants who are owed as much as £25,000.

But whatever the figure of an individual practice, it could be reduced significantly if more stringent management practices were available to consultants.

So what solutions are available? The options are to do it yourself (you or your secretary), or use a professional service organisation.

## Collecting yourself

Make sure you have a good, clear process. There are a range of software products on the market designed to ease the financial management and recoveries process. Although useful, they are only a tool for doing the job and will not solve the problem on their own.

Someone – the consultant or secretary – will still have to take time to co-ordinate the process.

Once identified, bad debt can be chased in a number of ways. Indeed, a consultant needs to prove to the Revenue that they have taken measures to chase the debt if they are to be granted permission to write it off.

Flexible payment options and restructuring of the debt can prove an effective method for recovering late fees, as can offering to accept payment by credit and debit card, although the practice will incur an interchange fee charged by the card terminal provider.

Standard charges are 2.75 per cent of the transaction value for credit cards and 50p, irrespective of size of transaction, for debit cards. Consultants may therefore wish to charge the patient a handling fee to cover the charges.

But most important of all is the process by which you chase unpaid fees.

To deal with the industry's bad debts, consultants should bill in such a way as to minimise their likelihood. By using the process outlined in the box on page 10, or a variant of it, consultants should be able to minimise bad debt.

This process does demand a high degree of commitment from either yourself or your secretary, not necessarily in the number of hours but in the regularity with which you follow up unpaid invoices.

You must also ensure it is clear in an employee's contract whether he or she is responsible for collecting and chasing your fees and not simply issuing the invoices.

This is particularly important if you receive secretarial services from a third party, such as a private hospital or clinic. Check your contract and ensure it is part of the service for which you are paying.

Collection quickly becomes the last task on the list of things to do – so you need to have confidence that it is going to be done.

As in all cases, prevention is better than cure. An efficiently run practice will help limit the accu-

mulation of bad debt before it becomes a problem. Obviously in a busy practice with a demanding workload or a newly established practice that is finding its feet, this can be easier said than done.

## Professional service

I cannot speak for other companies, but of the bad debt passed to PHF, we recover on average 68 per cent within three months. Considering this may be previously written-off fees, every pound collected is incremental income to the practice.

We can provide a 'prevention and cure' approach with a dedicated practice manager chasing any existing bad debt and carrying out all future financial management needs.

Our process runs like this:

- Invoices, once issued, automatically generate reminders when not paid;
- Written reminders and chase calls fit within a collections strategy designed specifically for the private healthcare market;
- This means no hassle for the consultant, who can also keep an eye on things via a secure log-in to their practice details.

Passing the responsibility of a practice's complete financial management to a third party is perhaps an opportunity that you did not know was available, but this may best address your needs.

This is an approach that is widely expected to become more commonplace, especially as the industry becomes more rigorously regulated and the demands the administration of private practice grow.

■ See pages 10 and 12 for more on 'bad debts'

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## TYPES OF PRACTICES MOST AT RISK OF BAD DEBTS

■ Practices with a large proportion of self-pay patients have a higher bad debt ratio than those with a smaller proportion

Source: Stanbridge Associates

■ Consultants who charge in excess of insurers' guidelines and therefore create 'shortfalls' will have a greater bad debt problem than those who charge according to such guidelines

■ Younger consultants, who are keen to establish their practices, have a higher bad debt ratio than those who have more mature businesses

■ Consultants with a higher-than-average proportion of foreign patients have a higher bad debt ratio

■ Bad debt ratios in central London tend to be higher than in the greater M25 region, which in turn has lower bad debt ratio than some of the provinces

■ The quality of debt collection services (including solicitors) used by consultants varies widely. As a result, recovery rates vary significantly