

IN A NUTSHELL...SALE OF GOODWILL

WHY GPs CAN'T SELL THEIR PRACTICES' GOODWILL AND ITS POSSIBLE WORTH IF THEY COULD.

Q What is goodwill?

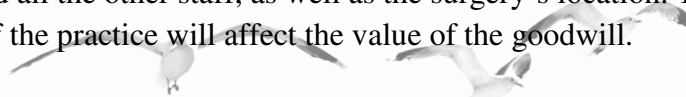
Goodwill is an accounting term used to reflect the value of a business which is not directly attributable to its physical assets.

It can be described as the ability of a business to make a higher profit because of its success resulting from:

- Physical location.
- Good reputation.
- Ability and skills.
- Relationships with suppliers and customers.



For a GP practice this means the goodwill of the business created over the years by the doctors, nurses and all the other staff, as well as the surgery's location. The patient list size and the stability of the practice will affect the value of the goodwill.



Q Why can't GPs sell the goodwill in their practices?

The sale of goodwill by GP practices has been prohibited since the government, in effect, 'bought it' in 1948 when the NHS was created. The ban was restated in 2004 for practices with a patient list in the Primary Medical Services (Sale of Goodwill and Restrictions on Subcontracting) Regulations 2004.



Q What would the goodwill of a GP practice be worth?

The value of goodwill varies from business to business, but in some industries a usual multiplier has become established, such as 50 per cent of the average turnover (income) in the past year.

Writing in *GP* on 21 July 2006, specialist medical accountant Laurence Slavin at Ramsay Brown & Partners suggested that the goodwill represented by non-essential services for each GP in a four-partner, 10,500-patient practice could be worth £160,000.

(www.healthcarerepublic.com for his article).

Last year, based on Mr Slavin's figure, think-tank Policy Exchange's report *Which Doctor? Putting Patients in Control of Primary Care* estimated that if the government decided overnight to allow the sale of goodwill, this would increase the value of GPs' practices perhaps by £3.5 billion. It is not clear however if this estimate just for England or the whole of the UK.

Q What would be the benefits of selling goodwill?

How do entrepreneurs make their money? Many have built up and then sold their businesses for a handsome profit. After years of hard work in sustaining and growing a practice, you would be able to reap the full reward, by selling the practice to another GP-practice or healthcare company at a premium (for more than the value of the physical assets). GP principals increasingly see this as a just reward.

Q What would be the disadvantages?

Retiring partners would require a payment for part of the goodwill interest in the partnership when they go. This could be a big expense for the practice, unless a new partner can be found to buy it. Also, stamp duty may be payable on part of the value of the goodwill.

So there would be pain for incoming partners, but a reward for those partners retiring for the increase in goodwill they had built up in the practice during their working time.

*This Article appeared in GP magazine in February 2010 as part of its Medeconomics series
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