



# Professional fees

## Part 3 - Financial implications

In the third article in the series, **Martin Russ** considers some of the financial issues to be considered if you decide to collect regular payments from patients for eye care and/or contact lenses



**P**ractices have sometimes found negotiating and setting up with a bank to be the most challenging stage when introducing contact lens and/or spectacle payment plans, especially when trying to become a direct debit originator. Before approaching the bank with your requirements, it is worth considering the options for collecting regular payments from patients.

### Direct debits

These are the ideal means for collecting regular payments from patients. They provide the greatest control and flexibility of all the payment collection methods.

Your patients sign a straightforward direct debit mandate form which authorises the practice's bank to collect an agreed amount, on a set day, every month. Should the amount need to be changed, either up or down, the practice has greater control.

Once the practice has written to the patient informing them of the intended change and when it is due to commence, the bank can be instructed by you to change the amount charged. Banks provide regular reports to enable the practice to reconcile payments collected.

Be sure to shop around to get the best deal. Due to the potential ability to collect any amount of funds from patients' bank accounts via direct debits, some banks are not so keen to allow small and medium-sized businesses to have this facility. Perhaps related to this, charges for collecting direct debits vary greatly from bank to bank, although they are usually negotiable.

Some practices have reported banks asking them for a bond of £50,000 plus before being allowed to collect DDs. This should not be necessary.



Practitioners should shop around to get the best deal on direct debit arrangements

Others have had to change bank before being allowed the facility. The Scottish and Irish banks seem to have a more reasonable and flexible approach compared with the 'big four'. But, do be prepared to shop around. You should speak with your local business banking manager to discuss your practice requirements.

The following examples<sup>1</sup> are to be used as a guide only, banks may change the services offered and charges that apply.

### Barclays

According to a local Barclays business banker each case is considered individually and charges negotiated based on volume, security and so on. Sample fees and charges are not available as they are negotiable.

### HSBC

It offers a straightforward service, which appears to be ideal for medium to high-volume usage. A local business banker quoted: £350 for initial software and training, plus £40 per month. Originator fee £275. Nine

pence per item (that is per patient per month and £5 per file (namely per payment day).

### Lloyds TSB

This may be an ideal solution for low-volume users. 'Teledebit' is a paper-based direct debit collection service with a one-off registration fee of £250 and a charge of 32p for each payment collected or amended, that is per payment per patient.

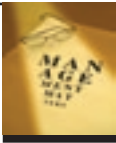
### Nat West/RBS

The parent company of Nat West, Royal Bank of Scotland (RBS), has been one of the more supportive at making this facility available to optical practices. Since becoming one company, both banks have started to offer more consistent services and charges.

As a guide, the following sample charges appear to be quite complex, but are negotiable:

### Direct debit solutions

Set up cost from £270, plus 23p per record or patient registered.



Amendments or cancellations 17p per record. Variable payment input 16p per record. Payment Collection 18p per DD – minimum charge £12 per run. Maintenance of payer records 6p per record per quarter (min charge £10 per quarter). File Charge (per run) £4.50 BACS item charges (per item – includes Auddis records) – Vary from 12p to less than 1p, depending on volumes and contract.

## Standing orders

These are an easy, cost-effective means for collecting regular payments. Most banks will provide this facility with minimal difficulty and easy set up. Patients sign a simple form approved by the bank to arrange for a set amount to be collected on a specific date.

The major disadvantage with standing orders is when payment amounts need to be changed; for example, when the lens type or pricing alters or, if the practice wishes to increase the aftercare fee. When this occurs, the patient will have to complete and sign a new standing order mandate and give it to their bank themselves. Typically, the charges are 20-30 pence per transaction. Another disadvantage is the quality of the reports provided by the bank each month. These are not as easy to administer as those supplied for direct debits. Also, it should be noted that some banks ask practices to start with standing orders until a certain number has been reached, they will then allow them to be switched to direct debits, which could prove to be a time-consuming exercise. For this reason direct debit may be a preferred option.

## Debit/credit card mandate

These operate very much like a direct debit, but instead of being charged to a bank account, they are charged to a nominated credit or debit card. They do provide the practice with a similar amount of control over payment changes as direct debits. Typically, there is no initial set-up fee, just a charge for each payment collected, typically 25-35 pence. It would be advisable to make this charge against a debit card, because these are usually linked to a bank account which is less likely to be changed when compared with a credit card.

## Third-party brokers

Many practices choose to use a third party broker to manage payment collections on their behalf. These brokers vary, not just in how much they charge, but also in the levels of

support and service available before, during and after initial set up.

Some simply collect direct debits on behalf of the practice for a nominal fee, typically from 30-70 pence per payment. Others provide additional support, which may include: staff training, administration and customised marketing materials, as part of the overall package. An initial joining fee of up to £1,450 is charged towards initial staff training, marketing and administrative materials. After this, each payment collected costs up to £1.50 per patient.

Practices using the services of one of the 'full service' brokers often find the training and marketing support helps them to implement their schemes much quicker and more effectively, allowing them to learn from the experiences of other practices.

## Meeting with an accountant

It is advisable to talk through your plans with your accountant before implementing any new fee-based pricing structure. They may have some useful comments or observations, which could save you time and money later on.

It should be noted that some practices report a slightly reduced cash flow for the first 12-18 months, after a significant number of patients have been signed up to a payment plan for spectacle wearers. Others have not reported any negative impact, due to their patients spending a similar amount on eyewear as they used to, prior to receiving the discount, which is often the case.

## VAT

The introduction of a professional fee-based plan is likely to have an impact on its calculations for VAT. This will usually be in favour of the practice, rather than Her Majesty's Revenue & Customs (HMRC). In principle, the professional fee basis should give a higher level of exempt income, which may be advantageous for the practice. However, this will in turn have a knock-on effect on input tax recovery. While it would not usually be necessary to renegotiate any arrangement with your VAT office, it will provide the practice with a greater body of evidence for the proportion of charges for fees compared with product.

## Consumer credit licence

When charging an amount each month for products or services that your patients will not have paid for in full until sometime in the future,

a consumer credit licence must be obtained. This will not apply to your practice if you are setting up a scheme for your contact lens wearers where a payment is received from the patient in advance of them receiving lenses and/or solutions. It will only apply if you are providing goods, such as spectacles, after taking a deposit and then accepting payment for the balance over a number of months, after they have taken the goods.

The Consumer Credit Act 1974 requires most businesses offering goods or services on credit or lending money to consumers to be licensed by the OFT. Trading without a licence is a criminal offence and can result in a fine and/or imprisonment. The cost for a five-year licence is £135 for a sole trader and £335 for partnerships and limited companies.

Full details and application forms can be found at [www.of.gov.uk/advice\\_and\\_resources/resource\\_base/credit-licence/](http://www.of.gov.uk/advice_and_resources/resource_base/credit-licence/)

## Summary

It is wise to discuss your requirements with your existing bank first but, do not commit to them until you are happy they will help you set up a direct debit facility with competitively priced fees. Be prepared to shop around, as another bank will often offer you more than your existing one!

If you do not feel you have the resources or potential volume to justify setting up, delivering and administering this type of scheme effectively, it is worth considering using one of the specialist payment plan providers. Do find out which one will provide your practice with the level of support you require to ensure success. Also, consider taking professional advice from your accountant who may recommend an approach more suited to your practice.

The next article in this series will consider the steps that should be taken to review practice performance at all stages of the patient journey, prior to implementing one of these schemes.

For further information visit: [http://pros.cibavision.co.uk/practice\\_support/fees/intro.shtml](http://pros.cibavision.co.uk/practice_support/fees/intro.shtml) ●

## References

1 Figures quoted are examples given as illustrations, and may not be correct or up to date. Please discuss your requirements with your local service provider.

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