

Fees by instalments

Purpose of paper	This paper summarises the information we currently hold in relation to payment by instalments for dentists and DCPs to support decision making on the commissioning of a full feasibility study.
Action	For discussion.
Corporate Strategy 2016-19	Objective 1: To gain a full understanding of the implications for dental professionals, and current dental practice, of the regulatory decisions we take.
Business Plan 2019	Priority Three: Fees Policy
Decision Trail	<p>We obtained legal advice in 2018, which indicated that the legal risk of introducing a facility for dental professionals to pay the ARF by instalments was less significant than previously thought. The Council therefore requested that work be undertaken to explore the operational and financial impact.</p> <p>Some initial work was carried out in 2018, resulting in a proposal being put to CSG in early 2019 to commission an external provider to carry out a full feasibility study. That proposal was insufficient to enable decision making and more information was requested.</p> <p>A further discussion took place at CSG on 11 September, following which further work on benchmarking was requested in order to enable more accurate modelling.</p> <p>A further discussion took place at CSG on 5 November, at which it was agreed that the matter should go forward to the Council for a decision on whether to proceed with a full feasibility analysis.</p>
Next stage	Should the Council approve the release of the funds to enable a full feasibility analysis to be undertaken, a full specification for the work will be drawn up and procurement exercise conducted.
Recommendations	<p>The Council is asked to consider the information contained within the paper and:</p> <ul style="list-style-type: none"> i) Decide whether it considers that a feasibility analysis to determine fully the costs, risks and

	<p>other implications of introducing a facility for paying the ARF by instalments is desirable. If so, approve the release of funds to enable the procurement of services for that purpose.</p> <p>ii)</p>
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Appendices	<p>Appendix 1: Fee-setting policy</p> <p>Appendix 2: Outline of expectations for feasibility study</p> <p>Appendix 3: Commercially confidential benchmarking material</p>

1. Executive Summary

- 1.1. Council have asked staff to investigate the legal and practical issues in introducing and operating a system of ARF payment by instalments. They also asked for some modelling around what impact offering such a system would have on the level of the ARF and the net income generated.
- 1.2. Staff concluded that the most robust and effective way of achieving this was to commission a full feasibility analysis by a third party with expertise in the area. In order to inform a decision regarding the application of GDC resource to this purpose, work has been undertaken to outline the likely cost implications and practical issues.
- 1.3. This paper summarises the legal position and financial modelling which sets out the range of risk.

2. Introduction and background

- 2.1. *Clear and certain: A new framework for fee-setting* gave stakeholders the opportunity to consider policy proposals for establishing fee levels in future. It addressed the following areas:
 - Our overall principles in setting fees.
 - How we will calculate the overall amount that needs to be raised.
 - How we will decide how much different groups and subgroups of registrants should contribute to that amount (essentially 'fee bands').
 - How we prioritise allocation of resources.
 - What we will consult on, what we do not propose to consult on, and why.
 - What we will do in exceptional circumstances.
- 2.2. One of the issues addressed in the consultation was paying by instalment (PBI). This has been requested by registrants and professional associations for some time. Previous legal advice indicated that while the Act expressly permitted the introduction of a facility to pay by instalments

for DCPs, the absence of a similar provision for dentists meant that there was so such power and that the legislation as drafted therefore prevented dentists from paying by instalments. We have since obtained updated legal advice which takes a less restrictive view of the legislation and indicates that there is in fact no legal impediment to allowing dentists to pay by instalments. The Accounting Officer considers that, whilst the legal position *is* ambiguous, the risks of proceeding on this basis are very low.

- 2.3. In light of the refreshed legal advice, we undertook to consider the feasibility of introducing an option for both dentists and DCPs to pay by instalments. We concluded that a pilot scheme to test it would not be possible under the legislation as there would be no way to offer the facility to a particular group of registrants, and that therefore third party advice on the implications would be beneficial. In order to give the Council the information needed to inform any decision to release funds for commissioning that advice, we undertook some initial benchmarking with other regulators to learn from their experiences and to provide an indication of whether there were any issues that would inform further exploration of this matter.
- 2.4. Council has been supplied with the outcome of our benchmarking activity on a “commercial in confidence” basis so this material has been circulated separately as a confidential annex.

3. Financial implications and scenario modelling for payment by instalments (PBI)

- 3.1. Any facility to enable registrants to pay by instalments must align with the Council's policy on fees (attached at annex 1). This would mean an initial assumption that, as far as is practicable, the costs of administering the scheme should be covered by those making use of it, so as to minimise cross-subsidy. The full range of assumptions is as follows:
 - 3.1.1. PBI would apply on full year ARFs only.
 - 3.1.2. Figures are modelled on ARF levels of £680 for dentists, £114 for DCPs.
 - 3.1.3. PBI would be a discretionary option, offered to all registrants.
 - 3.1.4. Only quarterly instalment plans will be offered, decreasing the overall financial risk. The reduced number of collection points also decreases the administration costs
 - 3.1.5. Registrants who default on payments will be required to leave the scheme.
 - 3.1.6. In whatever year this was introduced, the facility would commence in December for dentists and July for DCPs.
 - 3.1.7. The cost of providing this facility would be borne by those taking up the option. Additional costs would be met through a discrete instalment charge, payable in full with the first instalment.
 - 3.1.8. Registrant volumes are as per the CCP.
 - 3.1.9. There would be low levels of uptake and low levels of default. An uptake of 20% of registrants has been assumed. The paper models the impact of a scale of defaults between 1% and 15%.
 - 3.1.10. Only ongoing operational costs of maintaining the initiative are considered.
 - 3.1.11. This includes enforcement costs, as the GDC will pursue non-compliant registrants for outstanding payments and remove them from the scheme. If they default completely, they will be removed from the register. A charge for legal costs arising from debt recovery action is not contemplated; it is unlikely to be cost-effective for the GDC to pursue such action and it is not clear where the costs of doing so should fall. If applied to all scheme participants, compliant registrants would be subsidising non-compliant registrants for a cost that might not even arise. If charged to individuals to recoup costs as they fall, then any additional costs would fall outside the scope of the fee being considered here.

Internal processing costs

3.2. PBI would result in additional costs to the GDC being incurred in the following areas:

Registration operations:

- 3.2.1. Two additional staff at grade 44 to manage the increased administration and enforcement activity, at a current annual cost of £53,444 including employment on-costs. At very low levels of default, it is possible that this would prove to be an over-resourcing, but on the assumption that we would recruit to both additional posts we would need to reflect this cost in full. One additional post would be required even with no default but it would be imprudent to plan on that basis.
- 3.2.2. Processing costs for stationery, printing and postage; these are partly fixed (based on the assumed uptake of registrants) and partly variable according to the sliding scale of defaulters. Annual costs range from £12,920 to £24,680.

Finance

- 3.2.3. Frequency of collections: quarterly PBI creates eight collection points, compared to the current two peaks in ARF collection. More payment points would introduce disbenefits in the efficiency of collection and necessitate increased scrutiny of cashflow forecasts.
- 3.2.4. The additional administrative cost for a systems accountant at grade 49 would be £9,890 to manage the additional workload of one day per week. Whilst this would not necessitate any additional resourcing as work can be redistributed within the function, the cost should be hypothecated to the instalments scheme in order to avoid cross-charging to other income streams. It is an attributable and identifiable cost, necessarily incurred.
- 3.2.5. There would be an inherent increase in financial risk, whereby the current level of certainty the GDC has over its dentists' ARF payments at January each year would diminish from around 90% to 78%. This in turn reduces the confidence level the organisation has to pursue its business activities in full for the year.
- 3.2.6. To mitigate this risk and to fund the operating costs of maintaining the scheme, it would be necessary to introduce an upfront charge for participation. To determine the appropriate level of such a charge, the identified current costs and financial risks have been computed and are tabulated below.

Annual financial risk from payment defaults by percentage plus operating costs

Default rate	Cost of income foregone		Staff cost	Processing cost	Total	% of total ARF
	Dentists	DCPs				
1%	£28,970	£8,292	£63,335	£12,920	£113,517	0.30%
2%	£57,940	£16,584	£63,335	£13,760	£151,619	0.41%
3%	£86,910	£24,876	£63,335	£14,600	£189,722	0.51%
4%	£115,880	£33,169	£63,335	£15,440	£227,824	0.61%
5%	£144,850	£41,461	£63,335	£16,280	£265,926	0.71%
6%	£173,820	£49,753	£63,335	£17,120	£304,028	0.82%
7%	£202,790	£58,045	£63,335	£17,960	£342,130	0.92%
8%	£231,760	£66,337	£63,335	£18,800	£380,232	1.02%
9%	£260,730	£74,629	£63,335	£19,640	£418,335	1.12%
10%	£289,700	£82,921	£63,335	£20,480	£456,437	1.22%
11%	£318,670	£91,213	£63,335	£21,320	£494,539	1.33%
12%	£347,640	£99,506	£63,335	£22,160	£532,641	1.43%
13%	£376,611	£107,798	£63,335	£23,000	£570,743	1.53%
14%	£405,581	£116,090	£63,335	£23,840	£608,845	1.63%
15%	£434,551	£124,382	£63,335	£24,680	£646,948	1.74%

- 3.3. In order to defray these costs and mitigate financial risks, an upfront annual fee would be required from registrants participating in the PBI scheme. At the assumed uptake of 20% across all registrant groups, it is currently estimated that this fee would be as shown below:

Fee per registrant on scheme

Default rate	Fee
1%	£4.92
2%	£6.57
3%	£8.22
4%	£9.88
5%	£11.53
6%	£13.18
7%	£14.83
8%	£16.48
9%	£18.13
10%	£19.79
11%	£21.44
12%	£23.09
13%	£24.74
14%	£26.39
15%	£28.04

- 3.4. The modelling assumes default for half a year. Whilst it is important to recognise that default in a given year would lead to a removal from the register, which clearly has full-year implications for future years, it is envisaged that in almost every case defaulters would have failed to renew their retention fee and were simply using the scheme as a mechanism to lapse early.
- 3.5. Although default rates have been modelled up to 15% in order to demonstrate the maximum exposure to financial risk, the expectation of a default rate in excess of 10% is slight, whilst it would be imprudent to model a default rate below 4%. The full analysis will enable determination of an evidence-based default assumption and therefore the cost of administering the scheme, which would be passed on to registrants.

4. Next Steps

- 4.1. The estimated cost of commissioning a full feasibility analysis, based on current market knowledge, is approximately £100,000. The Council is invited to approve the release of funds for that exercise, following appointment of a suitable partner, we expect the actual fieldwork to take 3-6 months,
- 4.2. The partner will need access to relevant staff and systems, and this will be included in the specification
- 4.3. We are expecting the result of the work to be the provision of advice to Council on such matters as:
- The costs and benefits of the likely range of options
 - How income is to be stabilised with reference to the risk of defaults under the various options
 - The technological and operational solutions to identified issues
 - Equality implications
 - Methods of disincentivising defaults and options for post-default action.

- 4.4. We also expect the work to identify further operational policy and possibly legal issues on which the GDC will need to take a view. A (non-exhaustive) list of considerations is provided at appendix 2.
- 4.5. We expect advice to be formulated by SLT and considered by FPC before submission to Council with a recommendation as to whether or not to proceed, together with, if appropriate, a timetable for implementation.
- 4.6. Should the Council agree to the release of the funds, a full specification for procurement will be developed, requiring analysis to enable the GDC to answer the relevant questions (see appendix 2).

5. Recommendations

- 5.1. The Council is asked to consider the information contained in this paper and approve the release of funds to enable the procurement of services to undertake a full feasibility analysis.

6. Appendices

- 6.1. Fee-setting policy
- 6.2. List of matters for the feasibility study to explore

Appendix 1: Fee setting policy

Key principles

The system of professional regulation in dentistry is, and will continue to be, funded almost entirely from fees paid by registrants. We have a duty to our registrants **to minimise the burden on them by seeking efficiencies wherever possible**. We will incorporate and adhere to the following principles:

- **Fee levels should be primarily determined by the cost of regulating each registrant group:** we will seek to minimise the ways in which registrants fund regulatory activity that is not generated by them by removing, as far as practicable, cross subsidy between different groups. We will do this by allocating costs, as far as possible, where they fall. Where a degree of cross subsidy is necessary, we will explain this through our policy.
- **The method of calculating fee levels should be clear:** we will be open with registrants about how we allocate the income we receive from them and why, and provide sufficient information about cost drivers, giving them the opportunity to contribute to the debate. We will seek to show a clearer link between fee income and regulatory activity.
- **Supporting certainty for registrants and the workability of the regulatory framework:** we need to make sure that decisions on the allocation of costs do not lead to undesirable outcomes in the form of unacceptably high or variable costs for some groups of registrants. For example, in determining whether cross subsidy is necessary or desirable we will need to consider the impact on the volatility of fee levels (i.e. how much small changes in workload would cause the fee to change). This is likely to be of particular relevance to small registrant groups, where distribution of costs among small numbers of registrants has the potential to give rise to significant levels of volatility (and therefore uncertainty) and/or prohibitively high fees.

How we calculate the amount that needs to be raised

Parliament has set out the GDC's statutory objectives in the Dentists Act 1984 (as amended).

Our overarching objective, in common with all other healthcare professional regulators, is the protection of the public, in pursuit of which we must pursue the three following objectives:

- To protect, promote and maintain the health, safety and well-being of the public.
- To promote and maintain public confidence in the regulated professions.
- To promote and maintain proper professional standards and conduct for members of those professions.

Parliament has also set out four functions (our 'statutory functions') that we must carry out in pursuit of these objectives. They are:

- To maintain a register of dental professionals who are 'fit to practise.'
- To set standards for the dental team.
- To set standards for dental education.
- To investigate allegations of 'impaired fitness to practise' and take appropriate action where necessary.

However, the law leaves us with considerable discretion as to other activities that we may elect to carry out in pursuance of the objectives. For example, we invest significantly in engaging with the profession and other stakeholders; we investigate and prosecute illegal practice; and we run a resolution service for complaints about private dental care.

We will pursue activity that is designed to:

- Improve public protection, including through measures designed to prevent harm from occurring.
- Reduce the burdens of the regulatory system on registrants and make it fairer.
- Reduce the costs of regulation.

We will publish, maintain and update a rolling three-year corporate plan, which will be costed at programme/function level, and will outline clear objectives. The plan will set out:

- How we will deliver the obligatory functions that we must carry out.
- How we will use the discretion we have to fulfil our broad statutory objectives.

The plan will be accompanied by key assumptions, including those relating to our own efficiency gains and will set out the amount we seek to recover from fees over a three-year period.

In formulating the corporate plan, we will take full account of the impact of fees on registrants.

Every three years we will therefore invite views on the strategic priorities and overall resourcing of our corporate plan before approving it.

How we distribute the costs among different groups and subgroups of registrants

In distributing the costs among different groups and subgroups of registrants we will use the principles set out above to operate a system in which:

- Costs will be allocated as far as possible where they fall. We will set out in our corporate plan, where possible, the share of the costs for each item for each registrant group.
- We will seek to avoid cross subsidy between different groups and sub-groups of registrants. Where we consider a degree of cross subsidy to be necessary we will draw attention to it and explain the rationale.
- Where we implement measures that would increase the cost of administering a fee, for example payment of the ARF by instalments, we will do so based on a rigorous analysis of the legal, financial and operational constraints, and will determine and allocate those costs in line with the key principles underpinning this policy.

How we prioritise allocation of resources

We deploy all our resources to meet our statutory objectives of protecting patients and ensuring public confidence in dental services. In meeting that principle we will prioritise our resources as follows:

1. Ensuring the financial viability of the organisation: this means that we will ensure that we have appropriate cash flow and reserves, in line with the relevant policies and procedures, to operate the GDC as a going concern and to reduce the need for exceptional changes to the fees. We will benchmark the main financial parameters against a range of appropriate comparators.
2. Complying with our legal and other obligations, including meeting the PSA standards of good regulation.
3. Investing in measures designed to improve public protection, including preventative measures, with a view to reducing, where we can, the costs and burden of enforcement action.

After meeting these priorities, if we are confident that we can reduce fees while delivering our statutory objectives, we will do so.

What we consult on, what we do not consult on, and why

- We will consult every three years on the high-level objectives and associated expenditure plans which will underpin the annual retention fee. The consultation documents will be reasoned, costed and clear about the assumptions on which they are based, particularly in relation to efficiency gains.
- We will consult on our proposals for distributing the costs of achieving the objectives among different groups and subgroups of registrants, including on any proposed cross subsidy, and any steps that might be taken to minimise the impact on those groups and subgroups.
- While we will provide information on how our distribution plans affect fees payable by different groups and subgroups of registrant, we will not consult on the level of the fees. Nor will we consult on a detailed annual operational budget, although information about the budget will be made public as part of the Council's budget setting process. This is for two reasons:
 1. The costs of regulation are influenced by a wide range of factors that go considerably beyond the GDC's detailed annual budget.
 2. Consulting on a detailed annual budget introduces severe constraints on the GDC's ability to manage resources efficiently and effectively.

Exceptional circumstances

- Over any three-year period, we will seek to use reserves to smooth any in-year changes in cost. However, in exceptional circumstances we may need to increase fees to pay for significant unforeseen costs. We will not consult on such increases, although we will be clear about the reasons for them and will provide as much advance warning as possible about potential risks.

Appendix 2

The feasibility study will provide analysis to enable decisions on the following:

	Question	Option assumptions
1	Frequency of instalment (Dentist)	e.g. Quarterly or Monthly
2	Instalment dates (Dentist)	e.g. <u>Instalments quarterly</u> 15 Dec, 15 Mar, 15 Jun, 15 Sep <u>Annual</u> 01 Dec
3	Frequency of instalment (DCP)	e.g. Quarterly or Monthly
4	Instalment dates (DCP)	e.g. <u>Instalments quarterly</u> 15 Jul, 15 Oct, 15 Jan, 15 Apr <u>Annual</u> 01 Jul
5	Fees for speciality title renewals by instalment	e.g. Add in to payment by instalments
6	Window for payment by instalment declaration for next Registration cycle (Dentist)	e.g. 01-31 Dec
7	Which fees by instalments?	ARF, first registration fee?
8	Window for payment by instalment declaration for next Registration cycle (DCP)	e.g. 01-31 Jul
9	Instalment amounts (annual discount – yes / no?)	e.g. Annual full fee or Annual with % discount or Quarterly at 25% of total
10	Registration to date when paying by instalment	e.g. rolling 3 months or full 1-year registration
11	Instalment payment by direct debit only or Instalment payment by debit / credit card also	e.g. direct debit only instalments or DD & debit/credit card instalments
12	Recovery of administration costs	Flat rate or proportionate to ARF?
13	Removals process when instalment payment fails	e.g. offer x days grace window to pay instalment by card or immediately process as removal

		Consider legal power to remove for non-payment of instalment (as opposed to ARF_
14	Restoration fees when removed from Register	e.g. full restoration fee + remainder of current total instalments owed
15	New applications / new specialities while in payment by instalment cycle	e.g. collect as a one-off payment
16	Service management	e.g. manage payment services inhouse or outsource?
17	Inclusion of instalments facility for Dental Practices who pay on behalf of their employees?	e.g. extend/exclude service for practice Dentists, or DCPs only or both: There are 2 methods for this currently: For Dentists and DCPs – The practice pays via direct debit to cover every Dentist & DCP they employ. For DCPs only – Practice can pay an annual bulk payment by BACs or cheque for all DCPs employed.
18	Action on default	Position on whether and how to pursue costs from those who default on payments, as well as removing them from the register