

Funding the Costed Corporate Plan 2020-22

Purpose of paper	To propose the level of annual retention fee to fund the CCP 2020-22
Status	Public
Action	For decision
Corporate Strategy 2016-19	Performance - Objective 2: To improve our management of resources so that we become a more efficient regulator
Decision Trail	<p>FPC – 21 August 2019 - Initial review of the high-level funding principles.</p> <p>SLT – 3 September 2019 – review and discussion on the proposed range of the ARF.</p> <p>FPC – 10 September 2019 – review of the proposed ARF for the period 2020-2022.</p> <p>Council – 11 September 2019 – review the proposed ARF for the period 2020-2022</p>
Next stage	N/A
Recommendations	The Council is asked to approve the level of ARF for 2020-22, and approve and seal Fees Regulations 2019, incorporating the agreed fee levels.
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Appendices	<p>Appendix 1 – Dentist Fees Regulations 2019</p> <p>Appendix 2 – DCP Fees Regulations 2019</p>

1. Executive summary

- 1.1. Following a change to the fees policy, the GDC is, for the first time, aligning our budget and fees to our three-year plan of strategic activity. We have been developing our three-year Costed Corporate Plan 2020-22 (CCP) which covers the period of the new strategic cycle and all plan activities are aligned to its strategic aims. The GDC will now set fees aligned to funding that three-year budget envelope.
- 1.2. The 2020-22 budget envelope, as set out in the Costed Corporate Plan 2020-22 (CCP) is a funding requirement of £121.6m over the planning period, which is £1.4m less than the level we forecast in the Corporate Strategy Consultation.
- 1.3. In line with our published fees policy, the level of ARF is to be set to include the cost of funding the planning period and to build and maintain free reserves at 4.5 months of operating expenditure. This is the level which has previously been approved by the Council to provide the appropriate level of financial resilience to ensure the GDC remains a viable organisation by 31 December 2022.
- 1.4. This paper sets out our high-level funding assumptions and proposes the level of ARF required to fund the CCP, whilst ensuring a level of free reserves of 4.5 months of operating expenditure, as being:
 - Dentist ARF - £680 (representing a reduction of £210 (24.0%) to current fee level).
 - DCP ARF - £114 (representing a reduction of £2 (1.7%) to current fee level).
- 1.5. The proposed model for first registration fees is interdependent with the final level of ARF to be set and is being shared as a separate paper with Council for approval today.
- 1.6. Council is invited to:
 - approve the proposed Dentist and DCP ARF for 2020-22.
 - approve and seal the Fees Regulations 2019, incorporating the agreed fee levels.

2. Background and approach

- 2.1. The work completed by PMO, Finance and People Services on the CCP has developed a fully costed three-year plan. This provides us the three-year budget envelope which is required by the organisation to enable it to deliver our strategic objectives as set out in the Corporate Strategy.
- 2.2. The assurance process followed in the building of this three-year budget envelope is set out in the Budget 2020 paper and CCP slide deck, both of which are being presented to Council for approval today.
- 2.3. Following a change to the fees policy, the GDC will now set fees aligned to funding that three-year budget envelope. The cost of the plan will be met from the income sources available to the GDC.
- 2.4. As agreed through our work on the Corporate Strategy, fees are to be set to enable annual surpluses over the life of the CCP to build and maintain free reserves to the equivalent of 4.5 months of budgeted operating expenditure by 31 December 2022.

3. CCP budget envelope

- 3.1. The estimated 2020-22 budget envelope, as disclosed in the Corporate Strategy 2020-22 Consultation, was a funding requirement of £123.0m.
- 3.2. It should be noted that the original estimate was arrived at by rolling forward the CCP 2019-21 and applying a set of forecasting assumptions to that data. The final CCP has instead been

built bottom up by submissions made by teams and directorates, which have then been through a robust assurance and challenge process.

- 3.3. The detailed planning work for the CCP has identified the following three-year budget envelope requirement for the period 2020-22:

	Budget 2020 £k	Budget 2021 £k	Budget 2022 £k	Total £k
Meeting fees & expenses	4,540	4,609	4,583	13,731
Legal & professional fees	7,639	7,491	7,423	22,553
Staffing costs	19,783	20,141	20,505	60,428
Other staff costs	1,090	1,075	1,095	3,261
Publications	787	655	655	2,098
IT costs	1,433	1,517	1,615	4,566
Premises	2,118	2,136	2,166	6,419
Finance costs	354	354	285	993
Depreciation	1,149	1,149	1,148	3,445
Contingency	1,533	1,283	1,283	4,100
Total	40,426	40,410	40,758	121,594

- 3.4. The shows the result of our planning is a total budget requirement of £121.6m over the planning period, which is £1.4m less than the level we forecast in the Corporate Strategy Consultation.

4. High level funding assumptions

Registration fees

- 4.1. A new fees policy was approved by Council in July 2018 and came into force on 1 January 2019. This policy established three key principles in relation to the setting of fees:
- **Principle 1:** Fee levels should be primarily determined by the cost of regulating each registrant group.
 - **Principle 2:** The method of calculating fee levels should be clear.
 - **Principle 3:** Supporting certainty for registrants and the workability of the regulatory framework.
- 4.2. In line with the fee policy principles, the basic cost of an application has been separated from the additional costs of assessment. All models being considered have been based on this basis of charging separate fees for applications and assessments.
- 4.3. Models are reverse tested to ensure that they generate the correct level of income to minimise cross subsidisation between registrant groups and cover our cost of processing those registration applications. The underlying assumptions applied to our work are:
- Costs to be covered relate to forecasted new registrant numbers over the three years of the CCP. Fees are calculated to be fixed for the term of the CCP on the basis of an average annual cost. They are therefore set to over-collect in the first year and under-collect in the third year.
 - Average processing times have been calculated for each task associated with each group with reference to the specific budgeted salary for the role conducting that task, including employment on-costs.

- Consideration is to be given to the costs of registration overheads to eliminate/reduce to a minimum any elements of cross subsidy from the ARF.
 - Registrant volumes are based on figures as at the end of 2018. This excludes the influx of overseas DCPs seen in the early months of 2019, as there is a risk that this may represent a temporary increase and therefore a distorting factor.
 - Should the increase in registration applications be sustained, it is likely that an additional resource will be required to deal with the workload, the cost of which would broadly offset the additional income generated.
- 4.4. A programme board was established to govern the programme of work in developing an appropriate model. A number of models for setting and administering fees were considered.

ARF

- 4.5. In line with the fees policy and principles supported by FPC in our earlier work of estimating the level of ARF for the Corporate Strategy Consultation, the first-time registration costs have been separated from the cost base to which ARF is to be applied.
- 4.6. Where possible the cost base has been apportioned between registrant groups directly according to cost drivers appropriate for that area of operation and applying any updates to our earlier estimates where more current data is held. Any remaining overhead costs will be pro-rated according to the split of direct costs.
- 4.7. The GDC fees policy refers to the reserves in the section “How we prioritise allocation of resources”. It identifies ensuring the financial viability of the organisation as its first priority in deploying resources to meet its statutory objectives and states that *“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.”*
- 4.8. In line with our published fees policy, the level of ARF is to be set to include the cost of funding the planning period and to build and maintain free reserves at 4.5 months of operating expenditure. This is the level which has previously been approved by the Council to provide the appropriate level of financial resilience to ensure the GDC remains a viable organisation by 31 December 2022.
- 4.9. Our previous work assumed that registrant numbers would remain stable with the 2018 registrant base. Detailed forecasting work on registration numbers for 2020 has now been approved. The results of the work predict a moderate increase to the numbers used in the original exercise and these forecasts have been applied to the revised ARF calculation.

ORE

- 4.10. The GDC oversees these examinations, which are in two parts:
- Part one exams are computer-based assessments held at Kings College. There are normally two sittings a year of 200 candidates per diet with a fixed cost of £806.
 - Part two consists of four elements over three days: OSCE assessment, Dental Treatment Plan, Medical Emergencies and Dental Mannequin. We typically run three sessions a year for 144 candidates per diet, with a fixed cost of £2,929 per candidate.
- 4.11. These charges are limited by secondary legislation, so we do not have the power to vary them to effect full cost recovery. It is already the case that the full costs of the ORE team are not recovered through exam income. Additionally, we have been advised of an increase in

charges for the Dental Mannequin element which is significant to the diet (£30k) but not significant to the overall contract (£2m).

- 4.12. The ORE is not cost neutral and is increasing in volatility. It sits outside the scope of the registration fees policy; therefore, the additional costs are to be absorbed within the ARF as the only available mechanism for recouping them. This is currently estimated at around £167k over the three-year period.

Investment Income

- 4.13. This forms a modest proportion of the GDC total income. It also represents a true surplus over expenditure on the basis that over three years a balanced budget has been set with reference to the cost of the CCP absorbed through the fees alone (ARF, ORE and registration fees). It therefore forms a small contribution towards an increase in reserves.
- 4.14. In 2019 we are forecast to receive around £300k in relation to investment income, offset by £112k worth of investment management fees.
- 4.15. Potential income from investments is being recognised as a financial opportunity to the CCP, a decision to include as an opportunity was made after considering the advice from our investment advisors, on their de-risking of the investment portfolio. They have stated *“We have already taken steps to de-risk and have been gradually reducing the UK exposure over the last few years so that overseas investments currently represent over 40% of the total portfolio. Of the UK listed equities held, they are predominantly overseas earners rather than domestically focused companies which are at greater risk from a hard Brexit scenario.”*

5. Forecast free reserves

- 5.1. As a result of the 2019 projected surplus and adjusting for the impact of capital investment and depreciation, it is estimated that by 31 December 2022 free reserves will be £16.2m, the equivalent of 4.8 months of budgeted operating expenditure when based on the forecast 2022 budget requirement.
- 5.2. This forecast level of reserves is in excess of the optimum level of ‘free reserves’ agreed by Council of 4.5 months of operating expenditure, but within our acceptable range for free reserves of between 4 and 6 months of operating expenditure as set by our 2019 Reserves Policy.
- 5.3. We propose to rebate the ARF for 2020-22 to reduce the forecast level of reserves back to the level of 4.5 months agreed by Council.
- 5.4. In line with the 2019 budget setting process the use of budget contingencies has been restricted. Future crystallisations of material financial risks will be addressed by a call on free reserves as required.
- 5.5. The following risks and their financial impact have been identified over the life of the plan where no specific cost provision has been made if those risks were to materialise:

Risk	Exposure £k
Risk of Brexit ‘no deal’ is recognised to now be much higher and will bring with it challenges of how we implement a change to registration following no deal. In the short term it is likely to be a holding position and we don’t envisage there being a significant impact of ‘no deal’ during the initial 2-year period.	No material impact on 2020/21. Would be absorbed by cost recovery through first registration fees or reprioritisation of work

We have already mitigated a number of our strategic contracts, such as Microsoft agreements and moving our data to UK data centres during 2019. There may be a need to necessitate short term feasibility projects, which would be absorbed by reprioritisation of existing work.	
Strategic contract retenders: Likelihood is an inflationary increase of around 7% to a number of strategic contracts.	560
Income risk: risk of reduction in registration numbers. Based on impact of loss of 5% of DCP and Dentist registrants.	5,672
Potential financial risk exposure	6,232

6. Estimates of apportionments to registrant type

- 6.1. We have revalidated our approach to the allocation of costs to each type of registrant that was undertaken as part of our detailed work for the Corporate Strategy Consultation.
- 6.2. The majority of the previously discussed allocation splits were confirmed as still being valid. There were however some minor amendments in relation to the availability of updated data.

7. Annual Retention Fee ranges

- 7.1. The key risk to income forecasting concerns Britain's exit of the EU and the uncertainty around what a 'no deal' Brexit may bring. Whilst we know there is an income risk, it is hard to make a reasonable estimate of what the impact of that risk is likely to be. To date, we have not seen this risk materialise to any substantive degree. The risk around EEA graduates joining registers will be largely borne through a potential short fall in recovery of the first registration fee.
- 7.2. Given our commitment that budgets will be more transparent and contingent provisions minimised we have not provided for an income caution rating within our budget setting, and instead have recognised a financial risk which would be covered in the first instance by a reduction in agreed activity and then by free reserves. Our sensitivity analysis, based on the un-rebated ARF level, shows a potential income risk of £5.7m over the three-year period if registrants were to decrease by 5%.
- 7.3. Given the high levels of uncertainty around income risk we have calculated the ARF required to fund the CCP based on the latest forecast for 2020, with no historical growth applied. Should the register continue to grow at rate equivalent with previous historical trends, our sensitivity analysis shows a potential benefit to income of an average of £0.75m per year over the planning period.
- 7.4. The unrebated ARF to fund the CCP has been calculated as £698 for Dentists, and £117 DCPs. The final level of ARF, which includes a small rebate to reduce and maintain the level of forecasted free reserves at 4.5 months of operating expenditure is:
 - Dentist ARF - £680, representing a reduction of £210 (24.0%) to current fee level.
 - DCP ARF - £114, representing a reduction of £2 (1.7%) to current fee level.

8. Risks and considerations

Communications

Key messaging on the Budget 2020, CCP 2020-22 and ARF will be included in the Corporate Strategy 2020-22 communication plan as all these activities are co-dependent with each other. Explaining these issues will help the GDC to fulfil its commitment to transparency following the consultation on a new fees policy and a costed corporate plan.

External communications will be vital in outlining the GDC's position, the underpinning assumptions and assurance activity around the levels of the dentist and DCP ARFs for 2020-22. Internal communications will also be necessary to inform staff of the outcome of the fee setting, consistent with the wider communication planned on first registration fee implementation.

Equality and Diversity

An equality impact assessment is not necessary as this proposal does not discriminate or disadvantage a particular group.

Legal

The power to prescribe fees in relation to registration is given to the GDC in the Dentists Act 1984. The Regulations require that registrants are notified of the ARF 28 days before the renewal date. The levels are set by the Regulations made under the Act by the GDC. The ARF Level set will be in accordance with the Council approved ARF policy.

The GDC must be in a financial position to fulfil its statutory functions.

Policy

The Corporate Strategy underpins and drives forward our organisational policy for the period 2020-22.

Resources

The ARF needs to be set at a level to enable the GDC to raise funds to carry out its statutory duties, whilst retaining an adequate level of general reserves. The current reserves policy will be reviewed by Council in December 2019.

National

This proposal will not have different impacts on the four nations.

Risks on registers

The budget links to the following risks on the strategic and operational risk registers:

FC4: We fail to continuously identify and implement significant cost efficiency measures

CF1: The budget setting process and business planning does not deliver plans that are realistic, achievable and facilitate achievement of statutory functions

9. Recommendation

9.1. Council are invited to:

- approve the proposed Dentist ARF of £680 and DCP ARF of £114 for 2020-22
- approve and seal the Fees Regulations 2019, incorporating agreed fee levels (Drafts at Appendix 1 and 2).

10. Appendices

- Appendix 1 – Draft Dentist Fees Regulations 2019
- Appendix 2 – Draft DCP Fees Regulations 2019