



Scottish Dental Practice Committee

Increases in dental practice expenses

**Evidence to Doctors' and Dentists' Review Body
for April 2012 to March 2013**

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1. EXECUTIVE SUMMARY

- As self-employed business people, general dental practitioners (GDPs) are affected by the general business and economic environment. Patients, who have to make financial contributions to the cost of their care, are becoming more cautious about their spending and this can result in lost income for general dental practices.
- Results from the BDA Dental Business Trends Survey 2011, showed that 44 per cent of those dentists in Scotland who responded had experienced problems when applying for credit or a bank loan in the last 12 months.
- The cost of providing dental care is particularly sensitive to fluctuations in the value of Sterling due to the fact that a significant proportion of dental materials and equipment is imported and because metal prices are denominated in US Dollars. While it is true that Sterling has improved slightly, it is still far weaker against the Dollar and the Euro than it was before 2008.
- The BDA Dental Business Trends Survey carried out in 2011 revealed that practices in Scotland reported higher laboratory expenses than practices elsewhere in the UK with 91 per cent of practices experiencing an increase in costs compared with 2010/11.
- The NHS Information Centre report on Dental Earnings and Expenses 2009/10 showed that employee costs for dentists in Scotland were higher than elsewhere in the UK at 38 per cent of expenses for principal dentists.
- For 2012/13, we believe that an increase of **2.5 per cent** on the expenses element of the item of service fee should be applied to the new baseline for 2011/12 that reflects our recommended uplift on the expenses element of the item of service fee of 2.39 per cent on the 2010/11 baseline, as the minimum necessary to ensure that dentists do not receive a cut in their net taxable income this year.

2. INTRODUCTION

This paper builds on the evidence submitted by the BDA Scottish Dental Practice Committee (SDPC) to the Scottish Government and the DDRB for the period April 2011 to March 2012. Once again, it sets out in more detail for the DDRB the reasons behind the SDPC's view that practice expenses are continuing to rise, and which should be reflected in an uplift to the payments made through the Statement of Dental Remuneration.

During the summer of this year, the SDPC submitted a paper to the Scottish Government on dental practice expenses. The paper provided evidence on increasing practice costs and contained a recommendation of an uplift to the expenses element of the item of service fee in order to help meet those costs and to avoid practitioners facing a cut in their net taxable income.

Since then, the Scottish Government has decided to take a different approach to the other countries of the UK and has asked the DDRB to make recommendations in relation to dental practice expenses of independent contractors in the GDS for both 2011-12 and 2012-13. Accordingly, the DDRB will be aware that the SDPC has submitted the aforementioned practice expenses paper to the Body, with a recommendation for the current year 2011-12.

The SDPC has now prepared a further paper for the year 2012-13, taking account of the Scottish Government's intention to freeze pay for all public sector staff earning more than £21,000. This paper therefore focuses on, and updates, most of the evidence on practice expenses that was submitted to the DDRB on 28 October 2011 for the current year.

BDA research shows that expenses are continuing to rise, fuelled by currency exchange rates and increasing metal prices, as well as the mounting costs of professional requirements.

For 2012-13, we still believe that a formulaic approach should be used to calculate an uplift for item of service fees that reflects rising practice expenses, which is consistent with the formula used in previous evidence papers and one which is also recognised and agreed by all parties. The lack of a Scotland-specific formula is an area that the BDA and Scottish Dental Practice Committee intend to look at more closely and would want to work collaboratively with the Scottish Government in developing and agreeing a formula that takes account of the different system in Scotland.

It is important to note that, even with such an increase in the fee per item to reflect rising practice expenses, this will once again result in a pay freeze for practitioners, which is in line with Scottish Government public sector pay policy. For 2012/13, we believe that an increase of **2.5 per cent** on the expenses element of the item of service fee should be applied to the new baseline for 2011/12 that reflects our recommended uplift on the expenses element of the item of service fee of 2.39 per cent on the 2010/11 baseline, as the minimum necessary to ensure that dentists do not receive a cut in their net taxable income this year.

The Scottish Dental Practice Committee also wishes to work jointly with the Scottish Government in gathering more robust data and information on the impact that expenses and allowances have had on practice viability, morale, recruitment and quality, as this is a key area of work that has not been undertaken in the past. The aim would be for the findings to be agreed by the parties so that joint evidence could be submitted to the DDRB in future years.

3. THE ECONOMIC ENVIRONMENT

As self-employed business people, general dental practitioners (GDPs) are affected by the general business and economic environment. Firms and households are continuing to face public spending cuts and have changed their own spending behaviour accordingly. For general dental practitioners, whose patients have to make financial contributions to the cost of their care, it can result in lost income derived from patients, who are becoming more cautious about their spending.

The report of the Adult Dental Health Survey 2009, published by the NHS Information Centre in March this year, highlighted that almost 20 per cent of adults said that they had delayed dental treatment for cost reasons. Although the survey relates to England, Wales and Northern Ireland feedback from BDA members suggests that patients in Scotland are delaying treatment for the same reason.

3.1 The impact of the current economic environment on dental practices as small and medium-sized businesses

In spite of the Bank of England base rate remaining at historic lows of 0.5 per cent, dental practices, like other small and medium-sized businesses are still finding it difficult to borrow. Results from the BDA Dental Business Trends Survey 2011, showed that 44 per cent of those dentists in Scotland who responded had experienced problems when applying for credit or a bank loan in the last 12 months. It is not just the cost of borrowing that is rising; banks are also charging more for the provision of routine services, with an increasing percentage over the baseline borrowing figure. Banks also appear to be taking longer to confirm their decisions on borrowing which can have a potentially adverse effect on investment in new and existing practices.

As small businesses, dental practices are taking on the responsibility as well as bearing the risks of providing dental care, so economic shocks threaten the viability of high quality NHS care. This can have long-term consequences, as once an NHS practice is lost it is difficult and very expensive for it to re-emerge.

3.2 Inflation and health inflation

Inflation, as measured by the Consumer Price Index (CPI) stands at 4.5 per cent in the year ending October 2011 driven by higher commodity prices and the increase in the standard rate of VAT from 17.5 per cent to twenty per cent, higher oil prices (see the chart below) and the past depreciation of Sterling.



Source: Source: Compiled by mongabay.com using figures from World Bank Commodity Price Data

Inflation is predicted to fall in 2012 as rises in energy prices and imported goods have less of an effect. It is a certainty that practices will face further rises in equipment and consumables costs.

As with previous years' evidence, we continue to argue that broad measures of inflation are not an accurate reflection of the rates of inflation faced by dental practitioners. For example, the cost of providing dental care is particularly sensitive to fluctuations in the value of Sterling. This is because a significant proportion of dental materials and equipment is imported and because metal prices are denominated in US Dollars. While it is true that Sterling has improved slightly, it is still far weaker against the Dollar and the Euro than it was before 2008.

Metal prices continue to rise strongly, with gold prices up over 22 per cent in the past year and silver seeing an increase of 65 per cent.

Dentistry continues to be a particularly fast-moving industry with rapid technological change due to the fact that it has to keep pace with clinical innovations and increasing patient expectations. Equipment and machinery need regular updating and can quickly become out of date and in need of replacement. In the past, most dental surgeries required to be re-equipped every seven years. Nowadays, with the speed of changing requirements, equipment and instruments need to be upgraded more frequently. Clearly, this high level of depreciation is a substantial cost to dental practitioners.

The requirement for practices to have their own local decontamination units (LDU) has led to a national audit being carried out by the Chief Dental Officer to assess the ability of practices to accommodate an LDU. As described in our evidence for 2011-12, almost 20 per cent of practices in Scotland have had to relocate in order to meet the requirements to house an LDU. The Chief Dental Officer is working to address these problems, however, the whole process of relocation will inevitably have resulted in an excessive loss of clinical time, as well as increased capital expenditure. During summer 2011, SDPC members gathered information from their health board constituencies, which demonstrated that 85 per cent of dental practices now have an LDU. The impact on practice running expenses of operating an LDU is detailed in paragraph 4.5 of this paper.

3.3 The impact on patients

The recession and its effect on household income and employment have meant that this has been a testing time for many NHS patients. Households have to cut back on their expenditure and the worry is that due to increased financial pressures the need for NHS care is now greater than ever. Additionally fail-to-attend rates amongst exempt patients are higher so that dentists lose even more time with missed appointments, which impacts on efficiency. A pattern is starting to emerge of more and more practices experiencing late cancellation notices from normally regular attending patients. This uncertainty with appointments inevitably results in inefficiencies that are outwith the control of the practice.

4. DENTAL PRACTICE EXPENSES

Practice expenses fall into three main categories of expenditure:

- Staff costs (excluding dentists but including other dental care professionals)
- Laboratory fees and materials
- Overhead costs (premises, equipment, electricity, gas and water, and other overheads, including the revenue and capital costs associated with installing and running LDUs)

BDA research into how practice costs have compared with practice owners' expectations in the 2010/11 financial year showed across the whole of the UK they exceeded expectations and in Scotland, this figure rose by three per cent on last year.

Relationship between practice costs and the expectations of practice owners in 2010/11 financial year

	Exceeded expectations	In line with expectations	Below expectations
UK	71%	27%	0%
England	71%	28%	0%
Wales	66%	32%	0%
Scotland	68%	30%	0%
Northern Ireland	82%	16%	1%

Source: BDA Business Trends Survey – Expenses and Finance Report May to July 2011

As mentioned above, the existing DDRB formula contains components for staff costs, premises costs as well as the costs of laboratory items, equipment and materials. This section will provide information to show that practice costs have increased this year.

4.1 Laboratory Costs

The BDA Dental Business Trends Survey carried out in 2011 revealed that practices in Scotland reported higher laboratory expenses than practices elsewhere in the UK with 91 per cent of practices experiencing an increase in costs compared with 2010/11.

Laboratories, the majority of which are also susceptible to the same increasing costs facing other small business, and which now include regulatory costs, have reflected these rises in the charges they make to dental practitioners.

Laboratory costs are incurred in dental practice in the making of crowns, dentures and other appliances. The price of metals continues to rise, affecting the price of laboratory fabricated items. Dentists report that the item of service fee paid through the Statement of Dental Remuneration is insufficient to meet these rising costs and places extra financial burden on practices that are working hard to deliver high quality patient care.

	Laboratory Costs			SDR Fee 2011 (£)	Percentage of fee taken up by median lab costs 2011
	2010	2011	Change (%)		
Full acrylic dentures	86	97.50	13.37	175.35 (Item 27(b)(i))	56.3%
Porcelain bonded crown with precious metal	47	48.63	3.46	127.90 (Item 17(d)(i))	38%
Gold shell crown (Yellow)	56	60	7.14	111.60 (Item 17(b)(i))	53.8%

Annual reports of the Scottish Dental Practice Board confirm that the total numbers of crowns and dentures provided over the last 5 years have continued to increase. However, the number of crowns and dentures by each individual dentist has remained constant.

Year	No of Crowns	No of Dentists	No of Crowns per Dentist
2007	104,385	2186	48
2008	101,036	2281	44
2009	103,032	2402	43
2010	115,725	2508	46
2011	120,462	2581	47

Year	No of Dentures	No of Dentists	No of Dentures per Dentist
2007	124,322	2186	57
2008	127,429	2281	56
2009	131,433	2402	55
2010	143,979	2508	57
2011	150,543	2581	58

4.2 Staff Costs

Most staff employed by dental practitioners typically fall under the protected category of those public sector employees who will receive a pay award of £250. As we highlighted in our 2011/12 paper, a survey of GDPs carried out in 2010 by the Scottish Dental Practice Based Research Network showed that the majority of respondents said there were not enough dental care professionals available. Consequently, practice owners will be under pressure to award at least £250 to their staff, and fund the additional National Insurance contributions, in order to remain competitive in the employment market. BDA research during 2011 showed that the average percentage increase in dental nurses wages during 2010/11 in Scotland was 3.9 per cent, and a higher percentage of practices in Scotland awarded pay rises to dental nurses, compared with the rest of the UK. The NHS Information Centre report on Dental Earnings and Expenses 2009/10 showed that employee costs for dentists in Scotland were higher than elsewhere in the UK at 38 per cent of expenses for principal dentists. It is essential that these costs, as well as continuing professional development training costs for dental practice staff, are recognised by the Scottish Government and are funded through an increase in the practice expense element of the item of service fee.

4.3 Practice Expense Ratio

The SDPC recommends that the historic figure of 56.1 per cent, to be used this year, thus allowing baseline stability to be maintained.

4.4 Increasing regulation and administration

All general dental practitioners are faced with increasing General Dental Council registration costs. The whole clinical dental team now has to be registered and those costs are frequently met by the practice owner. The compulsory continuing development requirements for the dental team result in additional staff training costs for practices. As well as the costs of training courses themselves, revenue generating time is lost due to dental nurses being absent from the practice in order to undertake that training.

4.5 Decontamination requirements

The costs associated with decontamination requirements have been an ongoing major concern for the profession. The capital costs are exceedingly high and many BDA members have reported that yearly running costs are the same as the initial start-up cost. As indicated in our submission to the DDRB for 2011/12, the estimated **additional** annual LDU cost for a three surgery practice can be as much as £50,000. This figure includes equipment running costs, maintenance, testing and revalidation and staff costs.

4.6 Withdrawal of Practice Improvement Grant

As stated in our 2011-12 paper, funding made available through the Practice Improvement Grant in recent years went some way to assisting practice owners meet the capital costs of decontamination requirements as well as other quality improvement measures. The Scottish Dental Practice Committee is disappointed that this funding has been withdrawn as it was a means of helping practitioners to deliver the Scottish Government's Healthcare Quality Strategy.

5. FORMULA AND CONCLUSION

We support the continuing use of the DDRB formula. If, however, we take the likely changes in staff costs by taking an average staff wage of £16,000, adding the £250 increase in pay, see above, (which actually means a cost to the practice of £282 when employer's National Insurance (NI) is added will give an average rise of 1.76 per cent for staff costs. Added to this must be the elements for laboratory and materials costs plus other costs.

For 2012/13, we believe that an increase of **2.5 per cent** on the expenses element of the item of service fee should be applied to the new baseline for 2011/12 that reflects our recommended uplift on the expenses element of the item of service fee of 2.39 per cent on the 2010/11 baseline, as the minimum necessary to ensure that dentists do not receive a cut in their net taxable income this year.