



Scottish Dental Practice Committee

Increases in dental practice expenses

**Evidence to Doctors' and Dentists' Review Body
for April 2013 to March 2014**

November 2012

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1. EXECUTIVE SUMMARY

- The Scottish Government has not yet responded to the DDRB's recommendations for years 2011-12 and 2012-13.
- At the present time, there are no negotiations taking place between the Scottish Government and the BDA's Scottish Dental Practice Committee (SDPC). We are extremely disappointed to note that the Cabinet Secretary, Alex Neil, has written to the DDRB to state that "as for England, there is no need for the Review Body to make recommendations on uplift for 2013-14."
- The NHS Information Centre report on Dental Earnings and Expenses Scotland 2010-11 showed that employee costs for dentists in Scotland remained the highest in the UK at 38.2 per cent of expenses for principal dentists.
- Results from the BDA Dental Business Trends Survey 2012, showed that 48 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 BDA Dental Business Trends Survey carried out in 2012 revealed that practices in Scotland reported an increase of eight per cent in the cost of materials and a six per cent increase in laboratory expenses compared with the previous year.
- The NHS Information Centre report on Dental Earnings and Expenses Scotland 2010-11 showed that self-employed dentists suffered an average of a 7.6 per cent decrease in taxable income, with practice owners experiencing the biggest drop in income of 11 per cent.
- Despite the Scottish Government's position, the SDPC believes it is important to continue to build on the baseline that it established for 2011-12. Since there are no negotiations taking place between the Scottish Government and the Scottish Dental Practice Committee, we request DDRB to make a recommendation for general dental practitioners in Scotland.
- For 2013-14, SDPC recommends to the DDRB that a compounded increase of **5.17 per cent** on top of the recommendations made by the DDRB for years 2011-12 and 2012-13 to the expenses element of the item of service fee is necessary for this year to ensure that dentists do not receive a cut in their net taxable income. This restores the average drop in taxable income of 7.6 per cent suffered by all dentists in Scotland in 2010-11, as outlined in the NHS Information Centre Report on Dental Earnings and Expenses, Scotland 2010-11.

2. INTRODUCTION

- 2.1 This paper builds on the evidence submitted by the BDA Scottish Dental Practice Committee to the Scottish Government and the DDRB for the period April 2012 to March 2013. 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.

- 2.2 This paper for the year 2013-14 takes into account the Scottish Government's public sector pay policy which includes a pay freeze for all staff earning over £80,000. It focuses on, and updates, most of the evidence on practice expenses that was submitted to the DDRB for years 2011-12 and 2012-13.
- 2.3 For 2013-14, we believe that a formulaic approach should be used to calculate an uplift for item of service fees that reflects rising practice expenses. Whilst we were disappointed that the DDRB last year decided to adopt a different formula to the one recommended by the BDA, we agree that there is a need to develop a Scotland-specific formula. As we have explained in earlier correspondence to the Chair of the DDRB, we have been working jointly with the Scottish Government on the development of an agreed formula that takes account of the different system in Scotland. The work also involves consideration of the gaps in evidence highlighted by the DDRB in its 40th Report, looking at the options for improving the data and to make recommendations to the Chief Dental Officer (Scotland).
- 2.4 The working group was convened on 31 August and has met twice, with further meetings planned. Until the work has concluded, it has not been possible to produce a formula tailored for Scotland. In view of this, we have based our calculations on the formula that we have applied in previous evidence.
- 2.5 It is important to note that, without an increase in the fee per item to reflect rising practice expenses, GDPs in Scotland will face another significant reduction in their pay, contrary to the pay freeze argument advanced by the Scottish Government public sector pay policy. For 2013-14, SDPC recommends to the DDRB that a compounded increase of **5.17 per cent** on top of the recommendations made by the DDRB for years 2011-12 and 2012-13 to the expenses element of the item of service fee is necessary for this year to ensure that dentists do not receive a cut in their net taxable income. This restores the average drop in taxable income of 7.6 per cent suffered by all dentists in Scotland in 2010-11, as outlined in the NHS Information Centre Report on Dental Earnings and Expenses, Scotland 2010-11.

3. THE ECONOMIC ENVIRONMENT

- 3.1 Last year, 2011, was beset by continuing problems for the economy. The International Monetary Fund described the global status as "weak", and this has affected investment and growth in all areas of the global economy, but especially in areas of business which rely on continuous investment and are influenced strongly by government decisions, such as healthcare.
- 3.2 Against this backdrop of global uncertainty dental businesses have continued to try to grow and invest to ensure that they can offer the best patient care available. The European Central Bank summarised the situation in the UK in May 2012:

In the United Kingdom, economic activity has continued to be subdued. In the first quarter of 2012 real GDP declined by 0.2% quarter on quarter, mainly owing to a substantial contraction in construction activity. However, business survey data during the first quarter of 2012 have been relatively upbeat, while industrial production and consumer confidence have shown signs of weakness. The labour market situation has remained weak amid some signs of stabilisation, as the unemployment rate is relatively high (8.3% on average in the three months to February) and employment growth is sluggish. Looking ahead, the economic recovery is likely to

gather pace only gradually, as domestic demand is expected to remain constrained by tight credit conditions, ongoing household balance sheet adjustment and substantial fiscal tightening.

Annual CPI inflation increased to 3.5% in March from 3.4% in February, while CPI inflation excluding energy and unprocessed food remained unchanged at 2.9%. Inflation may decline slightly further in the short term. In the longer term the weak economic outlook and the existence of spare capacity may contribute to a further dampening of inflationary pressures. On 5 April the Bank of England's Monetary Policy Committee maintained the official Bank Rate paid on commercial bank reserves at 0.5% and the stock of asset purchases financed by the issuance of central bank reserves at a total of GBP 325 billion.¹

- 3.2 With consumer confidence weak and unemployment high, spending on healthcare, especially on services that patients regard as non-urgent or routine, come under threat. Despite this, the dental profession has managed to increase access and provide more care to more patients. Far from penalising dentists who are showing themselves to run efficiently already, we consider that it is important for government to support them through these tough economic times and to recognise the contribution dentists make to the NHS through increased access and activity as an efficiency.
- 3.4 Growth in 2011 was slow and inflation finished higher than planned. This made the financial environment tougher than anticipated in that year. While it is anticipated that the economy will improve in 2012, the Office for Budget Responsibility (OBR) does not expect real growth to return to the economy until 2014.² Any improvements in the economy are expected, by the OBR, to be offset by continuing difficulties on mainland Europe:
- We expect the beneficial effects of falling inflation to be offset by uncertainty over the euro area and tighter credit conditions feeding through to the wider economy.³
- 3.5 As uncertainty in the Euro-zone continues, we can expect this to have an increasingly deleterious effect on small businesses and their ability to access credit for development.
- 3.6 The OBR reported that average earnings growth was weak with average weekly earnings in the private sector growing by 2.2 per cent at the end of 2011.⁴ Overall, annual real wage growth the OBR estimates at 0 per cent. This contrasts starkly with the data from the NHS Information Centre showing that average taxable income for practice owners in Scotland, after allowing for expenses, dropped by 11 per cent in 2010/11.⁵
- 3.7 The graph on page 6 from the Department of Energy and Climate Change shows the increased costs of utilities clearly⁶

¹ European Central Bank, *Monthly Bulletin May 2012*

² Office of Budget Responsibility *Economic and Fiscal Outlook March 2012*, pg 34, paragraph 3.9

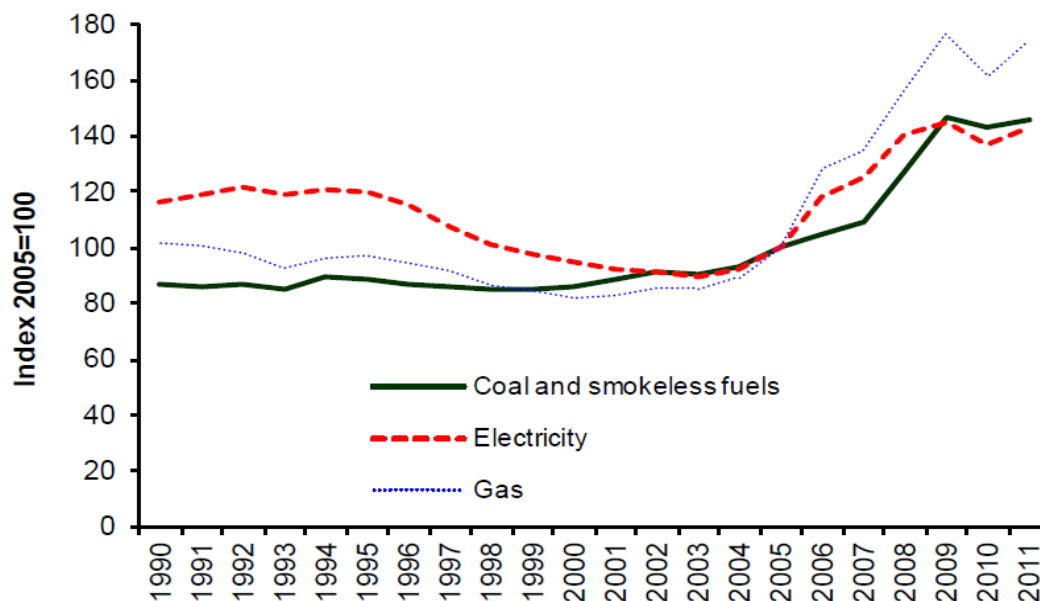
³ Ibid. pg 8, paragraph 1.18

⁴ Ibid. pg 82, paragraph 3.102

⁵ NHS Information Centre *Dental Earnings and Expenses, Scotland 2010/11*, October 2012

⁶ *Quarterly Energy Prices* Department of Energy and Climate Change September 2012, pg 10

Graph 1: Fuel price indices in the domestic sector in real terms 1990-2011



3.7 The London Bullion Market Association states that all of the contributors to their forecast report on the price of precious metals expect their cost to rise by at least 10 per cent in 2012.⁷

Table 1: Precious metal prices, the London Bullion Market Association

Metal	1st Week January 2012	Average 2012 Forecast	2011 Year Average
Gold	\$1,603	\$1,766	\$1,572
Silver	\$28.96	\$33.98	\$35.11
Platinum	\$1,412	\$1,624	\$1,720
Palladium	\$655.00	\$735.52	\$733.63

This will have a knock on effect on the cost of providing dental care. In addition to the basic increase in the cost of the raw materials, exchange rates continue to fluctuate affecting the cost of purchasing. In 2008 the pound to dollar exchange rate was 0.55; by 2011 it had risen to 0.62.⁸

⁷ London Bullion Market Association *Forecast 2012* 2012

⁸ <http://www.forecast-chart.com/usd-british-pound.html>

- 3.8 Dental practices are performing a vital public service, yet the wider economy is threatening their viability, an exposure not suffered directly by the majority of the NHS. In the BDA's annual Dental Business Trends Survey (DBT) survey we asked practice owners if they had applied for a loan and if so, if they had experienced any problems. In the UK, 90 per cent of those who had applied for a loan were able to get one. On average across the UK, however, 30 per cent of respondents had experienced problems with their applications but in Scotland the rate of problems was higher at 48 per cent. Problems encountered included high interest rates and high securities.
- 3.9 Inflation for 2011 finished at 4.5 per cent,⁹ far above the Bank of England's intended target¹⁰. This lack of control over the economy and thus over consumers' spending and saving, has made it difficult for business to invest or to grow. The situation at the start 2012 was little better. Although interest rates began to drop and most commentators are confident that by the end of the year CPI will be running at around 2.5 per cent, the rise in the cost of inter-bank lending has meant that credit remains expensive. Consumer habits are also difficult to predict and there has been a drop in healthcare spending in the private market as people continue to cut back on costs. This will often mean delaying treatment which, under the current system, makes it harder to dentists to provide the care required in a way which is financially viable.
- 3.10 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.
- 3.11 As reported in our evidence paper to DDRB last year, the requirement for practices to have their own local decontamination units (LDU) led to a national audit being carried out by the Chief Dental Officer to assess the ability of practices to accommodate an LDU. We reported to the DDRB last year that 85 per cent of dental practices had an LDU but that 20 per cent of had to relocate in order to meet the requirements to house a unit. The deadline for compliance is December 2012 and there appears to be no centrally-held information to show current compliance levels. Whilst some support has been provided to some practices towards capital costs, we continue to emphasise the high running costs of an LDU and the impact these have on practice expenses.

4. DENTAL PRACTICE EXPENSES

4.1 Practice expenses fall into three main categories of expenditure:

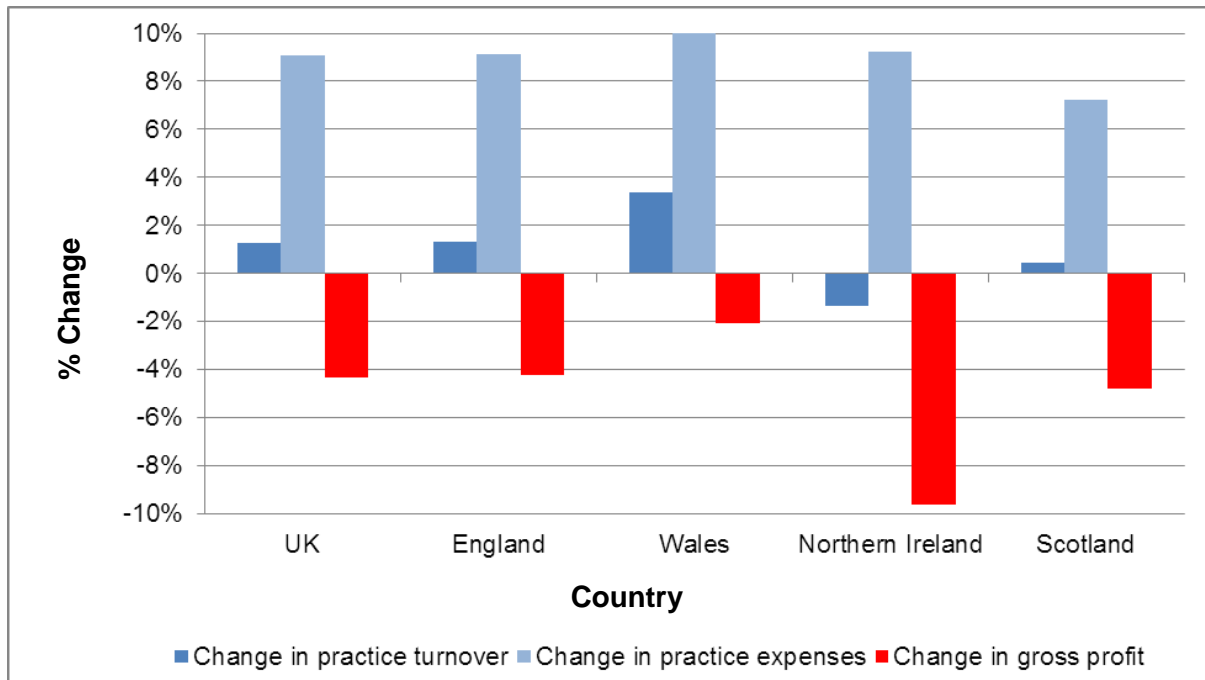
- Staff costs (excluding dentists but including other dental care professionals)
- Laboratory fees and materials
- Overhead costs (premises, equipment, electricity, gas and water, and other overheads, including the revenue and capital costs associated with installing and running LDUs)

⁹ Office for Budget Responsibility *op. cit.* pg 79, table 3.5

¹⁰ Bank of England *Inflation Report February 2012* pg 7

4.2 The BDA's annual Dental Business Trends Survey showed that across the UK, dental practices were experiencing a downward shift in gross profit, whilst practice expenses continued to rise. The findings for each of the four countries are laid out in Table 2 below.

Table 2: Average percentage change in practice turnover, practice expense and gross profit at a practice owners main practice from 2010/11 to 2011/12



Laboratory and Materials Costs

4.3 The NHS Information Centre report *Dental Earnings and Expenses, Scotland 2010/11* showed that the largest cost for practice owners was “Other” expenses, at almost 42 per cent of overall expenses. This includes direct costs such as laboratory and material costs which dentists in Scotland have reported through the BDA Dental Business Trends Survey to have increased by 6.25 per cent and 8.1 per cent respectively over the past year. With the prolonged lack of decision by the Scottish Government to apply the uplifts recommended by the DDRB over the past two years, the fees that dentists receive for the making of crowns, dentures and other appliances have remained static and are woefully insufficient to meet the rising costs.

Staff Costs

4.4 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. Consequently, practice owners will be under pressure to award at least £250 to their staff, and fund the additional National Insurance contributions. The NHS Information Centre report on Dental Earnings and Expenses 2010-11 showed that employee costs for dentists in Scotland were higher than elsewhere in the UK at just over 38 per cent of expenses for principal dentists. From the results of the BDA Dental Business Trends Survey, practice owners in Scotland were more likely to have increased the number of dental nurses they have in their practice. One of the reasons for this is the introduction of Scottish Government policies on prevention and

decontamination; the former being the introduction of *Childsmile Practice* which requires an Extended Duty Dental Nurse and the latter requiring more stringent infection control measures to be undertaken by staff at regular intervals throughout the clinical day. 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.

Practice Expense Ratio

- 4.5 The SDPC recommends that the historic figure of 56.1 per cent should be used this year thus allowing baseline stability to be maintained. It is worth noting that the latest NHS Information Centre Report on Dental Earnings and Expenses for Scotland shows in Table 3 (page 13) an average EER of 56.2 per cent.

5. FORMULA AND CONCLUSION

- 5.1 We support the continuing use of the formula that the BDA has applied over the years in its recommendations to the DDRB. If we take the likely changes in staff costs by taking an average staff wage of £16,000, adding the £250 increase in pay (in line with the Scottish public sector pay policy which was referred to in the Cabinet Secretary's letter to the DDRB Chair on 11 October 2012) - which actually means a cost to the practice of £282 when employer's National Insurance is added – it will give an average rise of 1.76 per cent for staff costs. DDRB will note that this average wage figure is the one that was used in our submission for 2012-13 and this remains the most up to date figure we have. However, the BDA Dental Business Trends Survey showed that the average staff wage increase in Scotland was 2.2 per cent. This cost is what dentists have had to pay in order to retain staff. It should also be noted that the Scottish Government pay policy includes a commitment to the Scottish Living Wage, which is set to increase by April next year from the current hourly rate of £7.20. This will impact on the costs to dentists who employ trainee members of staff. Added to this must be the elements for laboratory and materials costs plus other costs.
- 5.2 Taking into account the substantial 11 per cent decrease in average taxable income for practice owners during 2010-11, as highlighted by the NHS Information Centre Report, this detrimental effect on practice owners' income is only being exacerbated by the continued lack of decision by the Scottish Government over the past two years in response to the DDRB's recommendations.
- 5.3 The NHS IC 2010-11 report found that the expenses-to-earnings ratio of dentists whose NHS commitment was 75 per cent or more was 56.5 per cent for Scotland. This adds weight to our recommendation that the traditional 56.1 per cent of expenses to earnings is used consistently by DDRB. Data from the National Association of Dental Accountants and Lawyers for NHS dentists gave laboratory and materials expenditure each at 6.3 per cent of gross income. This equals 12.6 per cent of gross and 22.3 per cent of expenses.
- 5.4 For 75 per cent plus NHS committed dentists, according to the latest NHS Information Centre figures, staff costs represented 38.5 per cent of expenses for 75 per cent plus NHS committed dentists. This means that other costs amount to 39.2 per cent.

- 5.5 We have inserted these data into what we believe to be currently the correct formula, that is, the one used in the 39th Report of the DDRB. As the BDA discussed in the evidence submitted previously, we do not believe it is right to adjust the formula to take account of any double counting. More research is needed to understand its impact on the earnings to expenses ratio.
- 5.6 For 2013-14, SDPC recommends to the DDRB that a compounded increase of **5.17 per cent** on top of the recommendations made by the DDRB for years 2011-12 and 2012-13 to the expenses element of the item of service fee is necessary for this year to ensure that dentists do not receive a cut in their net taxable income. This restores the average drop in taxable income of 7.6 per cent suffered by all dentists in Scotland in 2010-11, as outlined in the NHS Information Centre Report on Dental Earnings and Expenses, Scotland 2010-11.