

Agenda item:	9
Report title:	Income generation – non-Annual Retention Fee fees
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Considered by:	Performance and Resources Board
Action:	To consider

Executive summary

The GMC has an ambitious corporate strategy which aims to deliver a new model of medical regulation. The organisation also faces uncertain and potentially significant changes to underpinning legislation and the political make-up of the UK. These twin challenges require the GMC to develop and shape a new way of delivering business – our functions, our form, how we present ourselves to the outside world and our organisational culture and capability.

Against this backdrop we also have a significant financial challenge to contend with that will see our free reserves continue to fall.

Recognising these challenges, Council asked the Chief Operating Officer to undertake a review of all aspects of the organisation. This paper supports that review and sets out proposals to increase our income through changes to our non-Annual Retention Fee fees

Recommendations

Council is asked to approve the proposed changes to:

- a** Professional and Linguistic Assessments Board test fees ([Annex A](#)).
- b** Revalidation annual returns and periodic assessments fees ([Annex B](#)).
- c** Credit card transaction charges ([Annex C](#)).
- d** Charging for payment by instalments ([Annex D](#)).
- e** Registration status changes charges ([Annex E](#)).
- f** Scrutiny fees on closed registration applications ([Annex F](#)).

Issue

- 1 To consider a range of fee increases, and the introduction of new fees, to maximise our income generation.

Financial context

- 2 Our cost base grows, on recent trend, by around 4% per annum, driven by the increasing demand for our services and the cost of progressing strategic objectives. However, our income does not grow at the same rate - against the background of severe cost pressures in the NHS, freezes in doctors' salaries and political pressure on regulators, we have cut or frozen the Annual Retention Fee (ARF) each year from 2011 to 2014, only returning it to its 2010 level this year. The inevitable effect of costs increasing by more than income is falling free reserves.
- 3 The ARF provides 90% of our income. The remainder comes from registration applications and other fees and it is this area that we propose to address.
- 4 We have reviewed our current charges, based on the following principles:
 - a We have various statutory powers to levy fees to recover our costs and must exercise these powers to ensure we remain a going concern.
 - b Activities which benefit the majority of doctors should be funded through the ARF.
 - c Discrete activities which benefit specific cohorts of doctors (including those who are not currently registered, or indeed who may never register, with the GMC) should be funded by those doctors through separate fees. Those fees should cover the full costs of those activities, to avoid cross-subsidy from the ARF.

Applying the principle of full cost recovery

- 5 We have identified activities where the current fees only partially cover the related costs. We propose to increase fees to achieve full cost recovery, including a share of corporate overheads such as the Professional and Linguistic Assessments Board test (PLAB) fees – [Annex A](#).

New charges

- 6 We propose introducing new charges for discrete activities, to avoid cross subsidy from the ARF:
 - a Revalidation annual returns and periodic assessments – [Annex B](#).
 - b Credit card transaction charges – [Annex C](#).
 - c Charging for payment by instalments – [Annex D](#).

- d** Registration status changes – [Annex E](#).
 - e** We also propose a more rigorous approach to the way we apply our existing power to charge a scrutiny fee on incomplete registration applications – [Annex F](#).
- 7** We estimate that the fee proposals set out in the annexes will generate additional annual income of around £1.6 million in 2016, rising to £2.4 million from 2017 onwards.
- 8** We will continue to review all non ARF fees on a regular basis to ensure we continue to recover our costs.
- 9** The ARF is reviewed every year as part of our business planning process. Our aim is to minimise any fee increases for the whole population.

Implementation issues

- 10** Inevitably the introduction of new or enhanced fee levels may attract negative feedback from those having to pay higher fees but this would be mitigated through a clear and transparent communications campaign, emphasising the fee principles set out in paragraph 4. We are working with colleagues in the Strategy and Communication directorate to develop a communication strategy that will attempt to mitigate the risks associated with these rises. Some engagement will be required with external interests before the new fee levels are communicated to doctors after the Council meeting on 30 September 2015.
- 11** We have considered whether our proposals comply with the requirements of the public sector equality duty under the Equality Act 2010. Our analysis shows that some groups are over-represented in the cohort impacted by these changes, particularly retired doctors (age), and international medical graduates (IMGs) (linking to the protected characteristic of race).
- a** Our proposals relating to the PLAB test relate only to the level of fee charged; the eligibility and assessment criteria remain unchanged. While the fee increase will impact particularly on IMGs, we are seeking to do no more than recover the associated costs of providing the service.
 - b** We have put in place additional revalidation systems and processes for those doctors with no prescribed connection. There are two main groups of doctors who are likely to take this assessment:
 - i** Doctors working wholly overseas. They don't need a licence to practise in the UK and can choose to relinquish their licence and restore it if they wish to practise again in the UK.

- ii** Retired doctors and/or those not undertaking any work that requires a licence to practise.
- c** As there is no requirement for these doctors to hold a licence, and so be subject to revalidation, we consider it legitimate to recover the additional costs of their revalidation, rather than fund it through the ARF.
- d** We are seeking to do no more than recover the costs we incur in processing credit card transactions, payment in instalments, registration status changes and unsuccessful registration applications, and so we feel that the fee proposals are fair and proportionate.
- e** We propose to retain our current arrangements for refugee doctors: allowing two attempts at PLAB Part 1 free of charge; four attempts at PLAB Part 2 (two at half the normal fee and two further attempts at the full amount); and payment of the registration fee in four quarterly payments or ten monthly payments. We also propose to waive the new processing charges in the case of refugee doctors.

M9 – Income generation – non-Annual Retention Fee fees

M9 – Annex A

Professional and Linguistic Assessments Board fees

- 1** The Professional and Linguistic Assessment Board (PLAB) exam is a two part assessment to assess the knowledge and skills of international medical graduate (IMG) applicants applying for registration.
- 2** PLAB fees were increased on 1 April 2015 in line with the ARF increase of 7.7%. Fees had not been increased prior to this, partly due to reduced running costs following the relocation of the Clinical Assessment Centre from London to Manchester in March 2010, and partly because of Council's decision to freeze and/or reduce fees over the period 2011 to 2014.
- 3** We have now carried out a full review of the costs of running the PLAB exam, which has indicated that the current fees are no longer recovering all of the direct and indirect costs.
- 4** We currently charge £155 for a PLAB 1 exam and £465 for a PLAB 2 exam. This annex shows that the full costs of running the existing tests are £230 and £840 respectively. We are making the necessary changes to our billing system as part of the next upgrade to the Siebel system, which will go live by January 2016. We therefore propose to increase the PLAB 1 and PLAB 2 fees to £230 and £840 with effect from 1 February 2016. This will ensure that those doctors who are currently registered do not subsidise, through the ARF, those who are not registered and may, in fact, never be registered with the GMC.
- 5** We estimate that the PLAB fee increase will generate additional annual income of £0.7 million in 2016, rising to £0.8 million in a full year.
- 6** Alongside this, we are currently reviewing and redesigning the PLAB exam in line with the recommendations of the recent PLAB Review, which recommended that we should seek to increase the reliability of the PLAB 2 exam. We think this is best achieved by

increasing the number and length of test stations, which may increase the cost of the PLAB 2 exam further.

- 7 We plan to launch the revised PLAB 2 exam towards the end of 2016 and so we will carry out a full review of the costs of the revised exam once the format has been finalised, but we would not anticipate making any further changes to fee levels until 2017.
- 8 While the fee increases are significant, we have benchmarked them against other similar assessments that operate around the world and confirmed that they will remain competitively priced. Details are at the end of this annex.

PLAB Part 1

Direct Costs	<u>PLAB Team</u>	
	Staff and Related Costs	£115,538
	Office costs (Secure send of papers)	£14,876
	Exam day costs (Venue hire, Invigilators, Exam marking, British Council)	£143,112
	Exam Support (Station editing, workshops, Part 1 Board)	£43,460
		£316,986
Directly attributable support services	Contact Centre - Staff time on calls and emails	£34,995
		£34,995
Directorate and GMC overhead apportionment	(Including apportionment of Directorate management and Resources, Accommodation, Communications and Governance)	£226,239
		£226,239
	Total cost pool	£578,220
	Planned activity	2,514
	Cost per candidate	£230

PLAB Part 2

Direct Costs	<u>PLAB Team</u>	
	Staff and Related Costs	£322,110
	Office costs	£10,931
	Exam day running costs (Associates, Roleplayers, Exam marking)	£578,601
	Exam Support (Station editing, workshops, Part 2 Board)	£215,194
		<u>£1,126,836</u>
Directly attributable support services	Contact Centre - Staff time on calls and emails	£36,346
	Registration Services - Staff time on ID Checks	£7,922
		<u>£44,268</u>
Directorate and GMC overhead apportionment	(Including apportionment of Directorate management and Resources, Accommodation, Communications and Governance)	£302,256
		<u>£302,256</u>
	Total cost pool	<u>£1,473,360</u>
	Planned activity	1,754
	Cost per candidate	<u>£840</u>

PLAB fees – benchmarking data

Description	2015 Fee
Australia	
150 item Computer Adaptive Testing (CAT) multiple choice questions (MCQ)	£1,194
16-station Objective Structured Clinical Examination (OSCE)	£1,600
Canada	
Evaluating exam (IMGs only) 4 hour MCQ Computer Based Testing (CBT) 180 questions	£836
Part 1: 3.5 hour, 196-item MCQ + 4 hour clinical decision making paper	£483 or £725 late fee
Part 2 OSCE (no indication how many stations)	£1,159 or £1,739 late fee
Ireland Pre-Registration Examination System	
MCQ (CBT, 2.5 hours, 60 questions)	£193
12-station OSCE (with 4 pilot stations) + interpretation skills paper (6 questions, 1 hour)	£577
New Zealand	
16 station OSCE	£1,998
USA	
Step 1 – 7 hour, 322 item MCQ	£554 + International Test Delivery Surcharge
Step 2 – Clinical Knowledge - 8 hour, 355 item MCQ	£554 + International Test Delivery Surcharge
Step 2 – Clinical Science – 12 station OSCE	£965
Step 3 – 2 day, 336 item MCQ	£522
Membership of the Royal College of General Practitioners Examination	
Applied Knowledge Training 2 hour, 300 item CBT MCQ	£530
Clinical Skills Assessment 13 station OSCE	£1,780
Membership of the Royal College of Physicians Examination	
Part 1 – 2 X 3 hour 100 item MCQ papers	UK £419 International £594
Part 2 – 3 X 3 hour 90 item MCQ papers	UK £419 International £594
PACES – 5-station OSCE style	£657 (UK centres – varies internationally)
College of Optometrists	
17-station OSCE style exam	Included in total registration fee £3,535 OSCE resits £600

M9 – Income generation – non-Annual Retention Fee fees

M9 – Annex B

Revalidation costs – doctors with no prescribed connection

- 1** The process for the revalidation of doctors without a prescribed connection to a designated body, or a connection to a suitable person, is comprised of two main elements.
- 2** Firstly, doctors without a connection are required to submit an annual return to us comprising information about their scope of practice and confirmation that they are engaging in an annual appraisal process that meets our requirements, amongst other things.
- 3** Secondly, the Licence to Practise and Revalidation Regulations give the GMC powers to request that these doctors undertake an assessment that is designed to evaluate their fitness to practise, if we consider it reasonable to do so. We are developing a suite of assessments broadly based on existing medical Royal College primary specialties. Each would test generic knowledge and skills as well as those specific to the candidates' field of practice. We are aiming to introduce the assessment from early 2016.
- 4** The Licence to Practise and Revalidation Regulations allow us to charge a fee for the evaluation of evidence. It is reasonable that the fee should be based on full cost recovery.
- 5** An approach requiring each doctor sitting the assessment to pay the full cost of their own assessment would require a complex fee calculation, and potentially be disproportionate, for example for doctors whose assessment is especially expensive due to the nature of their practice. We therefore propose that the full cost recovery principle be applied to this cohort on a total basis whereby the overall cost of the revalidation assessments is averaged across all doctors who take the assessment.
- 6** The estimated demand for processing annual returns and undertaking assessments, and the associated costs involved, are shown at the end of this annex. Based on this we propose to introduce a fee of £250 for processing annual returns and £1,100 for

assessments, in order to recover full costs. We estimate that the annual return fee will generate income of £375,000 per annum, and the assessment fee will generate annual income of around £110,000. It is important to note that the number of doctors likely to sit the assessment is difficult to predict and so the forecast income is indicative at this stage. In certain circumstances we may also issue refunds if the doctor’s requirements change prior to them sitting the assessment. This may be a full or partial refund on a sliding scale, consistent with our principle of full cost recovery and our approach on other fees, such as the Professional and Linguistic Assessments Board test.

- 7 We propose to introduce these fees with effect from 18 January 2016. This date allows sufficient time for us to make the necessary changes to our Information Systems.

Revalidation Annual Return

Direct Costs	<u>Revalidation Team</u> Staff and Related Costs	£123,000
	Office costs	£70,500
		£193,500
Directly attributable support services	Contact Centre - Staff time on calls and emails	£78,000
		£78,000
Directorate and GMC overhead apportionment	Including apportionment of Directorate management and Resources, Accommodation, Communications and Governance	£103,500
		£103,500
	Total cost pool	£375,000
	Planned activity	1500
	Cost per candidate	£250

Revalidation Assessment

Direct Costs	<u>Revalidation Team</u>	
	Staff and Related Costs	£8,200
	Office costs	£2,000
	External exam provider (Awaiting confirmation of final costs)	£84,100
		<u>£94,300</u>
Directly attributable support services	Contact Centre - Staff time on calls and emails	£4,700
	Clinical Assessment Centre - Booking & Exam day management	£4,100
		<u>£8,800</u>
Directorate and GMC overhead apportionment	Including apportionment of Directorate management and Resources, Accommodation, Communications and Governance	£6,900
		<u>£6,900</u>
	Total cost pool	<u>£110,000</u>
	Planned activity	100
	Cost per candidate	<u><u>£1,100</u></u>

M9 – Income generation – non-Annual Retention Fee fees

M9 – Annex C

Credit card processing costs

- 1** Credit card issuers such as Mastercard and Visa levy a charge on businesses and other organisations when they take payment by card. These 'interchange fees' are set by the card issuers and are intended to cover the cost of providing interest-free borrowing, administration and covering the risk of fraud. The charges vary by card provider, but the charge to the GMC typically averages around 1.5% of the transaction value.
- 2** Currently these fees are not passed on to those doctors paying the registration fees and ARF by credit card, and so they are effectively being subsidised. We currently have over 270,000 registered doctors, and we process around 47,000 credit card transactions a year.
- 3** The law allows businesses to pass these charges on to consumers, but the Consumer Protection (Payment Surcharges) Regulations 2012 restricts the surcharge to the recovery of actual costs only.
- 4** We therefore propose a transaction fee of 1.5% on all credit card transactions. By way of example, this would add £6.30 to an ARF payment of £420. We estimate that this will generate additional annual income of £160,000.
- 5** We will need to make changes to our fees and billing system to incorporate this transaction fee, so we aim to introduce the fee in Quarter 2 2016.

M9 – Income generation – non-Annual Retention Fee fees

M9 – Annex D

Payments by instalments

- 1** The annual retention fee is due at the beginning of a doctor's registration year. Doctors may pay the full fee at the start of the year, and we also offer doctors the option to pay in quarterly or in ten monthly instalments.
- 2** For those doctors paying by instalments, our processing costs are higher (because of the increased number of transactions), and we suffer a cashflow disadvantage as the income is spread over the year. We estimate a cost of around £8 to £9 per doctor. Costings are shown at the end of this annex.
- 3** It seems reasonable that we should pass on this cost to the fee payer, and indeed it is common practice for many organisations to do this. The difference in costs between quarterly and monthly instalment methods is negligible and so for simplicity we propose to introduce a standard processing charge of £8 per doctor.
- 4** We have 57,000 quarterly payers and 24,700 monthly payers, so we estimate that the processing charge would generate additional annual income of £650,000. The introduction of a charge will require us to make changes to our billing systems, and so we propose to introduce this charge in Quarter 2 2016.

Payments by instalments – processing costs

Direct Costs	<u>Fees Team</u>	
	Staff & Related Costs	£35,361
	Office costs	£1,340
		<u>£36,701</u>
Directly attributable support services	N/A	£0
		<u>£0</u>
Directorate and GMC overhead apportionment	Inc apportionment of Directorate management & Resources, Accommodation, Comms & Gov	£22,829
		<u>£22,829</u>
	Total cost pool	<u>£59,530</u>
	Total Activity	474,430
	Sub Total	<u>£0.13</u>
	BACs processing cost	£0.02
	Cost per transaction	<u>£0.15</u>
Cost per collection method	Doctors on quarterly collections	£0.60
	Cost of reduced cash flow	£7.40
		<u>£8.00</u>
	Doctors on 10 monthly collections	£1.50
	Cost of reduced cash flow	£7.40
		<u>£8.90</u>

M9 – Income generation – non-Annual Retention Fee fees

M9 – Annex E

Registration status changes

- 1 During the course of a year we may be asked by doctors to make changes to their registration status, and this inevitably involves administration effort in processing the requests. In the last year we processed around 10,000 licence transitions (from licensed to registration only, or vice versa), 3,500 voluntary erasures and 1,000 restorations. The cost of processing status changes varies significantly, depending on the nature of the change. Details are set out at the end of this annex.
- 2 On one hand, it seems reasonable that we should pass on these costs to the doctors concerned. However, the introduction of a fee may discourage some doctors from taking the appropriate course of action. For example, we encourage doctors to relinquish their licence if they don't need it and a fee may act as a disincentive.
- 3 The level of fee is likely to influence the extent to which it acts as a deterrent. Also, we should avoid creating unnecessary and complicated billing arrangements that require additional invoices to be raised for relatively small amounts. We estimate the average processing cost (across all status changes) to be around £29. However, this would still require us to raise additional invoices; if we were to charge a £10 administration fee for status changes we could, in the majority of cases, deduct that amount from any refund due to a doctor when relinquishing their licence or seeking voluntary erasure. Even those doctors paying their Annual Retention Fee by monthly instalments would have a credit balance on their account sufficient to cover the administration charge.
- 4 We estimate that the introduction of a £10 administration charge for registration status changes would generate additional annual income of £145,000.
- 5 The introduction of a charge will require us to make changes to our billing systems, and so we propose to introduce this charge in Quarter 2 2016.

Cost of processing registration status changes

Voluntary Erasures

Direct Costs	<u>Updates Team</u> Staff and Related Costs	£102,790	<u>£102,790</u>
Directly attributable support services	N/A	£0	<u>£0</u>
Directorate and GMC overhead apportionment	Including apportionment of Directorate management and Resources, Accommodation, Communications and Governance	£142,837	<u>£142,837</u>
	Total cost pool		<u>£245,627</u>
	Planned activity	3,445	
	Cost per candidate	<u>£71.30</u>	

Restore Licence

Direct Costs	<u>Updates Team</u> Staff & Related Costs	£48,381	<u>£48,381</u>
Directly attributable support services	N/A	£0	<u>£0</u>
Directorate and GMC overhead apportionment	Including apportionment of Directorate management and Resources, Accommodation, Communications and Governance	£67,231	<u>£67,231</u>
	Total cost pool		<u>£115,612</u>
	Planned activity	1,081	
	Cost per candidate	<u>£106.95</u>	

Relinquish Licence

Direct Costs	<u>Fees Team</u>		
	Staff & Related Costs	£26,002	
	Office costs	£31,026	
			£57,028
Directly attributable support services	N/A	£0	£0
Directorate and GMC overhead apportionment	Including apportionment of Directorate management and Resources, Accommodation, Communications and Governance	£14,762	£14,762
	Total cost pool		£71,789
	Planned activity	10,342	
	Cost per transaction		£6.94

Average of the Fees

Direct Costs	<u>Various Teams</u>		
	Staff and Related Costs	£177,173	
	Office costs	£31,026	
			£208,199
Directly attributable support services	N/A	£0	£0
Directorate and GMC overhead apportionment	Including apportionment of Directorate management and Resources, Accommodation, Communications and Governance	£224,830	£224,830
	Total cost pool		£433,029
	Planned activity	14,868	
	Cost per transaction		£29.12

M9 – Income generation – non-Annual Retention Fee fees

M9 – Annex F

Scrutiny fees

- 1 We already have the ability, under the GMC Registration Fees Regulations, to charge a £90 scrutiny fee on new registration applications that are refused or withdrawn. However, in the vast majority of cases we treat incomplete applications as 'closed' for administrative expediency, which does not attract a scrutiny fee.
- 2 We propose taking a more rigorous approach to the classification of incomplete applications, to maximise the income gained from scrutiny fees.
- 3 We estimate that the implementation of a more rigorous approach to scrutiny fees could generate additional annual income of around £120,000.
- 4 The ability to charge a scrutiny fee is already built into our systems and so we propose to introduce the new arrangements on 1 January 2016.
- 5 We already operate robust refund/scrutiny arrangements on unsuccessful specialist applications, and so no further change is proposed.