

Finance and Resources Committee – 21 June 2011

CHRE statutory levy

Executive summary and recommendations

Introduction

The Health and Social Care Bill 2011 proposes that the Council for Healthcare Regulatory Excellence (CHRE) will be renamed the Professional Standards Authority for Health and Social Care (PSA) and under clause 208 of the Bill will be funded by the nine statutory regulators of health and care professions.

The PSA is required to make a proposal on its funding arrangements. The Privy Council will then consult on the proposed levy.

CHRE has sought the views on the arrangements for the levy and in particular how it should be calculated. The HPC response to the CHRE is attached. HPC's response to the Privy Council will be presented to the Finance and Resources Committee in due course.

Decision

The Finance and Resources Committee is requested to note the paper.

Background information

CHRE letter dated 24 March 2011.

Resource implications

Financial implications

Appendices

Date of paper

1 June 2011

From the Chief Executive



BY E-MAIL

To: Chief Executives of the regulatory bodies

24 March 2011

Dear Colleagues

Proposals for calculating the statutory levy

As promised last week I attach a paper on our thinking about ways of deriving and apportioning the statutory levy which will, subject to parliamentary approval, be payable by the regulatory bodies to the Professional Standards Authority for Health and Social Care from April 2012.

The paper sets out three ways of calculating the share to be paid by each regulator. We are seeking your views on which of these three methods you prefer and why, acknowledging, of course, that from your perspective this really a matter of least worst.

We are keen that the methodology used is clear, reasonably easy to explain, not open to constant argument and doesn't in its administration add to the Authority's or the regulators' costs.

Ultimately it will be for Parliament to decide through regulations how the levy is derived and apportioned.

We will be seeking your views later on other aspects of the process.

We would be grateful if you could let us have your views no later than **Tuesday, 31 May 2011**.

If you would like to discuss our approach in more detail please speak either to me or to Linda Allan, Director of Governance & Operations (Linda.allan@chre.org.uk or 020 7389 8034).

Kind regards,

A handwritten signature in black ink that reads "Harry Cayton". The signature is written in a cursive, flowing style.

Harry Cayton

Proposals for calculating the statutory levy

March 2011

1. Introduction

- 1.1 CHRE has considered a number of different approaches to apportioning the statutory levy which will be paid by the regulatory bodies from 2012 (subject to parliamentary approval)
- 1.2 This paper sets out three options, one of which is preferred by the CHRE, and invites comments and views from the regulators.
- 1.3 Ultimately the decision as to how the levy is raised and apportioned as well as the involvement of the regulatory bodies in this process is a matter for the government and will be set out in regulations following the passage of the Health and Social Care Bill however both CHRE and Department of Health officials are keen to understand the perspectives of the regulators on the advantages, disadvantages and fairness of different approaches.
- 1.4 The CHRE Director of Governance and Operations is currently engaged in a programme of visits and discussions with the finance directors of all the regulators in order to understand the financial basis of each regulator and its financial cycle.
- 1.5 Regulators are invited to respond to these proposals in this paper by **31 May 2011**.

2. Government proposals for the levy

- 2.1 Proposals for the levy are set out in the Command Paper *Enabling Excellence*¹ and in Clause 208 of the Health and Social Care Bill.

3. Principles for the establishment of the levy

- 3.1 The following principles should apply:
 - The levy is to cover the expenditure that the Authority advises the Privy Council that it needs to make and has agreed with the Privy Council
 - The expenditure should reflect the cost of the Authority's work.
 - The process for determining the levy should be, so far as is practicable, equitable and transparent
 - The methodology should be easy to explain

¹ *Enabling Excellence: Autonomy and Accountability for Healthcare Workers, Social Workers and Social Care Workers* February 2011

- The regulations should not be setting the precise levy thus there should be no need to undertake annual consultation on the methodology.
- As a statutory fee the levy will not be subject to VAT

3.2 In addition it is proposed that:

- The levy will be collected annually
- The Authority will when ever possible determine its costs (and therefore they levy) for a three year period
- The levy is on the regulatory bodies not the registrants.
- The levy will be payable by the regulators to the Authority on receipt of invoices. (This could be annually or quarterly)

4. Three methods of calculating the levy

4.1 The methodology needs to be cost effective in that it, of itself, must not unduly add to the costs of the Authority and consequently to the levy to be raised from the RBs, either directly or indirectly..

4.2 The options for consideration are based on

- The number of registrants (a)
- The fee income due from the registrants (b)
- A combination of (a) and (b), (c)

4.3 The method of calculating the levy will, when decided, be set out in regulations

4.4 For each option for the methodology for the apportionment of the levy the following should apply:

- The total cost of the Authority² will have been determined as per the Act and Regulations
- The levy will be collected in respect of the relevant financial year; 1 April to 31 March
- The relevant date for the determination of the data required for apportionment will be 1 January.
- The number of registrants will be the number of registrants (by differing classes if relevant) on the register of the RB on the relevant date

² Excluded from the levy on the regulators is the cost of the accreditation scheme for voluntary registers and any consultancy work agreed with third parties. The additional cost of any of advice commissioned by the Secretary of State or the Health Departments will also be paid for separately.

- The fees will be the fees charged by the Regulator to registrants at the relevant date
 - The fee income will be the fees arising as of 1 January in respect of the number of registrants on the roll on the relevant date based on the fees in force at that time
- 4.5 Within a given time period, for example 14 days, of 1 January the RBs must provide to the Privy Council/Authority the following information:
- The number of registrants on the register (by class if relevant)
 - The fees in force
 - The fee income due as a consequence of a) and b)
- 4.6 There should be penalties for the late provision of data since any delay on the part of one regulator delay the speed with which the Privy Council /Authority can confirm the levy cost to all regulators.
- 4.7 There should be a stated timescale for the Privy Council /Authority to adhere to for the notification of the individual costs to the RBS.
- 4.8 While the methodology will be in the regulations the precise costs in relation to each RB will not be. These will change each year. Since even if the Authority's costs i.e. the total levy cost to be recovered is set for three years the apportionment across the RBs may change as the number of registrants or total fee income changes.

Method A

- The total number of registrants will be determined following the submissions from the RBs.
- The respective percentage share of the total number of registrants will be determined for each RB.
- Each RB will contribute that percentage of the total levy cost.

Method B

- The total fee income due to the RBs will be determined following the provision of data by the RBs.
- The respective percentage share of the total fee income will be determined for each RB.
- Each RB will contribute that percentage of the total levy cost.

Method C

- The two calculations to determine the costs payable for both Method A and Method B will be undertaken and the individual costs determined
- The two figures will be aggregated.
- The aggregated figure will be halved and the resultant figure will be the levy that is payable.

5. The notional effects of different methods of calculating the levy

- 5.1 All examples have been worked using a notional figure of £2.8million as the Authority's annual operating costs.
- 5.2 The number of registrants has been based on the figures published in the most recent CHRE Annual Report, (with the inclusion of an additional 85,000 members for HPC to reflect the prospective inclusion of social workers) giving a combined membership figure of 1,373,041.
- 5.3 The income is based on registrant fees (the number of registrants times the fee to be paid) is also taken from annual accounts, and from the figures published in the CHRE's own Annual Report.

Table 1: Impact on regulators of levy calculated on number of registrants (method A)

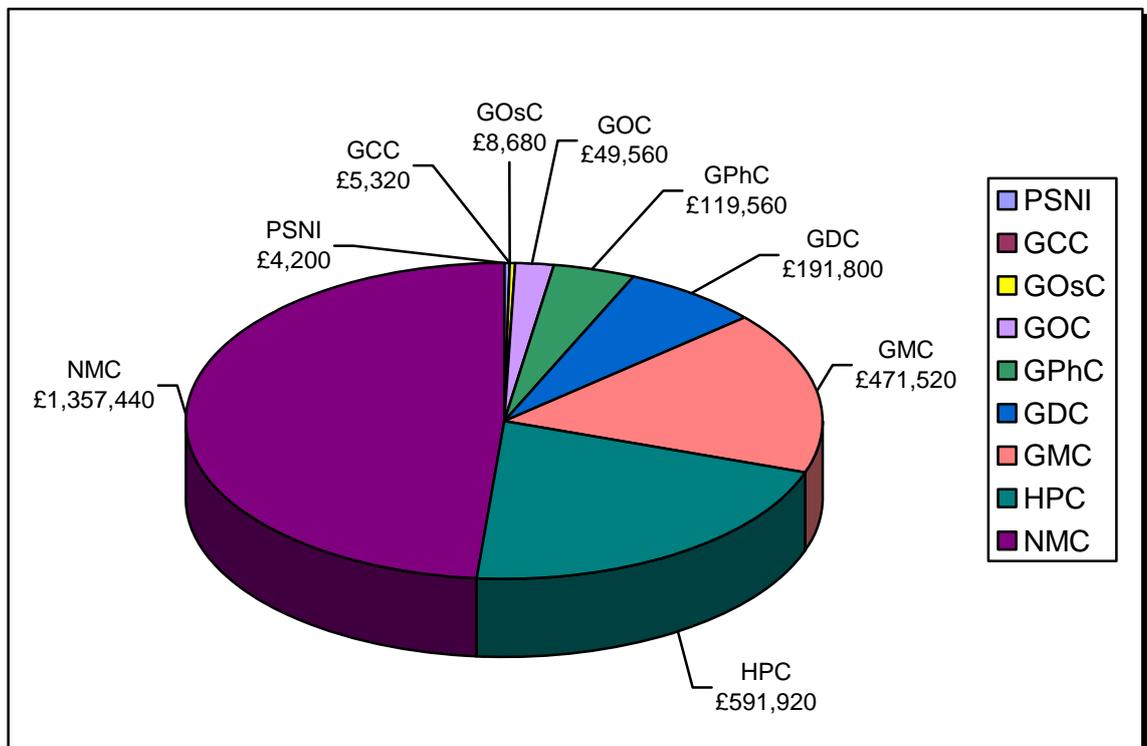


Table 2: Impact on regulators of levy calculated on income (method B)

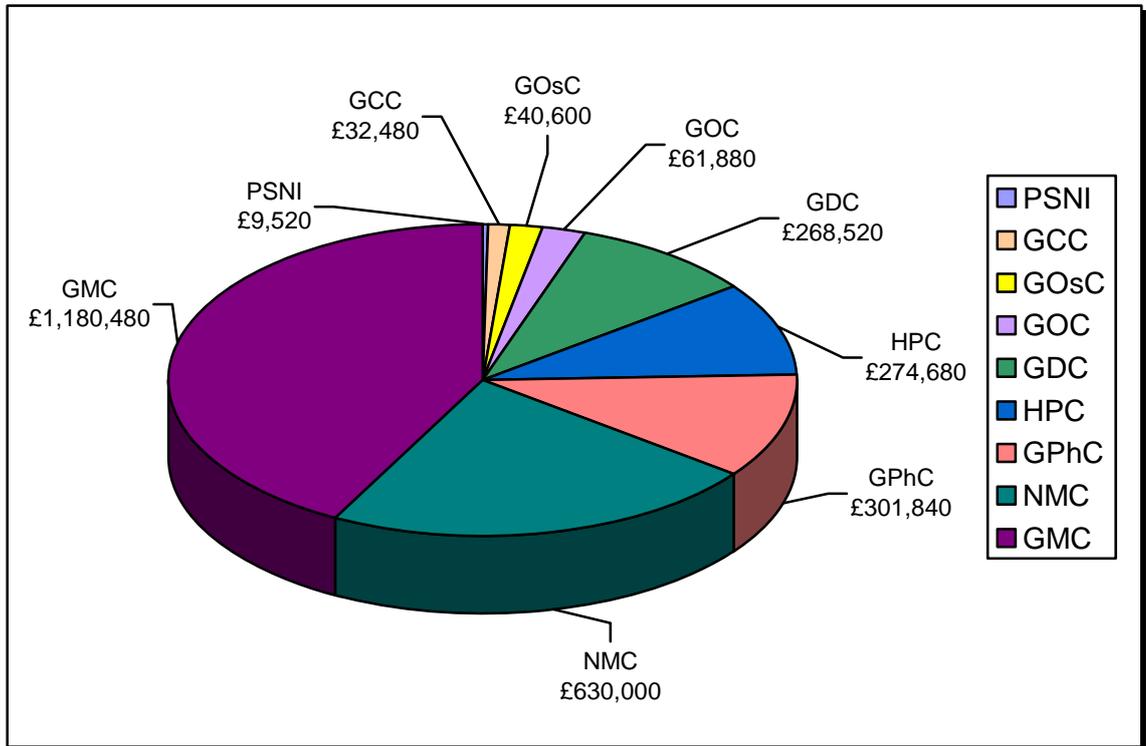


Table 3: Impact on regulators of levy calculated on combination of number of registrants and income (method C)

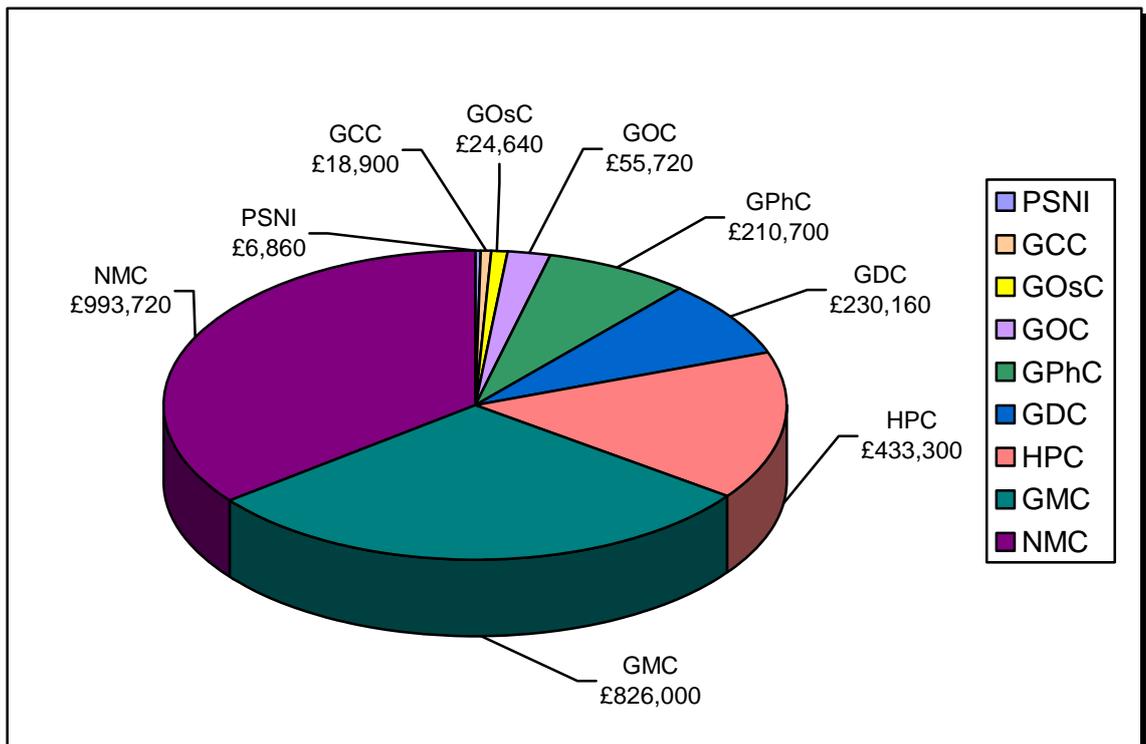
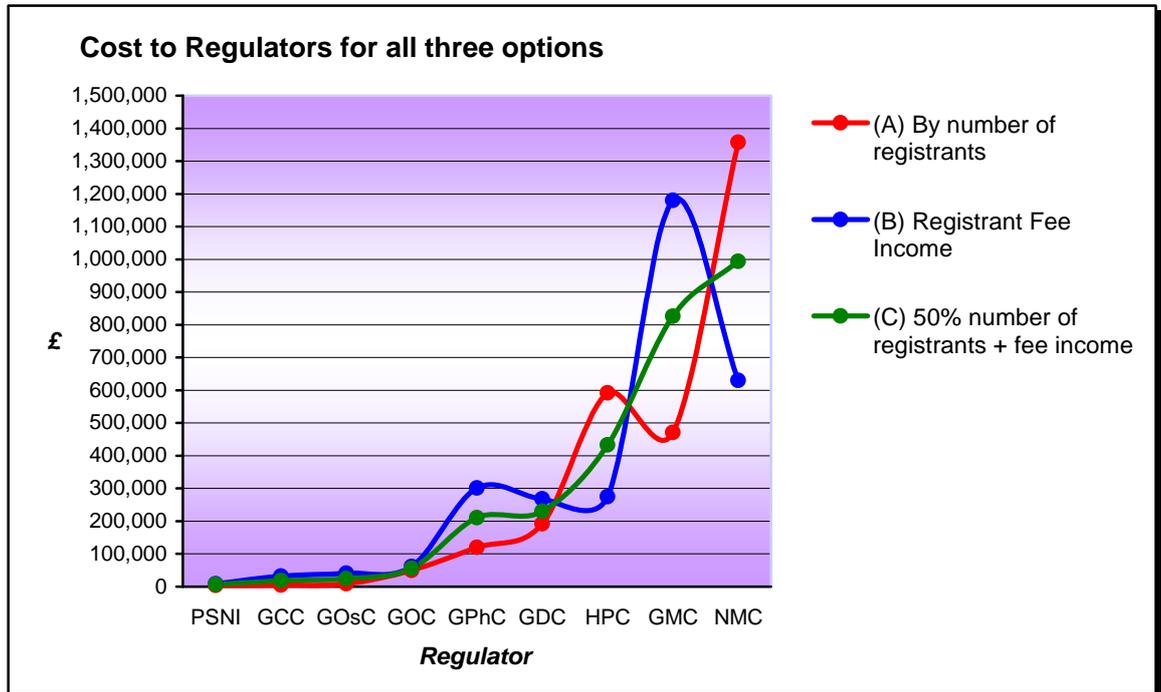


Table 4: Comparison of all three options



6. Conclusion

- 6.1 It is apparent that each of the methods, while raising the same sum of money through the levy, has a different impact on the regulators individually.
- 6.2 CHRE was initially attracted to method A as being simple to explain and calculate and having precedent in the approach taken by the Legal Services Board. However method A has a significant impact on regulators with high numbers of registrants and low registration fees.
- 6.3 Method B was then considered. This is more proportionate but increases costs on the smallest regulators and changes the balance between larger ones.
- 6.4 Method C, although somewhat more complicated to explain and to calculate produces a more distributive and proportionate outcome. To some extent it recognises and accommodates the conflicting interests in models A and B.
- 6.5 The Council of CHRE having considered all the options at some length is now seeking views from the regulatory bodies. The Council's preferred methodology is option C which, in its view, achieves the most proportionate allocation while meeting our principles of ease of calculation, clarity and ease of administration. However the Council is keen to seek views and representations from the regulatory bodies to shape its thinking further.

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Chair: Dr Anna van der Gaag
Chief Executive and Registrar: Marc Seale

31 May 2011

Dear Harris,

Re: Statutory Levy

Thank you for your letter dated 24 March 2011 and the paper on CHRE's proposals for calculating the Statutory Levy.

I attach a brief note on the views of the Health Professions Council on the issues that are raised in the paper.

If you or your colleagues have any questions or points of clarification concerning our response, please do not hesitate to contact me.

Regards
Marc

Marc Seale
Chief Executive and Registrar

Att

Memo

To Harry Cayton, Chief Executive, CHRE

Date 31 May 2011

From Marc Seale, Chief Executive, HPC

Subject Calculating the CHRE Levy



Introduction

This note outlines the views of the Health Professions Council (HPC) on the method that should be used by the Council for Healthcare Regulatory Excellence (CHRE) to calculate the size of the levy which will be raised from the nine UK statutory regulators of health and care professions as proposed in Clause 208 of the 2011 Health and Social Care Bill. It is noted that the issue will be ultimately decided by Parliament.

Impact on HPC registration fees

The HPC believes that in the current economic climate wherever possible UK statutory regulators of health and care professions should not increase their costs. Therefore, the HPC proposes not to raise its registration fees to cover the CHRE Levy but will reduce its costs in proportion to the size of the levy.

CHRE Budget setting

The view of the HPC is that it has absolutely no role in setting or monitoring the budget for CHRE. It is entirely a matter for the Council of CHRE.

Period for setting the levy

The HPC supports the proposal that the methodology for calculating the levy should be fixed for a period of three years.

Collection of levy

The HPC supports the proposal that the levy is invoiced on an annual basis and paid on a quarterly basis.

Accounting

The HPC recommends that CHRE should maintain separate accounts and publish separate annual reports for its two core activities, namely those funded by the levy and those that are not. There should be no cross subsidisation between the two activities. CHRE should clarify that when the Department of Health commissions it to undertake work on its behalf, it will not be paid for by the nine statutory regulators. In addition, any costs associated with other activities such as voluntary registers or establishing a CHRE consultancy business, should not be paid for by the statutory regulators.

Methodology to calculate the levy

Three methods have been proposed by CHRE to calculate the levy. The HPC observations on the three methods are as follows:

- i. **Number of registrants.** The HPC does not support this method. This method should not be used as it penalises cost effective, efficient regulators. If used, a regulator such as the GMC with an annual income of over £80 million would pay less than the HPC with an income of £17 million.
- ii. **Income:** The HPC supports this method. If the HPC were to reduce its costs as a result of increasing the number of professions it regulates it would pay less to CHRE.
- iii. **Number of registrants & income:** The HPC does not support this method. This method penalises cost effective, efficient regulators. For example as the HPC continues to invest in modern and efficient fitness to practise processes it will reduce its costs and the efficiencies can be passed on to its registrants. But if this method is used it will still have to pay CHRE the same amount of levy.