

CHARITABLE HOSPITALS COSTS EXCHEQUER £30M PLUS

Introduction

The Centre for Charity Effectiveness at Cass Business School (part of City University London) has conducted analysis to provide verifiable figures and data on the tax and other financial benefits gained by those private hospitals with charitable status. Their report was commissioned by PIELLE Consulting, on behalf of its client HCA International – London’s leading group of private hospitals – to provide independent evidence-based analysis at a time when the issues of government finance, the role and responsibilities of charities and not for profit organisations is under scrutiny and the structure and workings of the private healthcare market are also under scrutiny.

The data was required to determine:

- how much the charitable hospitals are costing the Exchequer, and therefore the taxpayer, in terms of tax relief;
- whether the charitable hospitals have an unfair financial and competitive advantage over other private hospitals, bearing in mind that they operate in the same way and compete in the same market;
- whether the charitable hospitals can justify their “public benefit” in light of their obligation by the Charities Act to do so.

Research results

Four private hospitals/hospital groups with charitable status were analysed. These were:

- St John & St Elizabeth
- King Edward VII
- The London Clinic
- Nuffield Health

The report looked at:

- Corporation tax
- Business rates
- VAT

Taken together the results revealed that there is a potential total financial benefit of charitable status for the four hospitals/hospital groups analysed of £31.2 million in 2011 alone.

Publicly available data showed that in terms of corporation tax relief and business rates relief in 2011, the four between them, had they not had charitable status, would probably have been obliged to pay £13.1 million:

	Corporation Tax Relief £m	Business Rates Relief £m	TOTAL £m
St John & St Elizabeth	0.8	0.4	1.2
King Edward VII	0	0.2	0.2
London Clinic	6.3	0.5	6.8
Nuffield Health	2.8	2.1 (at least)	4.9 (at least)
Total loss to Exchequer	9.9	3.2 (at least)	13.1 (at least)

By contrast the more conventional private hospital groups, such as BMI, Spire, HCA, Circle and Ramsay, pay significant amounts of tax. For example, HCA International paid £27.3 million in corporation tax and £6.1 million in business rates – a total of £33.4 million.

HCA
Cass Research: briefing document

CHARITABLE HOSPITALS COSTS EXCHEQUER £30-M PLUS

A high level estimate of VAT savings by these four private hospitals/hospital groups showed that there is a potential total loss to the Exchequer of £18.1 million. This was based on information provided by HCA International about its hospital costs and the assumption that the hospitals analysed would have, broadly speaking, proportionately similar cost bases to HCA. These figures are also likely to be proportionately similar to the other for-profit private hospitals.

	High Level Estimate of VAT savings based on 'proportionately similar' cost base assumption		
	Equipment	Medicines/Medical Supplies	TOTAL
	£m	£m	£m
St John & St Elizabeth	0.1	1.3	1.4
King Edward VII	0.1	0.6	0.7
London Clinic	0.3	2.8	3.1
Nuffield Health	1.0	11.9	12.9
Total loss to Exchequer	1.5	16.6	18.1

By, contrast, HCA paid £25.1 million in VAT in 2011, of which £23.6 million was irrecoverable.

Conclusion

This independent report has shown that, as a result of their charitable status, these four hospitals/hospital groups alone benefitted financially in 2011 to the tune of more than £30 million in total.

Nationally, this figure is probably higher if one takes into account other hospitals throughout the country that have charitable status, but function as private hospitals and compete in the private healthcare market.

It is also interesting to note that had these hospitals been applying for charitable status under current law, it is debatable whether they would have achieved it.

As the Directory of Social Change's 2008 Report: *The implications of the Charities Act 2006* states:

"Independent not-for-profit hospitals with charitable status have the dual task of existing to carry out charitable purposes and of competing in the highly competitive market with for-profit providers. The question remains whether organisations such as the London Clinic and Nuffield Health can maintain their position as top healthcare providers in a commercial sense and also remain charitable in terms of providing public benefit". (<http://www.dsc.org.uk/PolicyandResearch/pressreleases/october2008fee-charginghospitalswillstruggletoprovepublicbenefit>)

The market distortion that the charitable hospitals' financial benefits create is a factor that the Competition Commission, in its review of the private healthcare market, should consider.

Media enquiries; please contact:

Jonquil Simons, PIELLE Consulting, tel: 0207 963 7417 or 0207 963 7422 (direct line); mobile (24 hours): 07860 466959 or Jessica Vallance, PIELLE Consulting, Jessica.vallance@pelleconsulting.com