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SHHD/DGM(1989)66

Health Board General Managers
General Manager, Common Services Agency

Your ref

Our ref

EPI/2/2

Date

1 September 1989

Dear General Manager

**INCOME GENERATION**

**Summary**

1. This Circular explains the effect of Section 7 of the Health and Medicines Act 1988, and includes a Direction which devolves its powers to Health Boards and the Common Services Agency. In this Circular "Health Boards" should be read as including the Common Services Agency in relation to functions for which the Agency is responsible. This Circular incorporates

a) Annex A: The Direction
b) Annex B: Guidance on Income Generation
c) Annex C: New Proposals prepared by SCOTMEG.

**Introduction**

2. Guidance on income generation was first given by SCOTMEG in 1987, in Action Plan 4. At that time the Government was seeking legal powers to enable Health Boards to generate additional income. On 15 January 1989, Section 7 of the Health and Medicines Act 1988 came into effect. It gives the Secretary of State new powers to provide various services and carry out additional functions for the purpose of income generation and to charge for these on an appropriate commercial basis. Section 7(3) empowers the Secretary of State to give directions to (amongst others) the Health Boards to exercise these powers. Health Boards should note that the 1988 Act repeals Section 50 of the NHS (Scotland) Act 1978 under which various powers as to accommodation and services were conveyed to them.

**Objectives**

3. Income generation is intended to benefit the NHS by generating additional funds to enhance and improve patient care. It is intended that this will be new money, accruing directly to the Boards themselves, rather than part of the allocation of resources from the Department. Income generation should also help to promote a patient - centred, cost conscious and responsive approach to the NHS's work. Income generation activities are intended to support the NHS's main health care task by providing both financial and non financial benefits. Specific schemes should in general have a clear link to health care and certainly should not obstruct the performance of Boards in carrying out their statutory responsibilities.

**Definition**

4. An income generation scheme is a scheme that seeks to provide a level of income which exceeds the costs involved. **The key objective is to generate net income, not gross income.**

**Additional Powers**

5. Section 7 gives a major stimulus to income generation by allowing the Secretary of State (and, by his direction, the Health Boards) to:

5.1 make such charge which, being calculated on an appropriate commercial basis, may, as a result, exceed the total cost of provision of services and goods;

5.2 use NHS land, buildings and facilities to develop commercial opportunities not directly related to health care.

In particular Section 7 gives power to:

5.3 acquire, produce, manufacture and supply goods;

5.4 acquire land by agreement and manage and deal with land;

5.5 supply accommodation and services including new services; and

5.6 develop and exploit ideas and inventions and intellectual property generally.

**Voluntary Organisations**

6. In accordance with Section 7(3) of the Act, the Secretary of State has directed that, in developing income generation schemes, Health Boards shall have regard to any existing work by voluntary organisations which might be affected by those schemes. Ministers are very appreciative of the contribution of voluntary organisations and Health Boards should pay close attention to the views of these organisations.

**Further Advice**

7. Further advice may be obtained from Health Boards' normal Departmental contacts on specific subjects, or in more general cases from Mr N Fojut, Room 130D, St Andrew's House, Edinburgh, EH1 3DE (031-244 2431 or 031-244 8400 Ext 2431).

Your faithfully

G W TUCKER

ANNEX A

NATIONAL HEALTH SERVICE
DIRECTIONS ON INCOME GENERATION

1. The Secretary of State for Scotland, in terms of Section 7 of the Health and Medicines Act 1988 ("the 1988 Act"), and having regard to the existing work of voluntary bodies, hereby directs that the powers specified in subsection (2) of that section ("the specified powers") shall be exercised by the following bodies ("the specified bodies")

1.1 Each Health Board in Scotland constituted under Section 2 of the National Health Service (Scotland) Act 1978 ("the 1978 Act").

1.2 The Common Services Agency constituted under Section 10 of the 1978 Act.

CONTRIBUTIONS OF VOLUNTARY BODIES

2. In exercising the specified powers the specified bodies shall have regard to the existing work of voluntary bodies.

COMMENCEMENT

3. These directions shall have effect as from 1 September 1989.

George W. Tucker
Assistant Secretary

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ANNEX B

## GUIDANCE ON INCOME GENERATION

## OPPORTUNITIES

### General

1. It is neither intended nor possible to attempt to spell out all the specific opportunities available. The best opportunities will vary between Board areas. However, it may be worth noting some of the broad areas of commercial opportunity which are available. These will include:

- sale of clinical services, eg occupational health services;
- sale of expertise, eg specialist training and advice;
- provision of amenity beds;
- sale of spare capacity, eg laboratory services, catering services;
- provision of additional facilities to patients, eg extra televisions, video recorders, additional choice of meals;
- lease of space, particularly when the use of this space will be directly beneficial to patient/staff amenity, eg shopping malls;
- lease of accommodation, eg conference and residential facilities;
- joint development of surplus land, eg leisure facilities;
- sale of waste or surplus products;
- exploiting ideas and inventions.

2. SCOTMEG has considered these possibilities, and has made recommendations on the most immediately attractive areas for exploration. A summary of these accompanies this circular, as Annex C, and the full report commissioned by SCOTMEG is to be circulated shortly.

### Selection of Schemes

3. Health Boards should consider developing several schemes in different business sectors which will in aggregate achieve a reliable, low-risk income. It is better to have five or six schemes that can be relied upon to produce a net income of, say, £100,000 to £200,000, than to engage in a venture which might achieve £500,000 but which might make a loss. Service improvements can be planned confidently on the basis of expected income from the former but not from the latter.

4. In selecting schemes, the objective of generating net income is important. Schemes which require high levels of stock and working capital should not normally be developed, since these involve undue diversion of funds from health care during the start-up period.

**Private Patients and Overseas Visitors**

5. Section 7 of the Health and Medicines Act 1988 amends the National Health Service (Scotland) Act 1978 so that charges for private patients and overseas visitors may be assessed on "the appropriate commercial basis". Guidance on these areas will continue, for the present, to be issued separately, although the accounting arrangements have now been made similar to those for other existing forms of income generation. Suggestions for development are made in the accompanying SCOTMEG document, and these are acceptable to the Department, although for the present consultation will continue to be required over the re-designation of pay beds.

**Amenity Beds**

6. The SCOTMEG proposals relate essentially to private patients, but the report also mentions amenity beds, and boards should examine thoroughly the scope for making more effective use of this source of income.

7. SHHD circular 1989(GEN(10) made clear that boards should decide the charges for such beds on a commercial basis. There is considerable evidence that boards have done little to promote and publicise the availability of amenity beds, but development of amenity beds should now be seen as one element in boards' overall strategy to maximise their sources of income. Boards should therefore review their policy on provision of and charging for amenity accommodation; decide on the charges for such beds that would be attractive to patients and would provide a maximum revenue to the board; and plan and implement much more effective ways to publicise the availability of amenity beds and to encourage greater use of them. As part of this boards should consider preparing short, attractive leaflets dealing with amenity beds. These might be inserted in the material issued when patients are notified of a date for admission to hospital or in the general information provided to patients. Suitable publicity posters might also be used in appropriate hospital departments, particularly outpatient departments.

8. In some health board areas a misinterpretation of departmental circulars has resulted in some long-stay patients continuing to pay rates for amenity beds that were in force many years ago. As responsibility for deciding the level of charges now rests with boards those concerned will wish to consider how this difficulty might be resolved with due regard to the circumstances of the individual patients concerned.

**Ideas and Inventions**

9. As stated in paragraph 5 of the covering letter, Section 7 gives Health Boards power to develop and exploit ideas and inventions. This will particularly apply in areas such as computer software, medical engineering and instrumentation, diagnostics and pharmaceuticals. These powers relate only to the financial exploitation of ideas and inventions to which the Health Board owns the intellectual property rights. Section 7(1) states that, in developing this area, Health Boards may not disregard any enactment or rule of law or anyone's contractual or ownership rights as to such ideas, inventions and intellectual property.

10. Further, Section 7(7) permits Health Boards to develop ideas, inventions and intellectual property only after consulting (to the extent

that it appears to be practical) any person who appears to have an interest through his own previous research in the ideas or intellectual property in question. This consultation is necessary to give such a person the opportunity to comment on the suitability or desirability of the ideas, invention or intellectual property for development and commercial exploitation, and to discuss any financial arrangements.

11. In view of the large area of statute and other law and the complexity of agreements in relation to research, development and invention relating to intellectual property rights including patent, design rights, moral rights and copyright amongst others, specialist advice should be sought and followed from experts or organisations with proven experience in this field.

**Patient Transport Services**

12. Patients who are certified by a doctor (or dentist or midwife for their specialties) as in need of transport on medical grounds must continue to be provided with such transport free of charge. However, there may be scope for the development of income generation schemes linked to the more efficient use of existing transport capabilities.

**Land and Property Development**

13. Section 7 gives greater flexibility for land and property transactions and makes possible (subject to necessary controls) the more profitable forms of land transactions which are available to private sector landowners. But all such land transactions must be fully appraised and give definable and well-judged benefits compared to alternative means of land disposal. Highly-speculative activities (eg direct commercial developments, or speculating in property investment and land dealing markets) will not be permitted - nor, normally, will the commercial development of land for private sector housing.

14. An evident constraint on the ability of Health Boards to generate income will be the appropriateness of buildings and accommodation. In future, planning of new building and refurbishment schemes should consider, at the design stage, opportunities to generate income without detriment to the quality of patient care. It should generally be possible to ensure that new and improved premises can enable income generation activities to take place without significant extra capital cost, simply by attention to layout. Any extra investment considered necessary to accommodate this should be balanced against the likely income and a payback period calculated to ensure that the extra investment represents good value for money.

RESTRICTIONS

**NHS Services**

15. Income generation will be a support function of the NHS, and should in no way detract from the NHS's primary function to treat patients. Section 7(8) therefore prohibits any scheme which significantly interferes with the provision of free NHS services, in much the same way as Sections 54 and 57 of the National Health Service (Scotland) Act 1978, now amended by Section 7(11) of the 1988 Act.

16. There are, however, circumstances in which Health Boards may charge for certain health-related services to patients. The effect of Section 7(8) and the other sections is that Health Boards must first demonstrate that they are meeting their obligations to provide services free of charge under the 1978 Act, before considering the possibility of providing a commercial version of those same services. Since the precise opportunities for commercial health-related services will vary between localities, it is not practicable to give specific guidance. Health Boards should however test their proposals by seeking advice from the Central Legal Office at an early stage.

**Trading Arms**

17. The Secretary of State may direct the exercise of his powers under Section 7(1) of the 1988 Act only to bodies set up under the NHS (Scotland) Act 1978. This does not allow Health Boards to set up or acquire for trading purposes companies or other trading entities. Other than the limitation of liability (which the Secretary of State would not in any case wish to claim), the advantages of corporate status can often be achieved by other means. Where a Health Board believes its interests could best be served by the establishment of a company, it should discuss with Central Legal Office (and, if necessary, the Department) how best to pursue those interests within existing legislation.

**Pharmacies**

18. Under existing legislation Health Boards are generally not allowed to provide services which fall to be arranged by Pharmacy Practices Committees. This applies to NHS dispensing contracts. The position is unaffected by Section 7 and, except in exceptional circumstances, Boards should not apply for the inclusion of a hospital pharmacy in the pharmaceutical list maintained by the Committee. A pharmacist who wishes to lease premises from a Health Board and then run his own dispensing business could of course apply to the local Committee for inclusion in their list and would be subject to the usual rules, notably that the additional pharmacy must be necessary or desirable in order to secure the adequate provision of pharmaceutical services in the neighbourhood. It is recognised that for the time being a health centre pharmacy is, exceptionally, operated by one Health Board.

**Arrangements Between Boards**

19. Any arrangement involving the provision of goods or services by one Health Board to another cannot be regarded as income generation because the purpose of Section 7 is to generate income from **outside** the NHS.

**Charity and Sponsorship**

20. Section 7 does not change the present position regarding access to funds obtained from charitable sources or by sponsorship by individuals or organisations.

**Unconventional Finance**

21. Nothing in Section 7 changes the position relating to unconventional finance. Such proposals must continue to be discussed on an individual basis with the Department.

## MANAGING INCOME GENERATION

### Monitoring and Control

22. Health Boards themselves are to be responsible for developing income generation locally, within the guidance in this Circular. The Department will stimulate and support but not direct and control. SCOTMEG will continue to play an active role in fostering and monitoring income generation, and further SCOTMEG recommendations regarding promising initiatives under the new powers accompany this guidance.

23. Financial aspects will be managed through the normal planning and accounting process. Income generation is part of general management responsibility and subject to monitoring and review. Accounting guidance has been issued already to Health Boards (in Dear Treasurer letter of 4 October 1988). The Department and SCOTMEG are developing a modified monitoring package to ensure that the progress of local initiatives can be kept under review. Details will be circulated later.

24. There are, broadly, two levels of income generation. The first consists of minor schemes, involving for example the sale of small quantities of waste products or spare capacity. These minor schemes must be developed with the minimum administrative cost - but senior Health Board management must explicitly approve them (to avoid undue risk) and costs and income must be identified and recorded (in order to avoid pursuing schemes which yield little net income).

25. Larger schemes, with a turnover in excess of £25,000, need the more systematic approach set out below. A separate memorandum trading account should be maintained for each scheme.

### Marketing Considerations

26. The level of success achieved will depend to a very large extent on Health Boards' ability to adopt good marketing practice in identifying and developing their opportunities. This requires each Board to develop a marketing strategy within which opportunities can be evaluated in the light of the local environment and the wider goals and objectives of the Board.

27. Boards should produce a business plan, for internal consideration, before embarking on larger income generation schemes. The analysis undertaken as part of this plan should include a realistic assessment of risk; identification of all attributable costs (including opportunity costs) and the key variables and their sensitivity to change. The details and depth of the analysis should be in proportion to the scale of the project and the investment involved. It should be remembered that **the objective is net income, not gross income.**

28. Health Boards may not have the necessary expertise to identify and market opportunities. Where this is the case (eg a novel field or a small Health Board), Boards should not attempt to manage commercial opportunities themselves but should make an appropriate contractual agreement with experts in the field. SCOTMEG and Department may be able to advise on this and SCOTMEG will disseminate information on the progress of pilot projects. Boards should be aware that, where they are awarding a contract or franchise, the market may as yet be undeveloped

and the contractual arrangements might therefore provide for review after a short period of operation, to take account of the degree of success of a new venture.

**Competitive Policies and Fair Trading**

29. In developing many income generation opportunities, Health Boards will enter the commercial arena. They should be sure that they act in a commercial manner in all their dealings and charge on an appropriate commercial basis. **Price should be established on the basis of what the market will bear in order to maximise profit.** Health Boards should take their expected costs into account only in assessing the minimum combination of price and volume which is profitable. Commercial charges should also be applied to any services that were formerly supplied under Section 50 of the National Health Service (Scotland) Act 1978, and to the provision of amenity beds and the treatment of private patients and overseas visitors. (Separate guidance for private patient and overseas visitor charges has been issued as NHS Circular No 1989(GEN)10 on 17 March 1989.)

30. Advice on setting an appropriate commercial charge in individual cases should be obtained from in house or private-sector sources who have suitable experience. In general, a commercial fee or charge should give due weight to the appropriate commercial forces which will include the cost of the service provided, the potential scale of operation, consumer demand, the long-term earnings potential, the value of assets involved, the charge for analogous services in the private sector, and the principles of fair trading.

31. There are certain fair trading obligations on pricing policy. These are contained in the Fair Trading Act 1973 and the Competition Act 1980. Under these Acts the Director-General of Fair Trading may decide to investigate the commercial practices of any organisation which is alleged to be acting anti-competitively. These provisions are not binding on Health Boards but Ministers have made it clear that they expect Health Boards to recognise and abide by fair trading provisions.

32. It is particularly important to note that in many cases Health Boards enjoy advantageous supply pricing arrangements which may be lost through injudicious efforts to gain short-term income. They should discuss with their suppliers/contractors anything which might contravene or threaten existing purchasing/contracting arrangements.

**Information Exchange**

33. Income generation initiatives are to be locally based because of the benefits of easier identification of opportunities, local ownership and speed of response. It is important that these advantages are not eroded by Health Boards competing with one another and thereby reducing the profit available to the NHS as a whole, or by ignorance of the lessons learnt in other parts of the country.

34. Boards should be aware that the market for a product or service may be wider than the area of an individual Health Board and should seek to co-operate with other Boards in such circumstances. It may be sensible to agree that one Board should act as leader in a larger scheme, as SCOTMEG advocates for some schemes in the accompanying document.

35. It is important that Health Boards share information on their experience of income generation in order to profit from good practice and avoid known pitfalls. In England the Department of Health's Income Generation Unit (IGU) is developing a database for health authorities' use. It is likely that this will be similar to the VISTA database recently launched to inform on value for money initiatives. The IGU will work closely with the National Association of Health Authorities (NAHA), whose publication on this subject is now in its second edition, to ensure that a central database supplements existing information. These sources of information will be accessible to Health Boards. In Scotland, SCOTMEG will assist in co-ordinating the exchange of information.

## OTHER RESPONSIBILITIES AND OBLIGATIONS

### Personnel Issues

36. Many schemes for income generation will affect staff either in their work capacity or as customers. Health Boards should ensure that appropriate and timely consultation takes place and that this, wherever possible, includes information on the specific use intended for profit generated to improve health care locally. NHS managers will wish to consider how best, within the regulations, to reward staff who participate by identifying income generation opportunities or by providing services additional to their contracted responsibilities. Section 7 does not make any amendment to Whitley Council agreements on pay and conditions.

### Corporation Tax

37. The Inland Revenue have confirmed that Health Boards are Crown-exempt for tax purposes. The main effect of this, for income generation schemes, is that trading profits and capital gains are not liable to Corporation Tax; rental income, for example from hospital shops, is also not liable to tax.

38. However, the fair trading requirement (see paragraphs 31-32) means that comparisons with private sector returns are best made at the level of surplus before interest and taxation, to eliminate the financial effect of tax exemption.

### Value Added Tax

39. Any "output" of a Health Board, in terms of goods or services supplied for a consideration, may be liable to VAT. Boards should therefore seek advice on whether schemes are:

a) taxable (at positive or zero rate)

b) exempt

c) outside the scope of VAT.

40. It is important that all outputs are identifed and categorised correctly, to ensure that:

a) charges made for goods and services are correctly computed to include VAT where appropriate,

b) output VAT is correctly accounted for, and

c) input tax is recovered where permissible.

**Insurance**

41. Income generation is intended to provide money over and above that which is made available from the Exchequer. The general principle whereby the Crown bears its own losses is inappropriate in these circumstances particularly given the local basis of schemes. Income generation activities should be entirely self-supporting and the appropriate commercial insurance should be taken out for them.

**Product Liability**

42. Guidance on the complex area of product liability under the Consumer Protection Act 1987 was given in Circular SHHD/DGM(1988)6, dated 23 February 1988.

**GENERAL PRINCIPLES**

43. Income Generation will directly benefit patients by providing improved services and a better environment. Although the Health and Medicines Act 1988 has facilitated this, it does not remove from Health Boards their wider responsibilities and obligations in law or their responsibility to ensure best value for money. Besides the primary responsibility to provide free NHS services, a number of other obligations exist which should be borne in mind in pursuing income generation.

SHHD
Div IVD/2
1 September 1989

# SCOTTISH HEALTH MANAGEMENT EFFICIENCY GROUP

## INCOME GENERATION: PART 2

INTRODUCTION

1. SCOTMEG has played a leading role in encouraging the NHS to pursue new opportunities for income generation. Action Plan 4, issued in July 1987, was one of the first documents to explore this potential. It proposed the development of tenanted shops and retail concessions within hospitals and other NHS premises, and the sale of an increased range of waste products. As part of the study on which the Plan was based, a shopping concourse was developed at Glasgow Royal Infirmary. This was the venue for a seminar, organised by SCOTMEG in October 1987, and attended by representatives of all mainland Boards and one Island Board. The Action Plan was accompanied by a detailed Report containing practical guidance on implementation of its recommendations.

2. Most Boards now have plans, at various stages of development, for the establishment of shops and retail concessions within hospital premises. In addition, a consortium of Boards is investigating the potential for generating income from advertising on stationery, such as appointment cards, in-patient admission leaflets, and menu cards, and through video screens in waiting areas.

3. During the passage of the Health and Medicines Bill through Parliament, SCOTMEG established a second phase study to provide guidance for Health Boards and the CSA on the additional income generation powers contained in the Bill. This was undertaken by an officer of Greater Glasgow Health Board. His Report, presented to SCOTMEG in November 1988, provides detailed advice on three areas which have significant potential for generating income:

| | | Projected net annual income |
|---|---|---|
| (i) | development of health care exports | £ 60,000 |
| (ii) | commercialisation of clinical facilities, looking at occupational health, health screening and immunisation | £ 120,000 |
| (iii) | increasing income from private patients | £1,400,000 |

Overall, the Report identifies scope for generating a net income of £1.6 million per annum across Scotland as a whole.

4. SCOTMEG has considered the Report and its conclusions are set out in this paper. The full Report contains detailed recommendations concerning implementation, particularly on financial and marketing issues, but SCOTMEG recognises that further work is required in relation to each of the areas covered. This paper sets out proposals for carrying forward this work.

DEVELOPMENT OF HEALTH CARE EXPORTS

Summary of the Report's Conclusions

5. This section of the Report deals with the provision of skilled personnel support (consultancy, training, feasibility studies, and initial project implementation) for health care developments overseas, primarily through schemes supported by international organisations/government aid (the fund-aided sector), thereby guaranteeing payment. It is assumed that the Service would be able to release staff only for periods of less than 12 months.

6. At present only Greater Glasgow and the CSA operate in this field under formal contracts. Other Boards have staff on placement overseas for whom locum cover is provided, but these arrangements are to broaden the individual's experience rather than provide a financial return to the Board. Greater Glasgow currently receives a gross income of just over £150,000 through two contracts.

7. The Report recommends a target gross income of £400,000 per annum, generating a net income of £60,000. To achieve this, the NHS in Scotland is encouraged to :

(i) develop a corporate approach, either on its own or as part of the Centre of Responsibility based in North East Thames RHA;

(ii) develop a common pricing structure linked to the known market rate (the Report sets out detailed proposals);

(iii) market the potential for health exports among NHS staff;

(iv) prepare a database of personnel with experience in this field or interested in providing such services.

SCOTMEG's Recommendations

8. Although the projected net income is modest, health exports generate other benefits eg in publicising overseas the quality of the NHS in Scotland with resulting benefits for the NHS, for private health organisations in Scotland, and for Scottish companies in other sectors involved in overseas projects.

9. All Health Boards and the CSA should therefore review the potential for health exports, building upon the personal initiative of individual members of staff.

10. For the reasons outlined in the Report, there are clear advantages in a corporate approach. Greater Glasgow, as the only Board active in this field at present, has agreed to take the lead on behalf of the Service as a whole in acting as agent for marketing the NHS in Scotland. It will link as appropriate with the English Centre of Responsibility (North East Thames RHA), but operate as a separate entity. Boards would require to provide Greater Glasgow with an accurate database of individuals with suitable experience who could be released to provide such services, perhaps at short notice. At a later stage, CSA might also collaborate with Greater Glasgow.

COMMERCIALISATION OF CLINICAL FACILITIES

Summary of the Report's Conclusions

11. This section of the Report deals with health screening, occupational health services, and travel-related immunisation. It does not cover other possible areas of commercial exploitation, such as pharmaceutical and laboratory services, because their complexity was considered to require separate examination.

12. There are no centrally-held statistics on current income from occupational health and screening contracts made between Boards and other organisations. For example, Greater Glasgow derives over £90,000 per annum from providing occupational health services to local authorities. Implementation of the Report's recommendations is estimated to generate an annual gross income of £800,000, and a net income of £120,000.

13. The Report recommends:

(i) setting a competitive pricing structure for these services, which retains the flexibility needed to respond to market opportunities;

(ii) pro-active marketing of NHS facilities;

(iii) establishment of a consortium or designation of a lead Board to facilitate (i) and (ii);

(iv) creation of a centre for travel immunisation.

SCOTMEG's Recommendations

14. (i) Occupational Health

Boards should be encouraged to market occupational health services. This may involve expansion of NHS capacity to meet demand, provided that this proves to be cost-effective. Competition with the private sector should be on a fair basis, and in this context full costing of services requires to be undertaken, with overheads included at a realistic rate.

(ii) Health Screening

Some concern has been expressed about the propriety of offering to those who pay, a service that is not available on the NHS. Doubts have also been raised about the medical value of some screening services. Lothian Health Board has agreed to take the lead in exploring the market, investigating the ethical questions and preparing a commercial plan.

(iii) Immunisation

As British Airways has decided to establish a centre offering immunisation and travel-related advice in Scotland, it is recommended that this should not be pursued nationally by the NHS. Individual Boards may wish to explore the market for such services within their areas.

INCREASING REVENUE FROM PRIVATE PRACTICE

Summary of the Report's Conclusions

15. The longest and potentially most far-reaching section of the Report deals with increasing income from pay beds, of which there are currently 113 authorised in the NHS in Scotland. The beds are widely distributed with no one site having more than 10 beds.

16. Since 1980, gross annual income from these beds has been around £800,000. Average occupancy levels are about 36%. The Report suggests that a gross income of £2.8 million could be raised by more efficient use of existing pay-beds (private and amenity beds), and that this would produce a net income of £1.4 million per annum.

17. The Report recommends inter alia:

(i) centralisation of authorised beds on a single site, with a unified management structure;

(ii) adoption of a chargemaster pricing structure for all existing facilities, with flexibility for volume referrals, fixed price treatment packages etc;

(iii) improvement in facilities to bring them into line with private sector standards;

(iv) involvement of consultants in the management of private units, and as an incentive provision of a proportion of income generated to their specialty;

(v) better information for GPs, and sustained marketing of private facilities;

SCOTMEG's Recommendations

18. It is proposed that a staged approach should be adopted:

(i) improve pay bed occupancy so that all beds match the average pay bed occupany outside London of 50% (itself below occupancy rates claimed for the private hospital sector). This would be achieved by steps such as more vigorous marketing, and would be likely to require concentration of pay beds on a single site per Board (as has been done by some authorities in England) and establishment of a separate unit (thus allowing preferential treatment on medical matters as well as non-medical, as allowed under the NHS (Scotland) Act 1978 subject to various provisos). Ayrshire and Arran, Forth Valley, Greater Glasgow and Lothian have agreed to pursue this possibility, including the scope for joint ventures with private companies.

(ii) increase pay bed numbers. To take full advantage of the new powers in the Health and Medicines Act, SCOTMEG recommends that at the earliest legislative opportunity the limit on the number of pay beds should be abolished, and that the Department, in association with General Managers, should review the present management guidelines.