cjt

National Health DAVID ✓

You asked about this - a table of the charges is attached.

DEPARTMENT OF HEALTH & SOCIAL SECURITY

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From the Secretary of State for Social Services

MS
25/9

Nick Sanders Esq
Private Secretary
10 Downing Street
London
S W 1

21 September 1979

Dear Nick,

You asked for a note on charges to private patients treated in NHS hospitals. I enclose a paper prepared by the Department.

Yours ever
Don.

D BRERETON
Private Secretary

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CHARGES TO PRIVATE PATIENTS TREATED IN NHS HOSPITALS

Legislative position

1. The Secretary of State for Social Services is required by the NHS Act 1977 to set charges for private patients who are treated at NHS hospitals. Section 65 of the Act relates to in-patients (ie pay bed patients) and section 66 to out-patients.

a. Private resident patients (in-patients)

The provisions are for annual determination (from 1 April) of charges for different "classes" of hospitals. Charges must "have regard so far as is reasonably practical" to the total cost it is estimated will be incurred in the provision of services for resident patients in each class. A contribution for capital expenditure can be added.

b. Private non-resident patients (out-patients)

A very general provision allowing determination of different charges for different accommodation, services and circumstances.

Basis of charges

2. Within this legislative framework the method used in calculating charges for both resident and non resident patients is based on the principle of trying to recover the cost to the NHS of providing the service. We do not aim to make either a profit or a loss. The current method is to base charges on average cost of providing services in hospitals which are authorised to provide accommodation or services for private patients. The consultant charges patients separately (and without restriction) for out-patient and in-patient treatment (except under Section 65(1) - private patients of the hospital).

a. Resident patients

Hospitals are classified into six classes: long stay, psychiatric, non-teaching district, London teaching district, provincial teaching district and London Specialist Post-graduate teaching hospitals.

A charge per day is determined for each class. This is based on total in-patient costs for all services for all hospitals with pay beds in each of the classes. The average cost of an in-patient day in the immediately preceeding financial year is obtained by dividing total hospital expenditure in each class by total in-patient days. This figure is then revalued to estimated pay and price levels in the coming year. Additions are made for administration (2½% on each class, based on cost of BG, AHA and District Administration) and capital (based on a 3-year rolling average of capital expenditure in each class). There is a 10% surcharge for a single room and a lower rate where the patient is paying the consultant separately. (The attached Parliamentary answer describes the method of calculation in rather more detail).

b. Non-resident patients

Similar to resident patients. Hospitals are grouped (4 classes) and charges are based on the average cost of each out-patient procedure in each class. Additions are made for capital and administration. Some procedures (eg expensive courses of drugs) are left for local calculation.

Future charges

3. Pay bed charges become due for revision on 1 April 1980. (Private out-patient charges, though not statutorily required to be reviewed annually, are always revised at the same time). As part of the review DHSS will be looking at the method of calculating charges with a view to making improvements within the existing statutory basis. The aim will be to ensure that charges reflect actual costs as closely as is practicable. One point the Department will be looking at is the criticism by the Royal Commission on the NHS that the method of calculating the addition for capital bears "little relationship to the cost of providing a hospital bed in the private sector" and their recommendation that the charge should cover both interest and depreciation. The Department will be considering this and will be discussing with Treasury a new method for calculating this addition. Other refinements of the charging system which are being considered are:

For in-patients

More classes of hospitals, thus reducing the extent of "swings and roundabouts" within the present broad groupings;

Higher charges for very high cost procedures (at present the charge is an "all-in" one regardless of the particular treatment being given);
Higher charges for the first few days to reflect higher costs of medical/ nursing care for first part of a patient's stay.

<u>For out-patients</u>

More local calculation of charges by health authorities for very high cost procedures.

PRIVATE SECTOR CHARGES

NUFFIELD NURSING HOMES TRUST

4. The Nuffield Nursing Home Trust is the largest independent hospital group, and there are now 30 NNHT hospitals with a total of 1000 beds. Nuffield described their charging system as the "art of the possible": there are - they say - no end to the possible complexities but they have to draw the line at the point where the system would get too complicated and too expensive to administer. They recognise that there is a large element of swings and roundabouts.

5. Their starting point is the total costs of running the hospital plus "profit". Charges are calculated to recover this total sum. Individual charges are based so far as possible on calculated cost but there is also some adjustment to what "seems sensible" where fully accurate costing is impossible.

6. Patients pay a basic bed charge which includes all nursing, ancilliary staff, administrative, food, cleaning, heating and similar services. This charge is £2.00 per day higher for the first 5 days to reflect higher medical and nursing dependency during this period. On top of this they pay for services used eg use of operating theatre, physiotherapy, X-ray The operating theatre charge varies according to 'type' of operation (Major £40, intermediate £32, minor £13; this does not of course include consultant charges. It does include nursing services and normal dressings. There might be an extra charge if exceptional services were involved). There are scales of charges for different pathology and radiology tests.

7. The principles behind the NNHT system are very similar to those relating to NHS pay beds. The NNHT system is more sensitive to individual costs, but the fact that they are totally geared to charging and costing makes this a much easier task. It must also be one of their main priorities and justifying proportionately high administrative costs.

8. Some charges are the same throughout Nuffield, others vary (eg the bed charge is higher in Central London). In the provinces the bed charge at about £300 per week is close to the all-in pay bed charge for non-teaching district hospitals.

Other private hospitals

9. We do not have much information about how other private hospitals arrive at their charges. The charges at most private hospitals seem to be of the same general magnitude as pay bed charges, but some private hospitals are geared to providing treatment for "oil sheikhs" and the like, and their charges are much higher. (At October 1978 the charges at the London Clinic and the Wellington Hospital ranged up to about £1500 per week, as compared to £300-£450 in NHS pay beds. The private hospital charges are for accommodation etc only, whereas the pay bed charges are "all-in" bar the consultant's professional fee).