



Sue Ryder Briefing for MPs in advance of Adjournment Debate on Tuesday 10th May
The Effects of VAT on Hospices

Introduction

We are delighted this debate has been scheduled. As a supporter of our campaign on irrecoverable VAT and healthcare services, we very much hope you will be able to attend the debate to speak up for hospices.

About Sue Ryder

Sue Ryder provides health and social care services for people with long term and end of life conditions. We deliver care in our hospices, neurological care centres and in people's own homes and communities.

Historically, hospices have been under-funded by the NHS with charities providing a significant contribution towards their upkeep and delivery of services. Sue Ryder has 7 hospices. We receive varying funding settlements from the NHS and top the rest up with charitable funds.

On average, charitable hospices receive 32% in statutory funding for the services they provide. This percentage is marginally higher for Sue Ryder's hospices. As we have a number of hospices we are able to bring together some central functions, saving significant funds for each hospice. However, we still inject up to 54% of charitable funds towards the running of each hospice.

VAT, the NHS and hospices

In January 2011 Sue Ryder launched a campaign to raise awareness about the problem of irrecoverable VAT for charities providing healthcare services. We wanted to highlight the inequality between charities and the NHS as the latter is able to recover VAT on certain non business supplies that charities cannot.

The NHS's ability to recover VAT on certain non business supplies is written into Section 41 of the 1994 VAT Act.

Under current legislation, when services are transferred from the NHS to the charity sector, there is a 'VAT gap' that needs to be filled by charitable funds, or funds provided by the PCT.

It is our belief that the government's public service reform, NHS reform and Big Society agendas are likely to result in charities delivering a greater volume of public services. Hospices are keen to take on these new responsibilities. A recent transfer of an NHS hospice to Sue Ryder under the Transforming Community Services initiative has sparked interest in the viability of charities taking

on other NHS hospices and services. We believe there should be a level playing field in VAT between charities and the NHS so that all possible funds can go towards the delivery of the care.

Our rough estimate suggests that for every £10m spent by PCTs / NHS on outsourcing hospices to the third sector, the additional cost burden to the sector will be in the region of £400,000.

With this money, Sue Ryder could provide 40,000 hours of care, or 25,000 bereavement sessions for family members who have lost a loved one.

The Solution

We believe an unintended consequence of the government's policy direction is the fact that they will make financial gains in VAT as services are transferred from the NHS to charities.

The government can close this legislative loophole; and there is recent precedent for doing so.

In the Finance Bill provisions are made to ensure that academy schools are able to recover VAT on non business supplies in the same way as local authorities.

A Ten-Minute Rule Bill tabled earlier this year by the MP Nic Dakin with cross-party support suggests a simple legislative solution. We have produced a number of other potential solutions; all of which are cost neutral to the Treasury.

We understand that it may be necessary to factor in the VAT reliefs received by charities on medical equipment and supplies to ensure that we create a truly level playing field and not one where charities are at an advantage to the NHS. This can be addressed simply in legislation.

One option is for PCTs to fill the 'VAT Gap' when making financial arrangements for the transfer. However, this is not a sustainable or desirable solution to the problem as inevitably it would make PCTs less amenable to commissioning services from charities. In addition, extra funding available from the PCT in service transfers should be driven into care and not VAT.

Similarly, we do not think charities should be expected to fill the 'VAT gap' either. This would require the use of voluntary donations which were given with the intention of funding care, not VAT.

A legislative solution to the problem is the only fair and sustainable way of making a change.

The discussions so far

In Parliamentary questions and letters on this subject, the Treasury has raised the reliefs such as Gift Aid that are enjoyed by charities. These are extremely highly valued by the sector and we welcome the steps the government is making towards cutting red tape for charities.

However, we believe that tax burdens should be removed from charities where they can be. This particularly applies when charities are providing public services and injecting considerable charitable funds. When a charity takes on the delivery of a public service (such as an NHS hospice) in the future, the Treasury should not be seeking to raise extra funds from the charity. This is against the spirit of their positive attitude towards charities and philanthropic giving.

The future

We believe it is a necessity for the Treasury to level the playing field for charities such as hospices who seek to take on NHS services as part of the government's reform agenda.

This would not apply to all charitable hospices and services; only those that are transferred from the NHS in the future. However, when there is a less immediate need for financial restraint, we hope that the Treasury will consider allowing all hospices the right to the same VAT recovery as the NHS. This would allow us to use all charitable donations as they are intended; on care or towards supporting the delivery of care.

This would make a real difference; for example, in 2011/12 we project our Thorpe Hall hospice will incur £42,024 of VAT on non business supplies. If this hospice had the same VAT recovery rights as the NHS it would be able to recover around 57% of this figure.

We therefore believe the government should act now to remove this barrier from charities' participation in their reform agenda, and should look at their policy around charitable VAT recovery more widely in the future.

Possible interventions:

Below are a number of suggested interventions for the debate.

- If the government believes it is right for academy schools to recover VAT in the same way as local authorities, why should hospices not recover VAT in the same way as the NHS? They already contribute significantly to providing high quality public services; surely we should remove tax burdens where we can?
- Has the Treasury made estimates of the amount of money it will raise in VAT as services are transferred from the NHS to the charity sector under the Big Society and NHS Reform agendas?
- Does the Minister agree with the principle that there should be a level playing field in VAT recovery between the NHS and charities? If so, will he amend legislation to ensure this is possible?
- Charities receive significant support from the government; for example the Gift Aid scheme helps charities to make the most of financial donations. However, as charities are encouraged to get involved in the delivery of public services, using their own funds as well as those provided by the state, isn't it fair that we ensure their charitable funds are used directly on care and do not end up with the Treasury?
- The current policy of the Department of Health encourages charities to get more involved in the delivery of NHS care. Yet HMRC's policy has not adapted by removing the VAT barrier standing in their way. Will the two Departments work together to seek a solution to this problem?

If you have any questions or comments about this briefing, or would like further information on Sue Ryder's VAT campaign, please contact Blanche Jones, Head of Public Affairs on 020 7400 0445 or email blanche.jones@sueryder.org