



Review of commercial income activities and opportunities

By Red Circle Healthcare Advisory

On behalf of XYZ Hospitals NHS Foundation Trust

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www.redcirclehca.com

Executive Summary



This report highlights the current position of XYZ Hospitals NHSFT's commercial income against a peer group of 10 comparable Trusts. The report is based on a benchmarked analysis of the performance of the Trust against 9 Key Lines of Enquiry (KLOE) which together make up the vast majority of commercial income across all NHS Trusts. The report highlights specific areas where the Trust can increase its commercial income significantly.

The review was undertaken against a background of increased focus nationally on public sector entrepreneurialism (PSE) which means that all NHS Trusts are being encouraged to explore commercial opportunities for income generation. In this context the Trust's Board has approved an Enterprise Strategy which provides a framework and strategic direction within which commercial opportunities can be explored and implemented where appropriate.

High-level analysis of the 2022/2023 financial data shows that the Trust's commercial income represented 5.8% of turnover, placing it 10th out of the 11 Trusts in the peer group and against the national average of 8.3%. If the Trust moved to the national average it would increase its commercial income by £19.4m

A more detailed analysis of each KLOE, shows that if the Trust moved to the peer group's mean performance it would generate an additional c£17.8m. If the Trust adopted a more targeted and ambitious approach moving towards upper quartile performance levels there is even greater scope for increased income.

The report highlights a number of important opportunities to raise significant additional commercial income. In order to progress these major opportunities, further analysis is needed to understand the dynamics of each activity and establish the feasibility of such increases. Business cases should be produced where investment may be needed. These opportunities include:

- Clinical Service for Other Bodies
- Clinical Services for Non-NHS Other
- Private Patients
- Research & Development
- Education & Training
- Provider to Provider

The review also highlights a number of early opportunities to increase income which can and should be actioned now, namely:

- Overseas Income
- Parking Income
- Rent & Lease Income

In summary the review shows there are a number of specific opportunities to increase significantly the commercial income for the Trust all of which are consistent with the Trust's Enterprise Strategy.

Introduction



In August 2024, Red Circle Healthcare Advisory (Red Circle) was engaged by XYZ Hospitals NHS Foundation Trust (the Trust) to review the current position and explore opportunities for increasing its commercial income. This project builds on the Trust's existing draft commercial strategy, now referred to as the Enterprise Strategy, presented by the Director of Finance.

Red Circle provided the Trust with an 'assemble by client' list and supplemented this information with proprietary data and publicly available sources, including:

- Commercial income analysis from a peer group of similar Trusts
- Census and deprivation data for the peer group
- Data on private patient activity in England (2023)
- Procedures no longer routinely offered by the NHS
- Case studies of best practice from other NHS Trusts

The peer group consisted of 11 comparable NHS Trusts, selected based on their 2022/23 turnover of £700m to £1bn. For each of the Key Lines of Enquiry (KLOE), Red Circle analysed their commercial income as a percentage of total income, ranking the Trusts accordingly. Red Circle also produced heat maps showing private patient activity within 5 and 10 miles of X and Y.

From this analysis and relevant case studies, Red Circle developed a shortlist of near and longer term opportunities for the Trust to investigate further. This report focusses upon the big picture and provides a high-level summary of the principal findings and conclusions. It also proposes a way forward and next steps. The detailed evidence is available to support further investigation.

Context



The financial pressures facing the NHS have led to an increasing focus on public sector entrepreneurialism (PSE), where Trusts are encouraged to explore commercial opportunities for income generation. This approach not only supports financial sustainability but also fosters innovation and service improvements.

The Health and Social Care Act of 2012 (HSCA) has played a pivotal role in encouraging commercial behaviour within the NHS, giving Trusts more freedom to pursue revenue-generating activities. While Foundation Trusts must ensure that most of their income comes from public sources, they can now generate up to 49% of income from non-public sources, with no such cap for NHS Trusts. As expected, there is wide variation between individual organisations and their commercial income. There are significant opportunities to increase commercial income, maximise profit/contribution and add positively to the bottom line.

As a result, many Trusts, including XYZ Hospitals, have developed dedicated teams to pursue commercial opportunities. In the context of the Trust specifically, the Board-level approval of the Enterprise Strategy shows the Trust's commitment to exploring commercial opportunities. This report highlights how the Trust can take this forward by focusing on areas such as commercial ventures (e.g., clinical trials), partnerships (e.g., pharmaceutical collaborations), user fees (e.g., parking) and private patient services. Excluded from this report are one-off revenue streams like land sales or charitable funds.

The analysis uses FY 2022/23 financial data, as some FY 2023/24 figures were unavailable. The Trust's commercial income represented 5.8% of turnover, placing it 10th out of 11 Trusts in the peer group, below the national average of 8.3%. This highlights a significant opportunity for growth.




Heat maps have been generated to analyse the catchment population for private patient services within 5 and 10-mile radii of the Trust's hospitals, alongside census and deprivation data. For example, X, Central XYZ, and Y have very different levels of deprivation, influencing the commercial opportunities available.










Finally, Red Circle reviewed the Trust's key strategic documents, such as the Annual Report 2023/24 and Clinical Strategy, and found strong alignment between the Enterprise Strategy's goals and the broader Trust objectives. This synergy demonstrates a clear pathway for increasing commercial income as part of the Trust's overall strategic direction.

Summary of Findings for Key Lines of Enquiry

The following section highlights the principal findings for each of the Key Lines of Enquiry (KLOE).

These have been RAG rated to show the Trust's relative performance against the peer group.

Performing well in peer group 
Opportunity for improved performance 
Underperforming in peer group 

-  Clinical Services for Other Bodies
-  Clinical Services for Non-NHS Other
-  Private Patients
-  Overseas
-  Research & Development
-  Education & Training
-  Provider to Provider
-  Parking
-  Rent & Leases

Clinical Services to Other Bodies

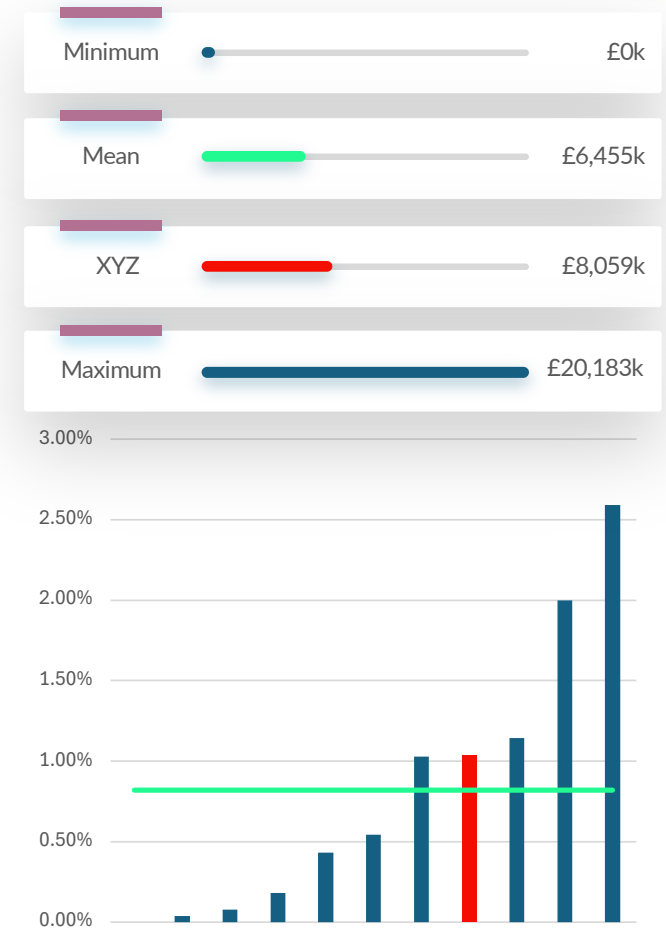
Clinical services provided to other NHS bodies and local authorities

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Opportunities for additional income

Moving to the upper quartile: £ 7,524k
Moving to the upper decile: £ 12,147k

- The Trust ranks 4th (1.03% of turnover), with Lewisham ranked 1st (2.59%).
- There is a wide variation between Trusts in the peer group (0.00% to 2.59% of turnover).
- The income in this section is labelled NHS Trust, NHS FT, NHS Other and local authorities. This income is dictated by the historical design of services, especially community services.
- This appears to be an area of significant opportunity. There is a need to explore other related organisations' operational policies including the ICB's strategy and system-wide service plans.



Clinical Services to Non-NHS Other



Clinical services provided to non-NHS organisations (excluding local authorities)

Opportunities for additional income

Moving to the mean:

£ 1,407K

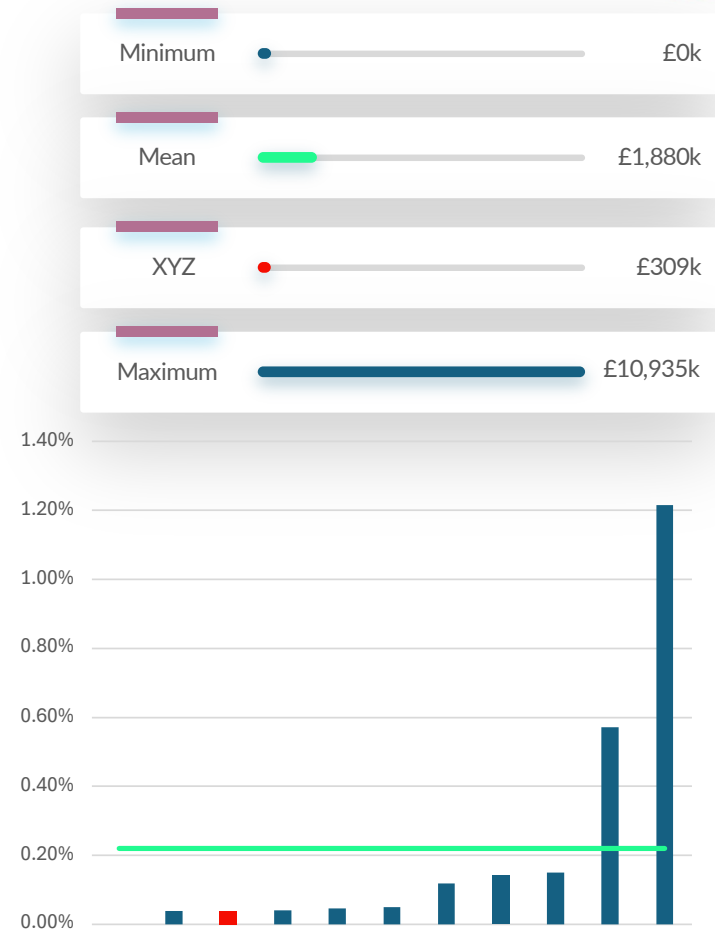
Moving to the upper quartile:

£ 4,149k

Moving to the upper decile:

£ 9,167k

- The Trust ranks 9th in this category (0.04% of turnover) with Royal Wolverhampton ranked 1st (1.22%)
- Red Circle found correlations between rankings here and those for private patients and also number of private hospitals
- This suggests that the majority of Trusts' income in this activity is for services to private hospitals, of which there are few locally in XYZ.
- The Trust should explore why other Trusts are performing better, including the relationship between demand for clinical services relative to other competitive sources of supply.



Private Patients

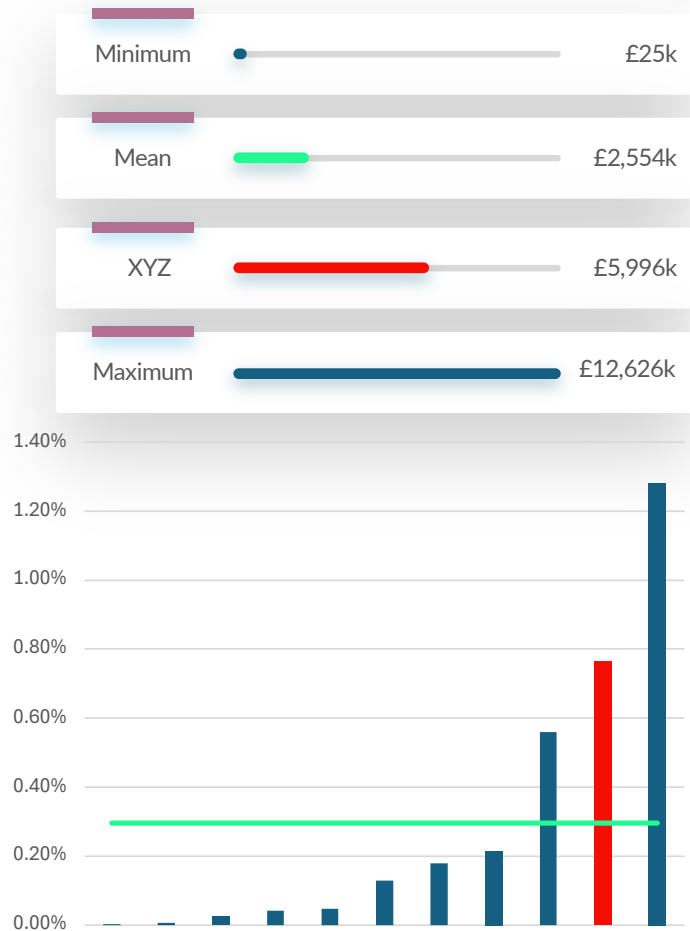
Clinical services provided to private patients

Opportunities for additional income

Moving to the upper quartile: £ 0k
Moving to the upper decile: £ 4,024k

- The Trust ranks 2nd in this category (0.77% of turnover) with Frimley ranked 1st (1.28%)
- The Indices of Multiple Deprivation (IMD) average correlates closely to performance. In the areas around Central XYZ (IMD average is 264 out of 307 placing it in the 9th decile of deprivation i.e. a relatively affluent population) there should be a relatively large market for private patient care.
- Given the IMD population, market characteristics and the fact that there are only 3 independent private hospitals within a 10-mile radius of X and Y, the opportunities to expand the private practice base should be explored.

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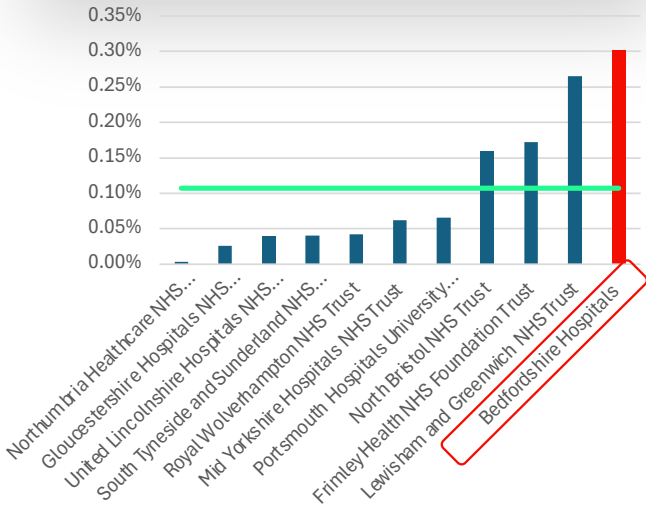
Overseas Visitors

Clinical services provided to patients from overseas. The majority of payments are received from other governments with whom the UK NHS have reciprocal arrangements. Where no such agreement exists, payers are private individuals or their insurers.

Opportunities for additional income

Moving to the upper quartile: £ 0k
Moving to the upper decile: £ 0k

- The Trust performs best in the peer group in this category (0.30% of total turnover).
- There appears to be a close correlation between performance and proximity to a major airport.
- The Trust has written off £654k in bad debt over the last 2 years, applying NHSE best practice could save £330k pa.
- Although performing well, our case studies show that by adopting best practice, the Trust could yield significant additional overseas/private patient income.



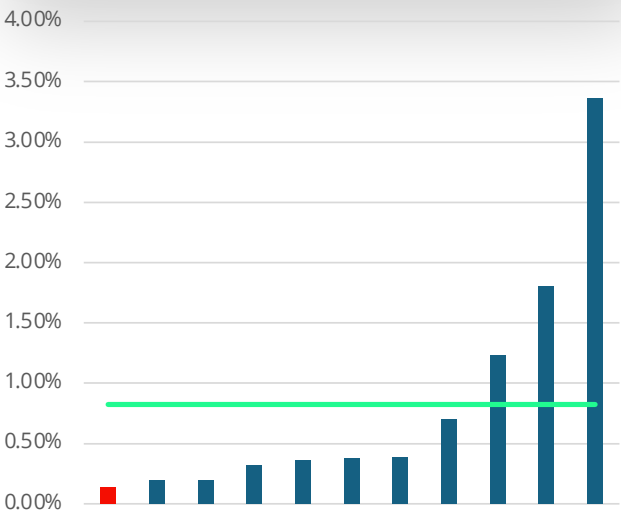
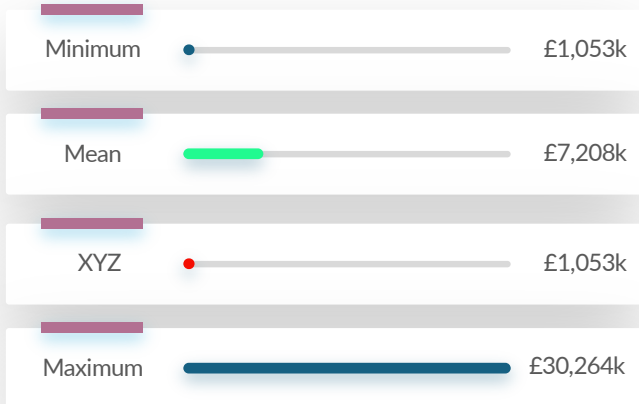
Research & Development

Income from research & development activities

Opportunities for additional income

Moving to the mean: £ 5,368k
Moving to the upper quartile: £ 12,995k
Moving to the upper decile: £ 25,172k

- The Trust ranks 11th for overall R&D income (0.14% of turnover) with Wolverhampton ranked 1st (3.36%).
- R&D funding is complex and there is no nationally available dataset at Trust level. There is no breakdown between commercial and non-commercial R&D income by Trust nationally.
- There is a national drive to increase significantly commercial clinical trials.
- Given the complexity and difficulties of this activity, together with the size of the potential opportunity further detailed work needs to be undertaken to support the emergent R&D strategy which the Trust is developing.



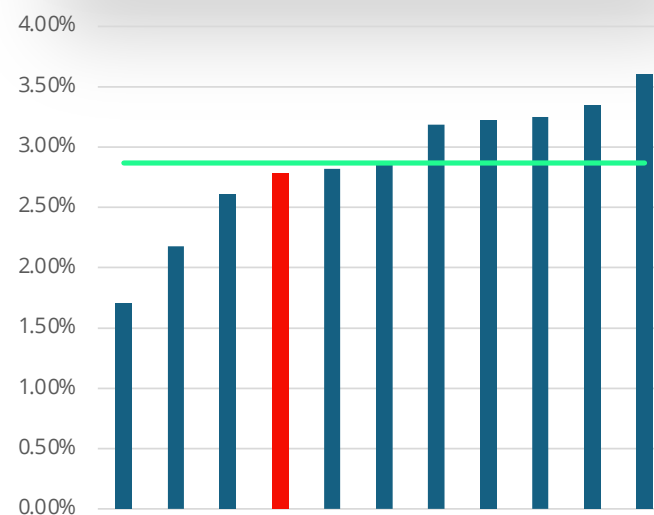
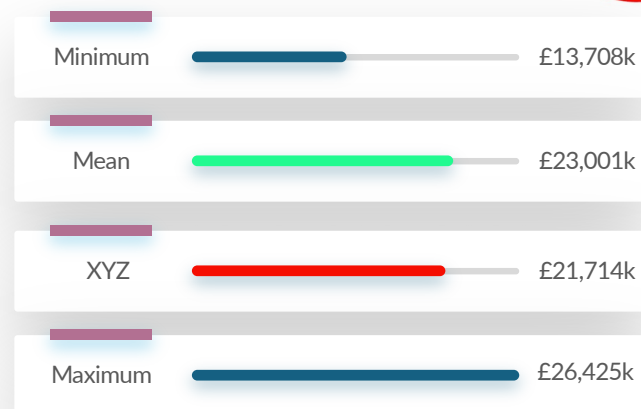
Education & Training

Income from educational & training activities

Opportunities for additional income

Moving to the mean: £ 647k
Moving to the upper quartile: £ 4,350k
Moving to the upper decile: £ 6,352k

- The Trust ranks 8th for overall E&T income (2.78% of turnover) with Mid Yorkshire ranked 1st (3.60%).
- E&T funding is complex and there is no nationally available dataset at Trust level. There is no breakdown between commercial and non-commercial E&T income by Trust nationally.
- More work is required to scope out what appear to be significant commercial E&T opportunities and to develop an E&T strategy and plan.



Provider to Provider ●

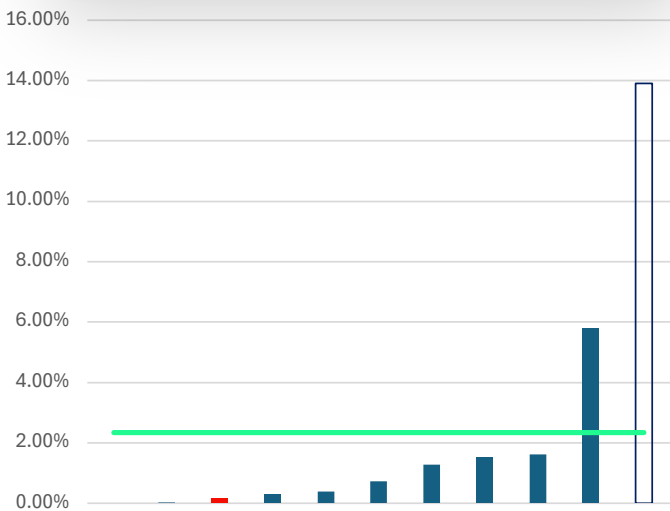
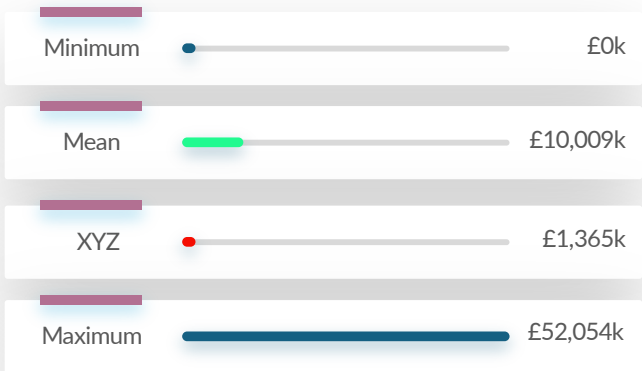
Income from providing non-clinical services to other providers such as Estates and Facilities



Opportunities for additional income

Moving to the mean: £ 7,837k
Moving to the upper quartile: £ 11,327k
Moving to the upper decile: £ 43,742k

- The Trust ranks 9th (0.18% of turnover) with Northumbria ranked 1st (13.91%). However, services provided to host Trusts are consolidated into the accounts making comparisons difficult.
- Northumbria is a significant outlier in this category with a number of large subsidiaries, therefore this data has been excluded for comparative purposes. Gloucestershire and South Tyneside also have large estates and facilities subsidiaries.
- Given the size and complexity of this activity more detailed work needs to be undertaken to understand the scale of the opportunity in the Trust.



Parking

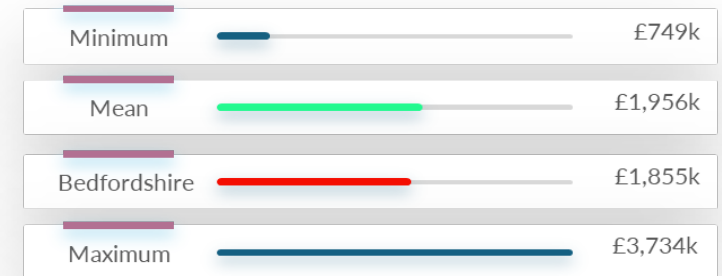
Income from the Trust's car parking charges to visitors and staff



Opportunities for additional income

Moving to the mean:	£31k
Moving to the upper quartile:	£775k
Moving to the upper Decile:	£1,401k

- Using ERIC data the Trust ranks 5th (0.24% of turnover) with Mid Yorkshire ranked 1st (0.43%)
- Red Circle found a direct correlation between performance here and the IMD (except for Mid Yorkshire). Trusts tend to charge the same price across their hospitals even where there is a difference in IMD rankings.
- Trusts are obliged to publish their visitors parking tariffs which allowed for an hourly comparison of charges
- The Trust is undertaking significant work to develop its parking strategy which should provide an opportunity to review capacity and pricing.



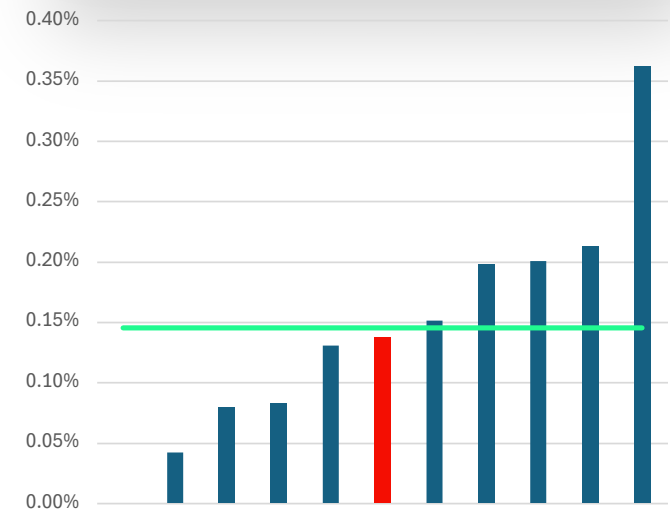
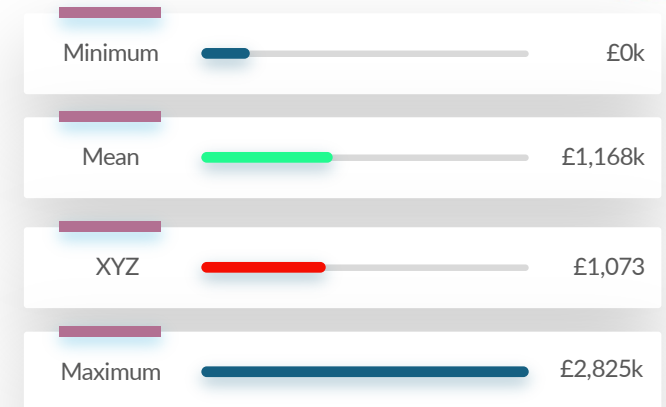
Rent & Leases

Rental and lease income from the Trust's estate including staff accommodation

Opportunities for additional income

Moving to the mean:	£	62k
Moving to the upper quartile:	£	590k
Moving to the upper decile:	£	1,755k

- The Trust ranks 6th in this category (0.14% of turnover) with Lewisham ranked 1st (0.36%)
- Using data from Trust's ERIC returns adds additional insights into performance e.g. specific details of "contributions" from leases
- ERIC data shows many Trusts losing money through their leases
- The Trust's leases appear to make a £2.2m loss. The validity of this apparent gap needs to be explored, but the opportunity to improve is material.



Summary of the Opportunities



This table summarises the potential income opportunities for the Trust if it moves to the Mean, Upper Quartile, or Upper Decile performance levels within its peer group.

Within the peer group the size of Trusts varies, making a comparison of actual income alone potentially misleading. The key comparison used is the percentage of turnover for each KLOE. By moving to the peer group's mean percentage for a given KLOE, the additional revenue is calculated by applying the difference between the mean percentage and the Trust's performance to the Trust's actual turnover.

Example

Trust's current performance:	1% of turnover
Peer group's mean performance:	3% of turnover
Trust's turnover:	£779m
Additional income by moving to the mean:	2% x £779m = £15.58m

This approach offers insight into both the potential increase in commercial income and the relative size of the challenge of achieving these potential targets.

	Moving to the Mean	Moving to the Upper Quartile	Moving to the Upper Decile
Clinical Service to Other Bodies	-	£7,524k	£12,147k
Clinical Services to Non-NHS Other	£1,407k	£4,149k	£9,167k
Private Patients	-	-	£4,024k
Overseas Visitors	£330k*	£330k*	£330k*
Research & Development	£5,368k	£12,995k	£25,172k
Education & Training	£647k	£4,350k	£6,352k
Provider to Provider	£7,837k	£11,327k	£43,742k
Parking	£31k-	£775k	£1,401k
Rents & Leases	£2,200k#	£2,200k#	£2,200k#
TOTAL	£17,820k	£43,668k	£104,535k

* The Trust is currently the best performer within the peer group for Overseas Patients income, however a further £330k pa can be realised by adopting NHSE's best practices for charging overseas patients.

The Trust is currently making a loss of £2.2m/year on rents & leases and should investigate how to make a positive contribution.

Progressing the Key Opportunities

For each KLOE there are opportunities to increase income and potentially contribution.

This section summarises these opportunities and highlights how to progress them.

Early Opportunities

These opportunities should be able to be realised relatively early to maximise near term impact.

Major Opportunities

These are significant opportunities for major growth in income and contribution which will require further analysis, feasibility studies and business cases.

Early Opportunities

These opportunities should be able to be realised relatively early to maximise near term impact.



- **Overseas Income**
Move to NHSE best practice in recovering Overseas Visitors income and minimise bad debt write-off.
- **Parking Income**
Implement a new car parking pricing structure across the Trust's sites.
- **Rental Income**
Ensure that all commercial leases are making a positive contribution to the Trust's bottom line and that the current £2.2million loss is removed to at least breakeven.



Major Opportunities

These are significant opportunities for major growth in income and contribution which will require further analysis, feasibility studies and business cases.



● **Clinical Services for Other Bodies**

Explore other related organisations' operational policies including the ICB's strategy and system-wide service plans.

● **Clinical Services for Non-NHS Other**

Investigate why other Trusts are performing better, including the relationship between demand for clinical services relative to other competitive sources of supply.

● **Private Patients**

Given the IMD population and market characteristics, explore the opportunities to expand the private practice base.

● **Research & Development**

Ensure that the emergent Research Strategy has a clear commercial element and convert this into an implementation plan.

● **Education & Training**

Develop and deliver an Education & Training Strategy with clear commercial elements.

● **Provider to Provider**

Undertake more detailed work to understand the scale of the opportunity in the Trust and identify the appropriate vehicle to develop and implement an agreed strategy and plan.



Case Studies

Case studies of innovative and best practice from NHS Trusts across the country



The following case studies can be accessed via the Red Circle portal.

1. **Great Ormond Street Hospital for Children NHSFT** (Overseas & Private Patients)
2. **The Royal Marsden NHSFT** (Overseas & Private Patients)
3. **Moorfields Eye Hospital NHSFT** (Overseas & Private Patients)
4. **King's College Hospital NHSFT** (Overseas)
5. **Oxford Health NHSFT** (Research & Development)
6. **University College London Hospitals NHSFT** (Research & Development)
7. **Oxford University Hospitals NHSFT** (Research & Development)
8. **King's College Hospital NHSFT** (Education & Training)
9. **Guy's and St Thomas' NHSFT** (Other Commercial)
10. **Frimley Health NHSFT** (Other Commercial)
11. **University Hospitals Birmingham NHS FT** (Other Commercial)
12. **University Hospital Southampton NHS Foundation Trust** (Other Commercial)
13. **The Newcastle Upon Tyne Hospitals NHSFT** (Other Commercial)

