



BRIEFING PAPER

Number SN0724, 14 June 2017

NHS Funding and Expenditure

By Rachael Harker

Contents:

1. The UK NHS
2. NHS England
3. Data tables



Contents

Summary	3
1. The UK NHS	4
1.1 Structure	4
1.2 Sources of funding	4
1.3 Total expenditure	5
1.4 Expenditure by devolved administrations	7
2. NHS England	8
2.1 Funding process	8
2.2 Total expenditure	8
2.3 Funding pressures	9
3. Data tables	12

Summary

Expenditure on the NHS has risen rapidly and consistently since it was established on 5th July 1948. In the first full year of its operation, the Government spent £11.4bn on health in the UK. In 2015/16, the figure was over ten times that amount: £138.7bn. Growth in health expenditure has far outpaced the rise in both GDP and total public expenditure: each increased by a factor of around 4.8 over this period.

The average annual expenditure increase since 1955/56 is 3.8%. However, between 2000/01 and 2004/05 average annual spending growth was 8.8% which is higher than at any other time in the history of the NHS.

Responsibility for health services is devolved to the Scottish, Welsh and Northern Irish administrations. In 2015/16 health services expenditure per head was highest in Scotland (£2,258 per head) and lowest in England (£2,106 per head).

The focus of this note is on the structure, funding process and expenditure of the NHS in England. The structure and expenditure of the UK NHS is described briefly in Section 1. Expenditure in England is dealt with in Section 2.

In 2015/16, NHS England held a budget of £102 billion. The majority of this budget (72%, £73 billion) was allocated to Clinical Commissioning Groups (CCGs) according to a population and needs-based formula. NHS England retains around 28% of the budget (£29 billion in 2015/16) for the direct commissioning of specialised healthcare, primary care and military and offender services.

In England the largest five-year moving average in real terms spending growth (+8.7%) occurred over the period 1999/2000 to 2003/04. Based on inflation figures published in the March 2017 Budget, the lowest five-year moving average is set to occur over the 2015/16 to 2019/20 period (+1.1%).

1. The UK NHS

1.1 Structure

The NHS was established on 5 July 1948, with the aim of providing a comprehensive range of health services to all UK citizens, financed by general taxation and free at the point of use.

The responsibility for the provision and development of health services lies ultimately with the Secretary of State for Health in England, the Minister for Health and Community Care for Scotland, the Minister for Health and Social Services for Wales and the Minister for Health, Social Services and Public Safety for Northern Ireland. They are supported by the Department of Health in England, the Scottish Executive Department of Health in Scotland, the NHS Directorate in Wales and the Department of Health, Social Services and Public Safety in Northern Ireland. The Scottish Parliament has competence over health and the National Assembly for Wales (NAW) has powers to shape the delivery of health services. However, unlike the Scottish Parliament, the NAW does not have law-making power over the running of the NHS. The Northern Ireland Assembly is intended to take an active role in shaping health services.

Each country has chosen to structure its National Health Service differently. A common theme of NHS funding across the countries is the allocation of a significant proportion of the NHS budget to local organisations (Clinical Commissioning Groups or Health Boards), which are responsible for meeting local need. Another common strand is for allocations to these organisations to be informed (but not entirely determined) by a needs-based funding formula, on the principle that it is desirable to achieve equal access to healthcare for people at equal risk across the country

The key difference between the countries lies in the role of the internal market. England and Northern Ireland have a 'purchaser/provider split', whereby one part of the health service (the purchaser) is responsible for contracting with the NHS and independent-sector organisations (the providers) to supply services for patients. Scotland and Wales have moved away from these market-orientated models since devolution: they dismantled the purchaser-provider split in 2004 and 2009 respectively. Local health boards in these countries are now responsible for both funding *and* provision of NHS services.

1.2 Sources of funding

The vast majority of NHS funding ultimately derives from central (UK) taxation. Within the block grant allocated to each devolved administration (via the Barnett formula), each country is free to decide how much to spend on the NHS.

The NHS can also raise income from patient charges, sometimes known as 'co-payments'. Devolved administrations have control over the level at which these are set.

Prescription charging

In England, eligible patients currently pay a prescription charge of £8.05 per item (or alternatively 'subscription'-type charges). Wales, Scotland and Northern Ireland have abolished prescription charging. In 2012/13, England raised £523m through the prescription charge (0.5% of the NHS resource budget)¹

Dental Charging

All the devolved administrations charge for NHS dental treatment (although exemptions differ). In England, patients pay between £20.60 and £244.30 depending on the complexity of work performed.² In Wales, the range is £13.50 to £185.³ In Northern Ireland, patients pay 80% of the cost of treatment, up to £384⁴; Scotland operates a similar system.⁵ Income raised through dental charges amounted to £744m in England in 2015/16⁶; in Wales, the figure was £33.2m⁷. Estimates for Northern Ireland and Scotland are not available.

Other sources of income

Other, less significant sources of income are earned, for example, through charging overseas visitors and their insurers for the cost of NHS treatment. Hospitals can also raise revenue through car parking charges, patient telephone services etc. In addition, NHS Trusts can earn income through treating patients privately. In 2015/16, NHS Trusts in England generated £558 million in income from private patients⁸ and in Wales, the figure was £6.2 million.⁹ Estimates for Northern Ireland and Scotland are not available.

1.3 Total expenditure

Figure 1 (also see Table 1) shows expenditure by central government on health in the UK, net of receipts from patients, as a percentage of GDP (top line) and in 2015/16 prices (bottom line). Figures are presented from 1955/56 onwards, although some changes in the responsibilities of the NHS mean that the series is not fully consistent over the period. In 1955/56 spending amounted to £12.8 billion in 2015/16 prices, or 2.9% of GDP. By 2015/16, spending had increased more than tenfold in real terms to reach £138.7bn, or 7.4% of GDP. Although it has risen consistently over the period, spending has accelerated in recent years, with the sharpest rise occurring between 1998/99 and 2009/10, when real-terms expenditure rose by 98%.

Sources for Figures 1 and 2 overleaf are shown in the data table 1 at the end of the briefing paper.

¹ Department of Health Annual Report and Accounts 2015/16

² <http://www.nhs.uk/NHSEngland/AboutNHSservices/dentists/Pages/nhs-dental-charges.aspx>

³ <http://www.wales.nhs.uk/ourservices/findannhsdentist/nhsdentalcharges>

⁴ <https://www.nidirect.gov.uk/articles/dentists-and-health-service-dental-charges#toc-6>

⁵ <https://www.scottishdental.org/public/treatment-charges/>

⁶ Department of Health Annual Report and Accounts 2015/16

⁷ NHS Dental Services in Wales 2015/16

⁸ Department of Health Annual Report and Accounts 2015/16

⁹ NHS Summarised Accounts for Wales 2015/16

Figure 1: Expenditure on UK Health Services

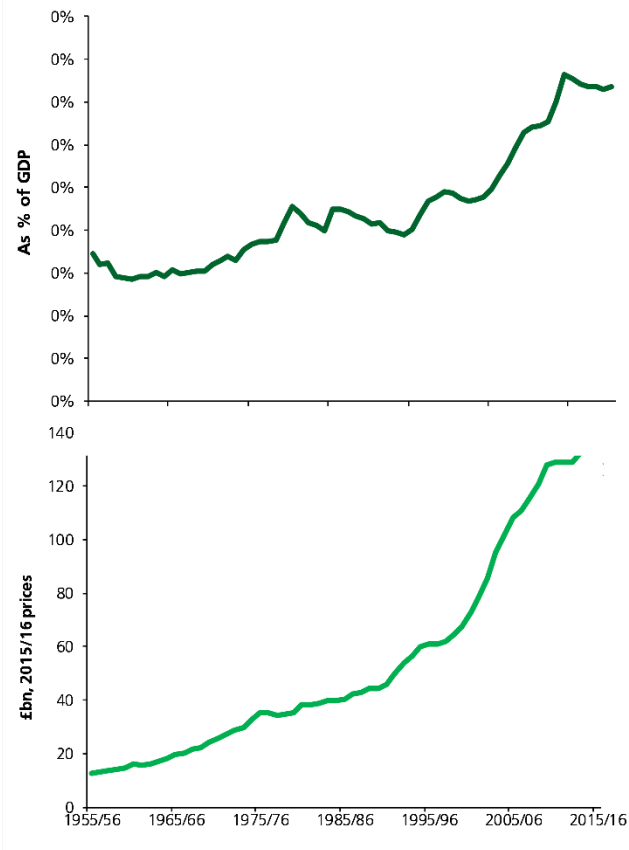
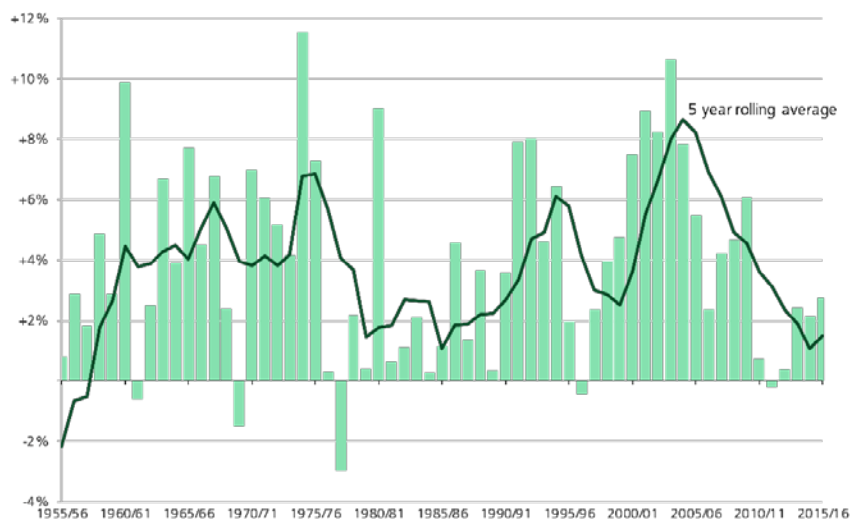


Figure 2 shows the annual percentage changes in real terms central government expenditure over the past 60 years. During this time, negative change has occurred on just four occasions; with the largest decrease (-3.0%) occurring in 1977/78. Since 1958/59, the five-year moving average has always been positive. The average annual expenditure increase since 1955/56 is 3.8%. However, between 2000/01 and 2004/05 average annual spending growth was 8.8% which is higher than at any other time in the history of the NHS.

Figure 2: Real terms percentage change in UK health expenditure (2015/16 prices)



1.4 Expenditure by devolved administrations

Responsibility for health services is devolved to the Scottish, Welsh and Northern Irish administrations. In 2015/16 health services expenditure per head was highest in Scotland (£2,258 per head) and lowest in England (£2,106 per head).

As shown in the table below, England has consistently spent less per head and as a percentage of Gross Value Added (GVA) than other nations over the past five years. GVA measures the contribution to the economy of each individual producer, industry or sector. GDP is a key indicator of the state of the whole UK economy and includes the GVA data plus taxes on profits and less subsidies on profits. GDP figures are only available for the UK as a whole.

In terms of % GVA, Wales and Northern Ireland have shown the highest percentage share for health since 2011/12 and England the lowest.

Health expenditure by country

	2011/12	2012/13	2013/14	2014/15	2015/16
<i>Total expenditure £millions</i>					
England	99,795	102,478	107,354	111,614	115,361
Wales	6,093	6,020	6,163	6,442	6,592
Scotland	11,057	11,287	11,462	11,594	12,132
N. Ireland	3,639	3,844	3,875	3,911	4,032
<i>Expenditure per head</i>					
England	1,879	1,916	1,993	2,055	2,106
Wales	1,989	1,958	2,000	2,083	2,127
Scotland	2,086	2,124	2,151	2,168	2,258
N. Ireland	2,006	2,108	2,118	2,125	2,178
<i>Expenditure as % GVA</i>					
England	8.1%	8.0%	8.1%	8.0%	8.0%
Wales	12.2%	11.7%	11.6%	11.9%	11.8%
Scotland	9.9%	10.0%	9.7%	9.3%	9.5%
N. Ireland	11.6%	12.0%	11.7%	11.6%	11.7%

Sources:

[HM Treasury Country and regional analysis 2016, Tables A11 and A15](#)
[ONS Regional GVA December 2016](#)

2. NHS England

2.1 Funding process

Funding for health services comes from the total budget for the Department of Health (DH). The NHS England revenue and capital budgets are announced in the Department of Health's expenditure plans, published as part of each Spending Review. In 2015/16 the total allocated budget for the DH was £117 billion.¹⁰ The majority of this budget (£102 billion) was transferred to NHS England with the remainder divided between DH's other agencies and programmes, including funding for Public Health England, and Arm's Length Bodies like the Care Quality Commission, NHS Improvement and NICE.

NHS England's budget is used to deliver its [mandate](#) from the DH. NHS England is responsible for allocating resources to local commissioners of health services: clinical commissioning groups (CCGs) and local authorities. Most of the commissioning resource allocations go to CCGs (£73 billion in 2015/16). Of the remaining resources (£29 billion in 2015/16) NHS England directly commissions certain services on a national level, covering specialised services (£15 billion), primary care and military and offender services. The remainder of NHS England's budget is spent on centrally administered projects and services, including some public health responsibilities on behalf of Public Health England, which broadly comprise immunisation and screening programmes.¹¹

Funds flow from CCGs to NHS hospitals and other providers either via contracts, or through a system known as Payment by Results, which uses a "tariff" based on national average costs for each type of treatment. More details on the commissioning role of CCGs and the organisation of the NHS in England can be found in the Library Standard Note [The Structure of the NHS in England](#).

2.2 Total expenditure

Table 2 at the end of this note shows health expenditure and planned expenditure in England from 1979/80 to 2019/20. Earlier data is not available on a consistent basis.

Although real-terms expenditure has risen from £26.7 billion in 1974/75 to £105.0 billion in the 2015/16 (the latest outturn expenditure), changes in accounting procedures preclude consistent comparisons of spending over long periods. However, year-on-year real-term increases can be quoted on a consistent basis:

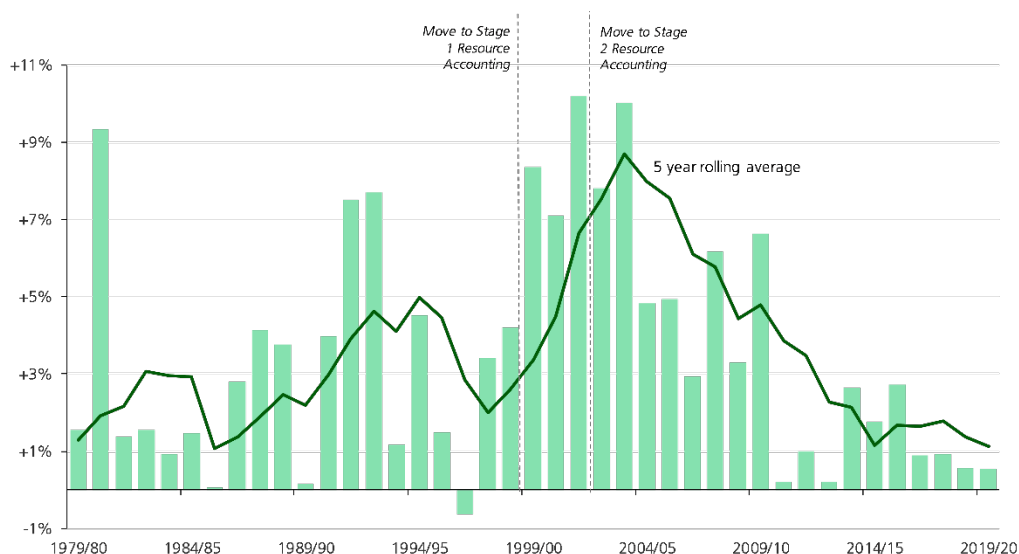
¹⁰ [HM Treasury, Public Expenditure Statistical Analyses 2014, Table 1.10](#)

¹¹ [NHS England Annual Report 2015/16](#)

Figure 3 shows the annual real-term increases along with a moving five-year average. The largest five-year moving average (+8.7%) occurred over the period 1999/2000 to 2003/04. Based on inflation figures published in the March 2017 Budget, the lowest five-year moving average is set to occur over the 2015/16 to 2019/20 period (+1.1%).

Sources for Figure 3 are shown in data table 2 at the end of the briefing paper.

Figure 3: Real terms percentage change in health expenditure in England (2015/16 prices)



2.3 Funding pressures

NHS England's [A Call to Action – The Technical Annex](#) outlined projected NHS England budget allocations to 2020/21. NHS England assessed the likely cost of future health needs and compared this to the future funds available to purchase that care. Its analysis used seven years of flat 'real' spending on health. This modelling process indicated that the NHS would face a funding gap of around £30 billion between 2013/14 and 2020/21.

The NHS [Five Year Forward View](#) (FYFV) proposed major changes to the provision of healthcare services. It identified that the NHS will need to continue to adapt in response to increasing patient demand, funding constraints and new technologies and treatments. The FYFV set out NHS funding scenarios for the period to 2020/21 and estimated that if it received £8 billion more funding then the remaining £22 billion gap could be found through efficiencies.

The *2015 Spending Review* set out that NHS funding in England is planned to reach £119.9 billion by 2020/21. This represents a £8.4 billion real terms increase from 2015/16 (a £10 billion increase if measured from 2014-15). The NHS in England is also committed to deliver its £22 billion in efficiency savings by 2020-21.

10 NHS Funding and Expenditure

The annual difference between the spending allocated by Government and the amount the NHS needs (as set out in A Call to Action – The Technical Annex) is set out below.

NHS Spending projections to 2020/21 (£billions)						
	2015/16	2016/17	2017/18	2018/19	2019/20	2020/21
NHS England projected requirements	107.0	113.0	118.0	124.0	130.0	137.0
2015 Spending review settlement NHS TDEL	101.3	106.8	110.2	112.7	115.8	119.9
Funding gap	5.7	6.2	7.8	11.3	14.2	17.1

Sources:

[NHS England A Call to Action Technical Appendix](#)
[The Spending Review, November 2015, NHS Settlement](#)

There are concerns that this funding gap may not be met. Analysis from the King's Fund, Health Foundation and Nuffield Trust found that Department of Health spending as a whole will only increase by £4.5 billion in real terms over the five years to 2020/21, due to real terms cuts in other areas of spending (including public health and education and training). The squeeze on social care funding is also adding to NHS pressures - unnecessary A&E attendances, emergency hospital admissions and delayed hospital discharge.

There are also concerns that efficiency savings may not be met. As noted in the Health Committee report on [The Impact of the Spending Review on health and social care finances](#), a number of organisations believed the required scale of efficiency savings to be made was unprecedented.

NHS England acknowledged this in the Five Year Forward View:

The NHS' long run performance has been efficiency of 0.8% annually, but nearer to 1.5%-2% in recent years. For the NHS repeatedly to achieve an extra 2% net efficiency/demand saving across its whole funding base each year for the rest of the decade would represent a strong performance -compared with the NHS' own past, compared with the wider UK economy, and with other countries' health systems. ¹²

Nonetheless, NHS England argue that such savings are possible and could even increase to 3% net efficiency by 2020/21.

¹² NHS England [Five Year Forward View](#)

3. Data tables

Table 1 Government expenditure on health services: 1950/51-2015/16: UK

	Net expenditure (£billion) ^a			Net expenditure (£ billion at 2015/16 prices)			Annual % increase in real terms			Net expenditure as a proportion of GDP		
	A	B	C	A	B	C	A	B	C	A	B	C
1950/51	0.46			14.34			+1.8%			3.5%		
1951/52	0.47			13.69			-4.5%			3.2%		
1952/53	0.52			13.83			+1.0%			3.2%		
1953/54	0.50			12.91			-6.6%			2.9%		
1954/55	0.52			12.72			-1.5%			2.9%		
1955/56	0.57			12.82			+0.8%			2.9%		
1956/57	0.62			13.19			+2.9%			2.9%		
1957/58	0.66			13.43			+1.8%			2.9%		
1958/59	0.71			14.08			+4.8%			3.0%		
1959/60	0.73			14.49			+2.9%			2.9%		
1960/61	0.82			15.93			+9.9%			3.1%		
1961/62	0.85			15.83			-0.6%			3.0%		
1962/63	0.89			16.22			+2.5%			3.0%		
1963/64	0.97	1.07		17.31	19.10		+6.7%			3.0%	3.3%	
1964/65	1.06	1.16		18.10	19.85		+4.6%	+3.9%		3.0%	3.3%	
1965/66	1.20	1.32		19.47	21.38		+7.6%	+7.7%		3.2%	3.5%	
1966/67	1.32	1.45	1.42	20.35	22.34	21.92	+4.5%	+4.5%		3.3%	3.6%	3.6%
1967/68	1.44	1.59	1.56	21.66	23.85	23.40	+6.5%	+6.8%	+6.8%	3.4%	3.7%	3.7%
1968/69 ^b	1.55	1.71	1.68	22.11	24.44	23.97	+2.1%	+2.4%	+2.4%	3.3%	3.7%	3.6%
1969/70		1.80	1.76		24.08	23.61		-1.5%	-1.5%		3.5%	3.5%
1970/71		2.11	2.07		25.75	25.26		+6.9%	+7.0%		3.7%	3.6%
1971/72		2.41	2.36		27.28	26.79		+5.9%	+6.1%		3.7%	3.7%
1972/73		2.75	2.70		28.70	28.18		+5.2%	+5.2%		3.7%	3.7%
1973/74 ^c		3.10	3.06		29.79	29.35		+3.8%	+4.2%		3.8%	3.7%
1974/75			4.10			32.74			+11.6%			4.2%
1975/76			5.47			35.14			+7.3%			4.6%
1976/77			6.25			35.25			+0.3%			4.4%
1977/78			6.90			34.19			-3.0%			4.2%
1978/79			7.84			34.94			+2.2%			4.1%
1979/80			9.20			35.08			+0.4%			4.0%
1980/81			11.94			38.25			+9.0%			4.5%
1981/82			13.27			38.49			+0.6%			4.5%
1982/83			14.39			38.92			+1.1%			4.4%
1983/84			15.38			39.74			+2.1%			4.3%
1984/85			16.31			39.85			+0.3%			4.3%
1985/86			17.43			40.31			+1.2%			4.1%
1986/87			18.98			42.15			+4.6%			4.2%
1987/88			20.30			42.73			+1.4%			4.0%
1988/89			22.40			44.30			+3.7%			4.0%
1989/90			24.20			44.44			+0.3%			3.9%
1990/91			27.10			46.03			+3.6%			4.0%
1991/92			30.90			49.68			+7.9%			4.4%
1992/93			34.20			53.68			+8.0%			4.7%
1993/94			36.60			56.16			+4.6%			4.8%
1994/95			39.40			59.78			+6.4%			4.9%
1995/96			41.40			60.96			+2.0%			4.9%
1996/97			42.80			60.70			-0.4%			4.7%
1997/98			44.50			62.13			+2.4%			4.7%
1998/99			46.90			64.60			+4.0%			4.7%
1999/00			49.40			67.68			+4.8%			4.8%
2000/01			54.20			72.77			+7.5%			5.0%
2001/02			59.80			79.27			+8.9%			5.3%
2002/03			66.20			85.81			+8.3%			5.6%
2003/04			74.90			94.96			+10.7%			6.0%
2004/05			82.90			102.38			+7.8%			6.3%
2005/06			89.80			108.02			+5.5%			6.4%
2006/07			94.70			110.56			+2.4%			6.4%
2007/08			101.10			115.24			+4.2%			6.5%
2008/09			108.70			120.63			+4.7%			7.0%
2009/10			116.90			127.97			+6.1%			7.6%
2010/11			119.90			128.90			+0.7%			7.5%
2011/12			121.30			128.61			-0.2%			7.4%
2012/13			124.30			129.08			+0.4%			7.3%
2013/14			129.40			132.20			+2.4%			7.4%
2014/15			134.10			135.02			+2.1%			7.3%
2015/16			138.70			138.70			+2.7%			7.4%

Notes: a) Minor inconsistencies in the figures presented in the Annual Abstract mean that figures must be presented as three overlapping series.

b) From April 1969 some services transferred to personal social services.

c) Expenditure by local authorities on provision of health centres, health visiting, home nursing, ambulance services, vaccination and immunisation etc. was transferred to central government on 1 April 1974.

Sources: ONS, *Annual Abstract of Statistics: 2007*, Table 10.22, and earlier editions

ONS database, series YBHA, ABMI and YBGB

HM Treasury *Public Expenditure Statistical Analyses* Table 4.2

HMT, GDP deflator consistent with March 2017 budget

Table 2 Health expenditure in England: 1974/75 - 2019/20

	Expenditure			Expenditure per household	
	Cash prices (£billions)	2015/16 prices (£billions)	Real terms change (%)	Cash prices (£)	2015/16 prices (£)
Cash					
1974/75	3.34	26.70		204	1,633
1975/76	4.41	28.35	6.2%	268	1,723
1976/77	5.03	28.38	0.1%	304	1,714
1977/78	5.56	27.55	-3.0%	333	1,651
1978/79	6.27	27.97	1.6%	373	1,665
1979/80	7.45	28.41	1.6%	440	1,678
1980/81	9.70	31.06	9.3%	568	1,820
1981/82	10.85	31.49	1.4%	625	1,814
1982/83	11.82	31.98	1.6%	677	1,832
1983/84	12.49	32.28	0.9%	710	1,835
1984/85	13.41	32.75	1.5%	755	1,844
1985/86	14.18	32.77	0.1%	790	1,827
1986/87	15.17	33.69	2.8%	837	1,858
1987/88	16.67	35.09	4.1%	909	1,914
1988/89	18.41	36.41	3.8%	993	1,963
1989/90	19.86	36.47	0.2%	1,058	1,942
1990/91	22.33	37.92	4.0%	1,177	1,999
1991/92	25.35	40.76	7.5%	1,323	2,127
1992/93	27.97	43.90	7.7%	1,450	2,276
1993/94	28.94	44.41	1.2%	1,493	2,290
1994/95	30.59	46.41	4.5%	1,569	2,381
1995/96	31.99	47.10	1.5%	1,629	2,399
1996-97	33.00	46.80	-0.6%	1,670	2,369
1997/98	34.66	48.40	3.4%	1,744	2,435
1998/99	36.61	50.42	4.2%	1,830	2,521
1999/00	39.88	54.64	8.4%	1,979	2,711
Stage 1 Resource Basis					
1999/00	40.20	55.08	-	1,994	2,733
2000/01	43.93	58.98	7.1%	2,160	2,900
2001/02	49.02	64.98	10.2%	2,389	3,166
2002/03	54.04	70.05	7.8%	2,617	3,393
Stage 2 Resource Basis					
2002/03	57.05	73.95	-	2,763	3,582
2003/04 ^a	64.17	81.36	10.0%	3,091	3,918
2004/05	69.05	85.28	4.8%	3,308	4,085
2005/06	74.39	89.48	4.9%	3,531	4,248
2006/07	78.90	92.12	2.9%	3,718	4,341
2007/08	85.80	97.80	6.2%	4,013	4,574
2008/09	91.04	101.03	3.3%	4,221	4,684
2009/10	98.42	107.74	6.6%	4,528	4,957
2010/11	100.42	107.95	0.2%	4,581	4,925
2011/12	102.84	109.05	1.0%	4,653	4,933
2012/13	105.22	109.27	0.2%	4,717	4,899
2013/14	109.78	112.15	2.6%	4,877	4,983
2014/15	113.35	114.12	1.8%	4,983	5,017
2015/16	117.23	117.23	2.7%	5,100	5,100
2016/17 planned	120.61	118.27	0.9%	5,192	5,091
2017/18 planned	123.71	119.36	0.9%	5,272	5,087
2018/19 planned	126.36	120.05	0.6%	5,333	5,066
2019/20 planned	129.16	120.71	0.5%	5,398	5,045

Notes: a) The 2002/03 and 2003/04 difference is artificially high owing to HMT classification changes.

Sources: 1974/75 - 1984/85: HMT, *The Government's Expenditure Plans*, various years
1985/86 - 1992/93: Department of Health, *Departmental Reports*, various years
1993/94 - 2003/04: Health Committee, *Public Expenditure on Health and Personal Social Services 2006: Memorandum received from the Department of Health containing Replies to a Written Questionnaire from the Committee*, HC 1692-I, 26 October 2006, Table 1a
2004/05 - 2019/20: HM Treasury *Public Expenditure Statistical Analyses*, Table 1.10
HMT, GDP deflator consistent with March 2017 Budget
DCLG, 2014 based household projections

About the Library

The House of Commons Library research service provides MPs and their staff with the impartial briefing and evidence base they need to do their work in scrutinising Government, proposing legislation, and supporting constituents.

As well as providing MPs with a confidential service we publish open briefing papers, which are available on the Parliament website.

Every effort is made to ensure that the information contained in these publicly available research briefings is correct at the time of publication. Readers should be aware however that briefings are not necessarily updated or otherwise amended to reflect subsequent changes.

If you have any comments on our briefings please email papers@parliament.uk. Authors are available to discuss the content of this briefing only with Members and their staff.

If you have any general questions about the work of the House of Commons you can email hcenquiries@parliament.uk.

Disclaimer

This information is provided to Members of Parliament in support of their parliamentary duties. It is a general briefing only and should not be relied on as a substitute for specific advice. The House of Commons or the author(s) shall not be liable for any errors or omissions, or for any loss or damage of any kind arising from its use, and may remove, vary or amend any information at any time without prior notice.

The House of Commons accepts no responsibility for any references or links to, or the content of, information maintained by third parties. This information is provided subject to the [conditions of the Open Parliament Licence](#).