Tough times, tough choices
An overview of NHS finances

The NHS faces an unprecedented financial dilemma: the supply of funding is struggling to match the growing rate of demand for healthcare. To a certain extent, the public is developing a greater awareness of this challenge but, although they have often been told about tough choices, there has been little attempt to explain what these tough choices might require.

The NHS Confederation’s 2012 survey of NHS leaders found 74 per cent of them described the current financial position as “the worst they had ever experienced” or “very serious.” 85 per cent expected financial pressures to increase in the year ahead.

This factsheet shows the scale of the financial challenge for the NHS. It covers the following areas:

• how the NHS is funded and how the current funding settlement compares to earlier periods in its history
• the distribution of funding to the various parts of the system
• funding variations, in terms of treatment areas, procedures and regions
• the implications of the Private Finance Initiative (PFI)
• budget management across the NHS
• progress made on the challenge to deliver efficiency
• the impact of rising demand for services on healthcare costs.

NHS expenditure
In its first Comprehensive Spending Review, covering the period 2011–15, the coalition Government stated that the NHS would receive an average annual real terms funding increase of 0.1 per cent. This was against a backdrop of planned annual spending cuts of 2.9 per cent in real terms across the rest of the public sector.1

Key facts
• NHS funding declined in real terms in 2010/11 before increasing slightly in 2011/12. It remains below the level of 2009/10.
• The NHS has achieved overall surpluses in each of the past six years, but 34 organisations reported a deficit in their 2011/12 accounts.
• The NHS achieved savings of £5.8 billion in 2011/12, including £1.9 billion in the final quarter. However, the National Audit Office has expressed concerns about the ability of the NHS “to generate new efficiency savings in future years.”
• 70 per cent of total health and social care expenditure is accounted for by the treatment and care of people suffering from long-term conditions.
• The number of procedures undertaken by the NHS between 2000 and 2010 increased by 49.7 per cent.

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The planned NHS budget for the 2012/13 financial year is £108.897 billion, comprised of £105.584 billion for resources (such as staff) and £4.496 billion for capital investment (in areas such as buildings and equipment), minus an adjustment of £1.183 billion for depreciation. This compares to a total budget of £101.924 billion in 2010/11 and £104.333 billion in 2011/12. Spending is planned to increase to £111.470 billion in 2013/14 and £114.534 billion in 2014/15 (see Figure 1).2

When inflation is factored in, the reality of the situation facing the NHS hits home. This real terms freeze “represents the tightest period of funding in the last 50 years of the NHS.”3 Health inflation has traditionally run ahead of headline inflation, primarily because of ever-increasing demand from patients and the cost of technology.

The King’s Fund and the Institute for Fiscal Studies have calculated that the settlement does not match the real-terms funding growth the NHS received for the period after the last three recessions. When a previous government was tightening the public spending reins in another period of economic crisis, the NHS had to manage with average real terms funding increases of just 0.24 per cent in the four years from 1976–80. This included a real terms cut of 2.9 per cent in 1977/78, although it is worth noting this period coincided with more significant inflationary pressures across the economy than is currently apparent.4

Using the latest inflation figures, revised in light of the Government’s Autumn Statement 2012, NHS funding declined in real terms in 2010/11 before increasing slightly in 2011/12. However, on this basis, it still remains below the level of 2009/10. After a currently planned increase of 1.9 per cent above inflation in the current financial year, the settlement then gets tighter again for the remaining two years of the parliament, as shown in Figure 2.

Almost all NHS funding comes from national taxation. Prescription charges and dental charges amounted to £450 million and £614.3 million respectively across England in 2010/11.5

### NHS funding projections

There has been a growing debate around the future funding of the NHS beyond 2015, particularly regarding whether the NHS budget will continue to be protected in a period where further real terms reductions in public expenditure are planned by the Conservatives up to at least 2017/18.

The Wanless report, published in 2002, outlined a range of possible funding scenarios for the NHS up to 2022/23. The report’s scenarios retain relevance today as the NHS tries to deliver more for less. The Wanless scenarios were:

- ‘solid progress’ – a continued increase in life expectancy, increasingly relevant skills mix within the workforce, technology adoption, increased public expectations
- ‘slow uptake’ – longer periods of ill health, little or no progress on alleviating health inequalities, limited productivity improvements
- ‘fully engaged’ – people living in good health for longer, effective engagement with the public about future direction of services, people taking more care of themselves, the NHS utilising staff and technology efficiently.

The report outlined funding projections for each scenario, as shown in Figure 3. Under even the ‘fully engaged’ scenario, NHS spending across the UK was projected to reach around £154 billion or 10.6 per cent of Gross Domestic Product (GDP) by 2022/23.6

While the Wanless report was published during a more economically benign period, more recent funding projections have considered the situation facing the NHS in the aftermath of economic crisis. The Nuffield Trust has estimated the NHS in England will have up to £34 billion of additional financial pressure to cope with in the period up to 2021/22 if the budget is frozen in real terms. This is the case even if the £20 billion of Quality, Innovation, Productivity and Prevention (QIPP) savings to 2015 are achieved in full, and would require continued 4 per cent efficiencies. If the budget was to rise in line with national income projections, then the gap would still be up to £14 billion, with efficiencies of 2 per cent needed to meet the gap (see Figure 4).7
Allocation of NHS resources

The funding allocations for the various actors in the new system are becoming clearer. The recently published NHS Mandate confirmed the NHS Commissioning Board’s revenue budget for 2013/14 will be £95.623 billion and its capital budget will be £200 million.8 Earlier in 2012, the Government suggested that around £65 billion of that will be allocated to clinical commissioning groups and around £5.2 billion spent on public health.9 Of the latter, it is now confirmed that ring-fenced funding of £2.7 billion in 2013/14 and £2.8 billion in 2014/15 will be allocated to local authorities to deliver public health services such as smoking cessation.10 Figure 5 shows the amount spent by primary care trusts (PCTs) on various areas of care in 2011/12.

Spending on treatment of conditions, 2010/11

The latest programme budgets show that of the 18 conditions attracting the most NHS funding (see Figure 6), only eight received additional resources per head of population, compared to the previous year. This was the case for ten areas in overall cash terms.11

Variations in spending

The highest spending for particular types of condition has been on the treatment of mental health in recent years. However, several other areas have commanded a larger increase in funding over the seven-year period of programme budgeting data, as shown in Figure 7. For example, there has been a near three-fold increase
in spending on both social care needs (from £1.48 billion to £4.18 billion) and neurological conditions (from £1.57 billion to £4.30 billion). The former is particularly worthy of note, given the Government’s recent proposals to secure a long-term solution to the social care funding issue.

The data also highlights the variations in spending between different PCT areas. For example, spending on cancer care ranged from £6.93 million per 100,000 people in Redbridge to £20.5 million per 100,000 in Enfield in 2010/11 – almost a threefold variation. The range of spending for cancer and other particularly topical conditions are shown in Figures 8, 9, 10, 11 and 12.

**Overall NHS financial balance**

The NHS has secured much more effective control over its finances in recent years, with healthy overall surpluses achieved in each of the past six years (see Figure 13). Nonetheless, 34 organisations (around 8 per cent) still reported a deficit in their annual accounts for 2011/12, with the deficits totalling £356 million. The National Audit Office has also recently suggested that a further 15 NHS trusts would have posted a deficit if they had not secured direct financial support from strategic health authorities (SHAs) and PCTs in their area. Such support amounted to £151 million for NHS trusts and £10 million for foundation trusts in the past year alone.\(^\text{12}\)

It should be noted that one of the methods employed to deliver such healthy surpluses has been for PCT budgets to be ‘top-sliced’ by their respective SHAs. Since 2010, this has amounted to 2 per cent of the budgets, with some of that funding released for specific non-recurrent proposals. Such practices look set to continue under the new commissioning arrangements.\(^\text{13}\) While in theory the NHS was meant to be able to access the surplus funds in the years ahead, it has recently been confirmed that £2.9 billion of ‘underspend’ in 2010/11 and 2011/12 has been returned to the Treasury, with only some

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**Figure 4. The funding gap for PCT-commissioned health services in England 2010/11–2021/22**

Note: The funding gap for PCT-commissioned NHS services in England is displayed together with the estimate for the departmental expenditure limit, in brackets.

Source: The Nuffield Trust
£316 million of the latter year’s surplus carried over to 2012/13 to be spent on health services.\textsuperscript{14}

**The Private Finance Initiative**

There were 103 Private Finance Initiative (PFI) projects in place across the English NHS as of 2010. PFI involves the contracting out of design, building and sometimes the management of new hospital buildings to the private sector, with contracts usually in place for 30 years. These projects have an estimated total cost of £65.1 billion, with annual payments anticipated to reach a peak of around £2.3 billion by 2030 (see Figure 14).

**Efficiency**

The need for the NHS to identify up to £20 billion of efficiency savings was first identified by the consultants McKinsey in 2009 and is now being implemented as the ‘QIPP challenge’.

The chief executive of the NHS Commissioning Board, Sir David Nicholson, has suggested that QIPP savings can be delivered from three overarching areas: administration and management (£8 billion); tariff payments (£8 billion); and service redesign (£4 billion).

In his latest annual report, Sir David confirmed the NHS achieved savings of £5.8 billion in 2011/12, including £1.9 billion in the final quarter of the year alone. He expressed his optimism that this provided “a firm foundation for sustained delivery” in the years to come.\textsuperscript{15} The National Audit Office has highlighted that this figure was very close to the forecast of £5.9 billion. However, it also warns of “limited assurance that all the reported savings were achieved” and expresses concern about the ability of the NHS “to generate new efficiency savings in future years.”\textsuperscript{16}

**Growth in demand**

Demand for NHS services has been on a seemingly inexorable rise. The UK population is ageing, notwithstanding a record birth rate in 2011, and there are now more people of state pension age than children under the age of 16. Furthermore, the number of people aged 85 and over is expected to double between 2010 and 2030 – from 1.4 to 2.8 million.\textsuperscript{17}

The Department of Health has estimated that around 70 per cent of total health and social care expenditure in England is accounted for by the treatment and care of people suffering from long-term conditions. It has been suggested that in excess of 50 per cent of GP appointments, 65 per cent of outpatient appointments, and more than 70 per cent of inpatient admissions are for patients with long-term conditions.\textsuperscript{18}

Figures 15, 16 and 17 show how much more the NHS delivered with the additional resources provided to it in the past decade.

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**Figure 6. Gross NHS spending per head, 2010/11**

- Mental health disorders
- Problems of circulation
- Cancers and tumours
- Problems of the musculoskeletal system
- Problems of the genito urinary system
- Problems of the gastrointestinal system
- Problems of the respiratory system
- Neurological
- Social care needs
- Problems due to trauma and injuries
- Maternity and reproductive health
- Dental problems
- Endocrine, nutritional and metabolic problems
- Problems of learning disability
- Problems of vision
- Problems of the skin
- Infectious diseases
- Disorders of blood

Source: Department of Health

**Figure 7. Gross spending on conditions 2003/04–2010/11**

Source: Department of Health
Figure 8. Cancer care expenditure per 100k population in each PCT area, 2010/11

Source: Department of Health

Figure 9. Diabetes expenditure per 100k population in each PCT area, 2010/11

Source: Department of Health
Figure 10. Mental health expenditure per 100k population in each PCT area, 2010/11

Source: Department of Health

Figure 11. Coronary heart disease expenditure per 100k population in each PCT area, 2010/11

Source: Department of Health
Figure 12. Maternity and reproductive health expenditure per 100k population in each PCT area, 2010/11

Source: Department of Health

Figure 13. English NHS financial balance 1997/98–2011/12

Sources: Department of Health and National Audit Office
Figure 14. Estimated payments on current PFI projects

Source: House of Commons Library

Figure 15. NHS hospital admissions in England

Source: NHS Information Centre
**Figure 16. NHS operations performed 2000–10**

There was a 49.7 per cent increase in procedures undertaken between 2000 and 2010.

![Graph showing the increase in NHS operations performed from 2000/01 to 2009/10.](source: NHS Information Centre)

**Figure 17. A&E attendances 2000–11**

There was a 52.2 per cent increase in overall attendances across A&E departments between 2001/02 and 2010/11. It is also worth noting that follow-up attendances decreased by 44.8 per cent over the same period.

![Graph showing the increase in A&E attendances from 2000/01 to 2010/11.](source: Department of Health)
References

1. HM Treasury, Spending Review 2010
2. HM Treasury, Public Expenditure Statistical Analyses 2012
20. NHS Information Centre, Hospital Episode Statistics.
21. NHS Information Centre, Hospital Episode Statistics.

Our work

This factsheet forms part of our work programme on Rising to the financial challenge. To read more about our work in this area, see www.nhsconfed.org/finance

The NHS Confederation

The NHS Confederation represents all organisations that commission and provide NHS services. It is the only membership body to bring together and speak on behalf of the whole of the NHS.

We help the NHS to guarantee high standards of care for patients and best value for taxpayers by representing our members and working together with our health and social care partners.

We make sense of the whole health system, influence health policy and deliver industry-wide support functions for the NHS.