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# Behind the numbers: NHS finances

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The state of NHS finances has attracted a lot of attention of late. Numbers have been thrown from all corners - and not all of them add up. Here are five figures you may have heard, and what they really mean.

## £22 billion

The annual 'funding gap' NHS England says the NHS will face by 2020-21. [The figure was calculated](#) by projecting how much NHS England's budget for 2013-14 would be by 2020-21 if it rose only in line with price rises in the economy. In other words: if spending stayed flat in real terms. That figure (£108 billion by 2020-21) was then compared with what NHS costs would grow to if activity continued to rise by around three per cent a year. That produced a figure of around £137 billion by 2020-21, with a consequent 'funding gap' of £30 billion between flat funding increases (£108 billion by 2020-21) and expected cost pressures.

Since the analysis was first published in 2013, the 2015 Spending Review awarded NHS England an 'extra £8 billion' of funding over inflation by 2020-21. That reduced the £30 billion gap to around £22 billion. NHS England says the health service will close the gap by being more efficient and by slowing the growth in demand for its services by helping people remain healthy. [However, cuts to services and quality are now looking increasingly likely.](#)

## £8 billion or £10 billion

The 'extra' funding the government claims to have awarded the NHS in England above inflation by 2020-21. While the £8 billion figure relates to the amount the government says NHS spending will grow by between 2015-16 and 2020-21, the higher (and therefore more often-cited) figure measures the increase from a year earlier - which is a peculiar way to count a spending settlement that started in 2016-17.

But an even bigger problem is that the £8 billion figure (£7.6 billion [if counted correctly](#)) has been flattered by redefining what counts as 'the NHS'. In the past, the government used to count NHS spending as the entire Department of Health budget for England. Now it only counts the subset of that spending that comes under the control of the department's commissioning arm, NHS England. Only 'NHS England' is protected with 'real-terms increases', while the rest of Department of Health spending will

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be cut by £3 billion by 2020-21. That £3 billion is now part of the '£8 billion extra' the government claims it is giving the NHS. But it is coming from budgets used to build new hospitals, pay for doctor and nurse training and public health initiatives and so will directly hit frontline NHS services.

The 'real' increase in NHS spending above inflation between 2015-16 and 2020-21 is then just over half what the government claims, at £4.5 billion.

But even that figure is a bit of a stretch, as it measures spending increases against inflation in the whole economy. Inflation in the things the NHS actually buys (like doctors, nurses, medical technology and drugs) is currently rising faster than average prices in the whole of the economy. Once that NHS-specific inflation is factored in, the remaining £4.5 billion reduces to just £800 million above NHS inflation by 2020-21.

## £2.45 billion

*The reported net deficit (or overspend) for the financial year 2015-16 across NHS hospitals, mental health trusts and community services in England – referred to collectively as NHS providers.* The £2.45 billion figure is bad enough. But it is still a significant under-statement as it was achieved only after huge pressure was put on organisations to make multiple adjustments to their accounts – all designed to either boost reported levels of income, or reduce reported costs, and so minimise the reported deficit. NHS Improvement indicated in its [report at the end of the financial year](#) that those measures had reduced the reported deficit by around £1.2 billion, suggesting a real underlying deficit of nearer **£3.7 billion**.

[Separate analysis by the Nuffield Trust](#) exploring provider income and expenditure alongside inflation and activity levels also found an underlying deficit of £3.7 billion for 2015-16.

The true size of the overspend matters, because it shows that although the government has given the NHS (a little) 'more money', the NHS is starting from a position of not having enough. Indeed, when the Spending Review was announced in November last year, the government believed the NHS provider overspend for the year would be around £1.8 billion. In the event, it was double that.

How did providers get into such a mess? The answer is pretty simple. Every year between 2010-11 and 2015-16 the amount hospitals were paid for each treatment they provided was cut, year after year. That meant that by 2015-16, a hospital was paid the equivalent of £820 to treat a patient they would have been paid £1,000 to care for in 2010-11. Hospitals tried to balance their books by cutting their costs by around 13 per cent over the same period. But the amount they were paid was cut even faster – by around 18 per cent, resulting in the expenditure-over-income deficit we see today.

## £580 million

*The forecast NHS provider deficit for 2016-17.* It sounds like quite a turnaround from £3.7 billion (or even £2.45 billion) in 2015-16. But, as ever, things are not quite as they seem. If trusts and other providers do manage to report a net deficit of £580 million in their accounts at the end of next March, it will only be because they will have received an extra £1.8 billion in 'sustainability' funds. The underlying deficit for the year then would be **£2.4 billion**. That would still be a significant improvement from £3.7 billion, and providers will only manage to get there if they cut their costs by 4 per cent this financial year. That would mean slashing costs by around £3 billion in one year – around twice the amount [Lord Carter's report on hospital productivity suggested was possible](#).

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NHS England and NHS Improvement have now tacitly acknowledged how much financial trouble providers are in by admitting they will need £1.8 billion of extra sustainability funds for the next three years running. Luckily, the money is just about there to do that. But it comes from the £2.1 billion to £3.4 billion a year fund the NHS set aside in 2015 to invest in transforming NHS services.

That transformation is necessary because over the last decade, NHS activity has grown by around 3 per cent a year, but the funding set out for it by the government to 2020-21 means that is no longer affordable. NHS England want to slow the rate of growth to nearer 2 per cent a year by investing in public health improvements and by establishing new services that reduce the rate at which demand for acute hospital care is growing.

But after using the investment fund to bail out hospitals, it now looks like just £2.5 billion will be available to invest in transformation over the next three years. That is the equivalent of £4 million a year for each NHS clinical commissioning group area. It is not clear whether that is enough. If it isn't, the risk is NHS activity either continues to grow at an unaffordable rate – resulting in a £2 billion a year net overspend by 2020-21 – or the NHS resorts to crude ways to reduce the rate of growth, such as rationing and service closure.

## £350 million

*The sum EU referendum Leave campaigners claimed the UK paid each week to Brussels.* Slogans like “give our NHS the £350 million the EU takes every week” implied to many that the health service could expect this cash once it left.

The £350 million figure is based on a weekly breakdown of the £19 billion that the UK pays each year. The problem is that the UK already gets a hefty chunk of that back as a 'rebate' – over £4 billion in 2014. That leaves only £282 million a week.

And some of that money is already spoken for. The EU today spends billions on British farming, universities, and regional development. We will need to set aside a large proportion of our annual savings to replace this funding.

The highest-profile specific pledge, backed by Boris Johnson and Gisela Stuart among others, was £100 million a week - an extra £5 billion each year for the health service. Leaving the EU really would free up funding on this scale. In fact, we could spend that amount on the NHS and have a few billion left over.

But there is one last catch: leaving the EU has the potential to give Britain's economy a nasty knock – potentially wiping out as much as £40 billion from the public finances.

This has the potential to swamp any benefit we might get from cancelling our transfers to the Union.

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