



NHS funding and expenditure

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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 2010/11, the figure was over ten times that amount: £121bn. 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.

Responsibility for health services is devolved to the Scottish, Welsh and Northern Irish administrations. Per head, Northern Ireland spends the most on health services (£2,106 per head in 2010/11) and England spends the least (£1,900 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.

Currently, around 80% of NHS funding in England is allocated to 151 Primary Care Trusts, according to a population and needs-based formula. From this money, PCTs are free to commission health services to meet local needs. Though most commissioning still takes place within the NHS, PCTs are increasingly purchasing services from the independent and voluntary sectors, and from local authorities. Information about the determination of PCTs' allocations and local variation in funding levels can be found in the Library Standard Note [Primary Care Trusts: funding and expenditure](#).

The structural reorganisation proposed in the Department of Health White Paper [Equity and Excellence](#) means that the funding system looks set to change. PCTs are to be abolished, with responsibility for local commissioning, and hence the bulk of the NHS budget, passed to groups of GPs. Section 3 gives more detail about the *current* structure of the NHS in England and the relationship between the different organisations within it.

The largest categories of NHS expenditure are mental health services, circulation problems and cancer treatment, which together account for almost a third total expenditure. Section 2.2 gives a detailed breakdown of expenditure by category.

For detailed figures showing health expenditure year-by-year in the UK and England, refer to the tables at the end of this note. Headline expenditure figures are updated on a quarterly basis in the Social Indicators page [Health expenditure](#). Some details of expenditure in each of the devolved assemblies can be found in Table 3 at the end of this note.;

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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 in the Province.

Each country has chosen to structure its National Health Service differently. The structure of the NHS in England is described in detail in Section 3. A common theme of NHS funding across the countries is the allocation of a significant proportion of the NHS budget to local organisations (Primary Care Trusts 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 pay a prescription charge of £7.20 per item (or alternatively 'subscription'-type charges). Wales, Scotland and Northern Ireland have abolished prescription charging. In 2010/11, England raised £450m through the prescription charge (0.5% of the NHS resource budget)¹

¹ Department of Health Resource Accounts 2010/11

Dental Charging

All the devolved administrations charge for NHS dental treatment (although exemptions differ). In England, patients pay between £17.50 and £209 depending on the complexity of work performed.² In Wales, the range is £12 to £177.³ In Northern Ireland, patients pay 80% of the cost of treatment, up to £384; Scotland operates a similar system.⁴ Income raised through dental charges amounted to £614.3m in England in 2009/10⁵; in Wales, the figure was £27.3m⁶.

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 England, NHS Trusts generate 0.6%⁷

of core revenues from private patients, whereas the proportion remains much lower in the rest of the UK (0.2% in Wales, and 0.1% in Scotland and Northern Ireland).

1.1 Total expenditure

Chart 1 (also see Table 1) shows expenditure by central government on health⁸ in the UK, net of receipts from patients, as a percentage of GDP (top line) and in 2010/11 prices (bottom line). Figures are presented from 1949 onwards, although some changes in the responsibilities of the NHS mean that the series is not fully consistent over the period. In 1950/51 spending amounted to £11.7 billion in 2010/11 prices, or 3.5% of GDP. By 2010/11, spending had increased more than tenfold in real terms to reach £121bn, or 8.2% of GDP. Although it has risen consistently over the period, spending has accelerated in recent years. Between 1999/00 and 2009/10, real-terms expenditure rose by 92%.

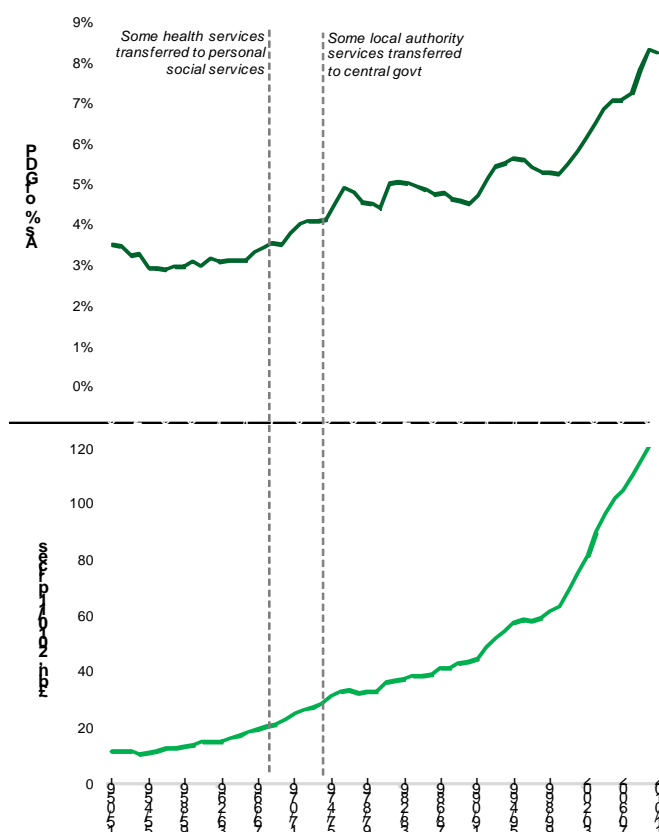


Chart 1 General government expenditure on UK Health Services: 1950/51 to 2010/11

² UK Statutory Instrument 2009/407 *The National Health Service (Dental Charges) Amendment Regulations 2009*

³ Wales Statutory Instrument 2006/491 *The National Health Service (Dental Charges) (Wales) Amendment Regulations 2006*

⁴ Northern Ireland Statutory Rule 2005/72 and Scotland Statutory Instrument 2005/121/

⁵ NHS Information Centre *NHS Dental Services for England 2010/11*

⁶ Welsh Assembly Government *NHS Dental Services 2010/11*

⁷ Figures on income from private patients taken from the NHS Summarised Accounts for [England](#) and [Wales](#). In Scotland they are taken from the [NHS Board Operating Costs and Capital Expenditure](#) and in [Northern Ireland from the Health and Social Care Board Annual Accounts](#).

Chart 2 shows the annual percentage changes in real terms central government expenditure. Negative change has occurred on just seven occasions; with the largest decreases (-6.3%) occurring in 1953/54. Since 1956/57, the five-year moving average has always been positive. The average annual expenditure increase since 1950/51 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.

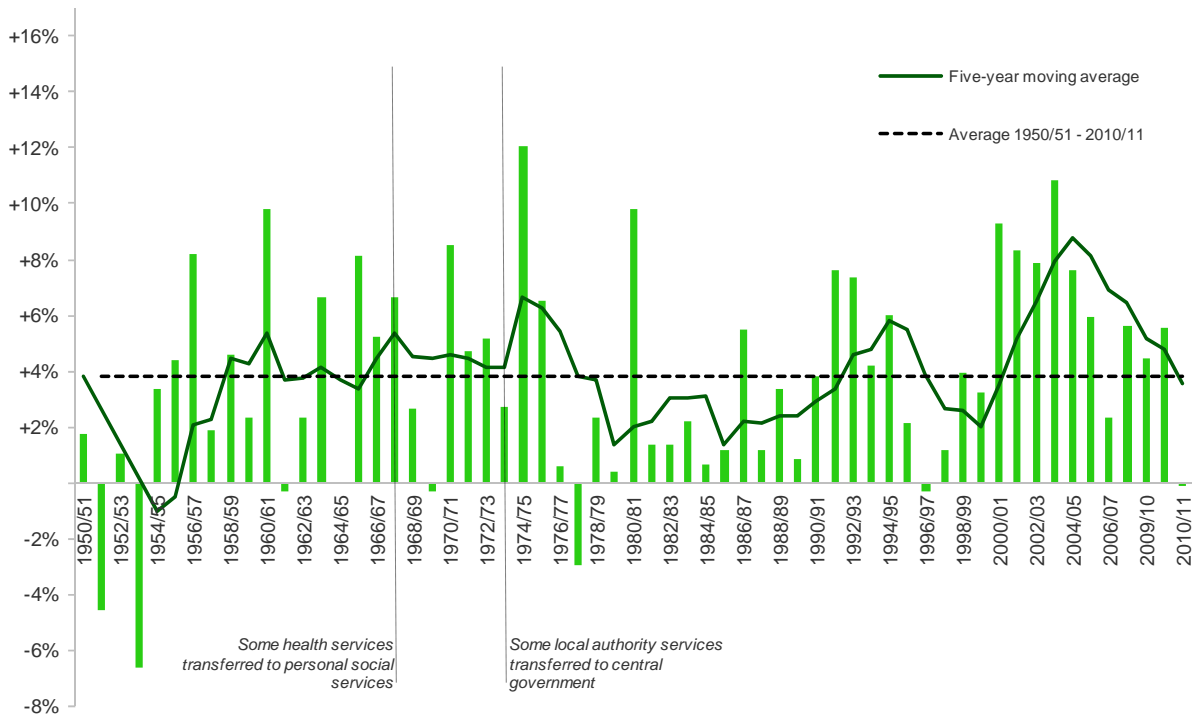


Chart 2: Annual change in real terms general government expenditure on the UK NHS: 1950/51 to 2010/11

2 NHS England - expenditure

2.1 Total expenditure

Table 2 at the end of this note shows NHS public spending and planned expenditure in England from 1974/75 to 2014/15, net of patient charges and receipts. Earlier data is not available on a consistent basis.

Although real-terms expenditure has risen from £23.7 billion in 1974/75 to £105.0 billion in the current 2011/12 financial year, 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:

Chart 3 shows the annual real-term increases along with a moving five-year average. The largest five-year moving average (+7.6%) occurred over the period 1999/2000 to 2003/04. Based on inflation figures published in the March 2012 Budget, the lowest five-year moving average is set to occur over the 2010/11 to 2014/15 period.

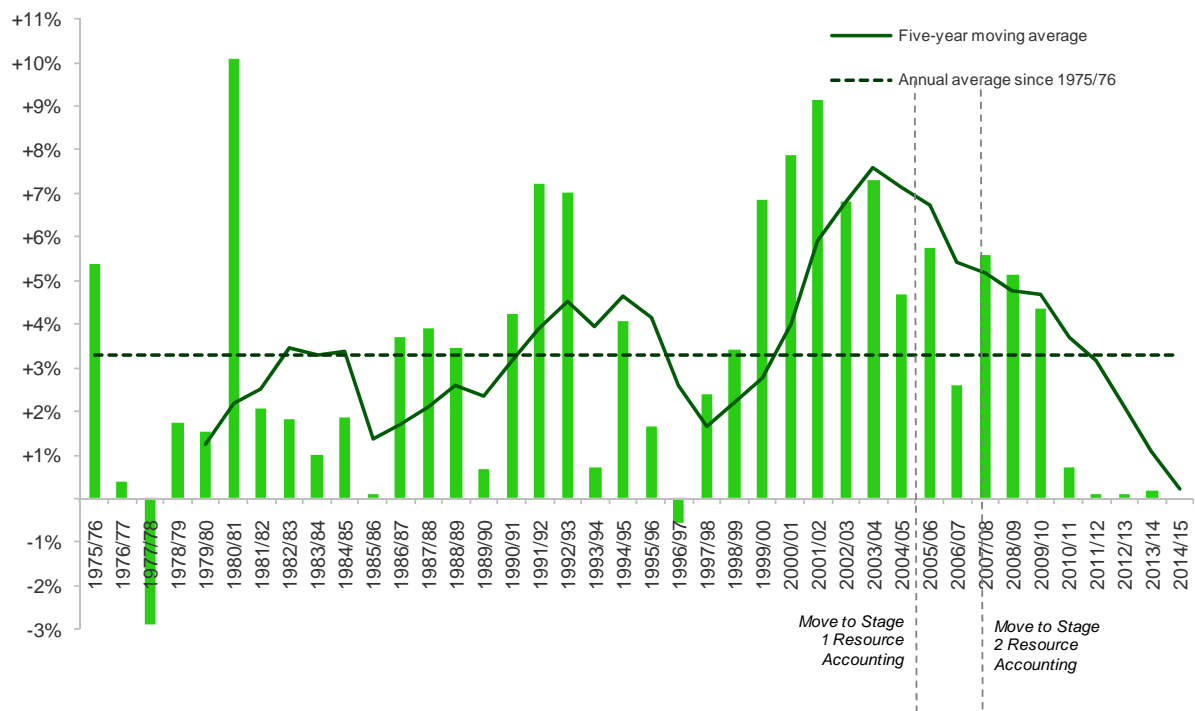


Chart 3: Annual percentage change in real terms NHS expenditure and planned expenditure in England: 1974/75 to 2014/15

2.2 Expenditure by category

Since 2003/04, the Department of Health has collected expenditure data categorised by the medical condition or area of health to which it is directed. This allows spending on e.g. cancer, circulatory problems etc. to be identified.

Table 3 shows the 2010/11 programme budgeting data on gross expenditure by category. The largest spending category in 2010/11 was mental health problems, accounting for 11% of the overall programme budget. Expenditure on circulatory problems was the second largest spend (7.2%), followed by cancers and tumours (5.4%). Indeed these three areas have represented the top three spending categories since 2004/05.

2.3 Private Finance Initiative (PFI)

Since 1997, much capital spending has taken place ‘off balance sheet’ through the Private Finance Initiative (PFI)⁸. The NHS has been the single largest user of PFI, in terms of repayment commitments undertaken. Under PFI, private sector consortia are contracted to design, build, and in some cases manage, new projects. Contracts typically last for 30 years, during which time the building is leased by the NHS Trust. Payments are made by Trusts over the lifetime of the scheme, rather like a mortgage. There are currently 103 signed NHS PFI schemes in England (see Chart 4), with a projected total cost over their lifetimes of £65.1bn. Annual payments in 2010/11 were £1.2 billion (Chart 5).

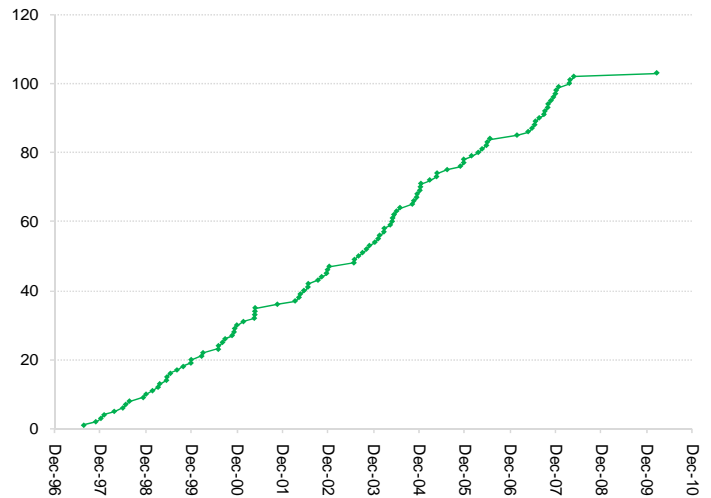


Chart 4: Number of signed NHS PFI schemes

Source: Deposited Paper DEP2010-1307

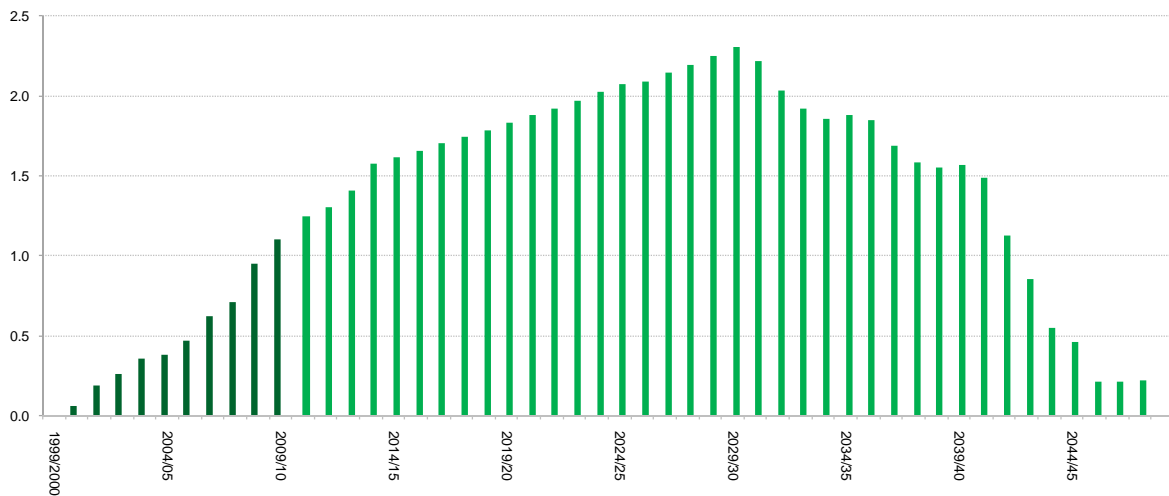


Chart 5: Annual payment schedule for all NHS PFI schemes signed before 15th June 2010 over contracts’ lifetimes

Source: Deposited Paper DEP2010-1307

⁸ In devising PFI schemes, the requirement to achieve off-balance sheet treatment was specifically asserted by DH guidance produced in 1999 (see, for instance, [here](#)). Reference to this requirement has been removed from 2005.

3 NHS England – funding process

The NHS England revenue and capital budgets are announced in the Department of Health's expenditure plans, published as part of each Spending Review. Around 80% of NHS funding (£89bn in 2011/12) is allocated to the 151 Primary Care Trusts (PCTs), which are responsible for commissioning (i.e. purchasing) health services to meet local need. The money PCTs receive is non-ringfenced, though some constraints exist, such as the requirement to fund drugs that the National Institute for Health and Clinical Excellence (NICE) has endorsed, and the achievement of centrally determined policy objectives such as the reduction of health inequalities. Allocations to PCTs are usually announced in the NHS Operating Framework to cover the Spending Review period. They are informed, but not entirely determined by, a needs-based formula which aims to provide equal levels of access to health services for people at equal risk, and reduce avoidable health inequalities. The determination PCT allocations is described in more detail in the Library Standard Note <><>.

Funds flow from PCTs 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 PCTs can be found in the Library Standard Note [NHS Commissioning](#).

The remaining 20% of the NHS budget comprises capital spending, and funds distributed to deliver regional and national programmes and services. For instance, Strategic Health Authorities receive around £6bn for local management of national programmes (e.g. the National Screening Programme) and for delivery of education and training for the NHS workforce. Separately, funding is also provided to some Special Health Authorities providing national-level services (e.g. the NHS Blood and Transplant authority; the NHS Litigation Authority).

Capital resources are allocated to PCTs and directly to NHS Trusts each year based on financial plan returns. Other budgets, such as those for Strategic Health Authorities, Arm's Length Bodies etc. are centrally determined each year by the Department of Health.

4 Tables

Table 1: Net government expenditure on the UK NHS: 1950/51 to 2010/11

	Net expenditure (£million) ¹			Net expenditure (£ million at 2010/11 prices) ²			Annual % increase in real terms			Net expenditure as a proportion of GDP ²		
	A	B	C	A	B	C	A	B	C	A	B	C
1950/51	460			11,782			+1.8%			3.5%		
1951/52	475			11,246			-4.6%			3.2%		
1952/53	518			11,361			+1.0%			3.2%		
1953/54	499			10,607			-6.6%			2.9%		
1954/55	525			10,962			+3.3%			2.9%		
1955/56	568			11,441			+4.4%			2.9%		
1956/57	621			12,377			+8.2%			2.9%		
1957/58	661			12,613			+1.9%			2.9%		
1958/59	711			13,187			+4.6%			3.1%		
1959/60	735			13,494			+2.3%			3.0%		
1960/61	824			14,820			+9.8%			3.1%		
1961/62	846			14,776			-0.3%			3.1%		
1962/63	894			15,115			+2.3%			3.1%		
1963/64	969	1,069		16,120			+6.6%			3.1%	3.4%	
1964/65	1,061	1,163		16,843	18,466		+4.5%			3.1%	3.4%	
1965/66	1,201	1,319		18,184	19,964		+8.0%	+8.1%		3.3%	3.6%	
1966/67	1,318	1,447	1,420	19,133	21,008	20,616	+5.2%	+5.2%		3.4%	3.7%	3.7%
1967/68	1,442	1,588	1,558	20,349	22,410	21,987	+6.4%	+6.7%	+6.7%	3.5%	3.9%	3.8%
1968/69 ⁴	1,546	1,709	1,676	20,821	23,014	22,569	+2.3%	+2.7%	+2.6%	3.5%	3.8%	3.8%
1969/70		1,797	1,762		22,950	22,503		-0.3%	-0.3%		3.8%	3.7%
1970/71		2,111	2,071		24,894	24,422		+8.5%	+8.5%		4.0%	3.9%
1971/72		2,405	2,362		26,039	25,574		+4.6%	+4.7%		4.1%	4.0%
1972/73		2,746	2,696		27,397	26,898		+5.2%	+5.2%		4.1%	4.0%
1973/74 ⁵		3,101	3,055		28,038	27,622		+2.3%	+2.7%		4.1%	4.1%
1974/75			4,095			30,952			+12.1%			4.5%
1975/76			5,470			32,964			+6.5%			4.9%
1976/77			6,249			33,160			+0.6%			4.8%
1977/78			6,896			32,185			-2.9%			4.5%
1978/79			7,835			32,944			+2.4%			4.5%
1979/80			9,195			33,068			+0.4%			4.4%
1980/81			11,944			36,303			+9.8%			5.0%
1981/82			13,267			36,793			+1.4%			5.1%
1982/83			14,385			37,297			+1.4%			5.0%
1983/84			15,383			38,114			+2.2%			4.9%
1984/85			16,312			38,365			+0.7%			4.8%
1985/86			17,434			38,822			+1.2%			4.7%
1986/87			18,982			40,956			+5.5%			4.8%
1987/88			20,300			41,423			+1.1%			4.6%
1988/89			22,400			42,805			+3.3%			4.6%
1989/90			24,200			43,169			+0.8%			4.5%
1990/91			27,100			44,811			+3.8%			4.7%
1991/92			30,900			48,237			+7.6%			5.1%
1992/93			34,200			51,792			+7.4%			5.4%
1993/94			36,600			53,949			+4.2%			5.5%
1994/95			39,400			57,182			+6.0%			5.6%
1995/96			41,400			58,400			+2.1%			5.6%
1996/97			42,800			58,232			-0.3%			5.4%
1997/98			44,500			58,926			+1.2%			5.3%
1998/99			46,900			61,235			+3.9%			5.3%
1999/00			49,400			63,204			+3.2%			5.2%
2000/01			54,200			69,079			+9.3%			5.5%
2001/02			59,800			74,835			+8.3%			5.8%
2002/03			66,200			80,725			+7.9%			6.1%
2003/04			74,900			89,469			+10.8%			6.5%
2004/05			82,900			96,261			+7.6%			6.8%
2005/06			89,600			101,964			+5.9%			7.0%
2006/07			94,700			104,312			+2.3%			7.0%
2007/08			102,300			110,147			+5.6%			7.2%
2008/09			110,100			115,088			+4.5%			7.8%
2009/10			118,300			121,477			+5.6%			8.3%
2010/11			121,305			121,305			-0.1%			8.2%

Notes: ¹ Minor inconsistencies in the figures presented in the Annual Abstract mean that figures must be presented as three overlapping series.

² GDP and GDP deflator figures before 1951/52 estimated from calendar year figures.

³ Period 5 July 1948 to 31 March 1949.

⁴ From April 1969 some services transferred to personal social services.

⁵ 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 2011*

HMT, *GDP deflator consistent with March 2012 budget*

Table 2: NHS net expenditure in England: 1974/75 to 2014/15

	Net NHS expenditure			Net NHS expenditure per household	
	Cash prices (£billions)	2010/11 prices (£billions)	Real terms change (%)	Cash prices (£)	2010/11 prices (£)
Cash					
1974/75	3.3	25.2	11.3%	204	1,543
1975/76	4.4	26.6	5.4%	268	1,616
1976/77	5.0	26.7	0.4%	304	1,612
1977/78	5.6	25.9	-2.9%	333	1,554
1978/79	6.3	26.4	1.7%	373	1,570
1979/80	7.4	26.8	1.5%	440	1,582
1980/81	9.7	29.5	10.1%	568	1,727
1981/82	10.9	30.1	2.1%	625	1,734
1982/83	11.8	30.6	1.8%	677	1,756
1983/84	12.5	31.0	1.0%	710	1,760
1984/85	13.4	31.5	1.9%	755	1,776
1985/86	14.2	31.6	0.1%	790	1,759
1986/87	15.2	32.7	3.7%	837	1,806
1987/88	16.7	34.0	3.9%	909	1,855
1988/89	18.4	35.2	3.5%	993	1,897
1989/90	19.9	35.4	0.7%	1,058	1,886
1990/91	22.3	36.9	4.2%	1,177	1,946
1991/92	25.4	39.6	7.2%	1,323	2,065
1992/93	28.0	42.4	7.0%	1,450	2,196
1993/94	28.9	42.7	0.7%	1,492	2,200
1994/95	30.6	44.4	4.1%	1,568	2,276
1995/96	32.0	45.1	1.6%	1,630	2,300
1996-97	33.0	44.9	-0.5%	1,673	2,276
1997/98	34.7	45.9	2.2%	1,749	2,316
1998/99	36.6	47.8	4.1%	1,837	2,399
1999/00	39.9	51.0	6.8%	1,989	2,545
Stage 1 Resource Basis					
1999/00	40.2	51.4	-	2,005	2,565
2000/01	43.9	56.0	8.9%	2,172	2,769
2001/02	49.0	61.3	9.6%	2,389	2,989
2002/03	54.0	65.9	7.4%	2,608	3,180
Stage 2 Resource Basis					
2002/03	57.0	69.6	-	2,753	3,357
2003/04 ¹	64.2	76.7	10.2%	3,070	3,667
2004/05	69.1	80.2	4.6%	3,278	3,807
2005/06	74.4	84.7	5.6%	3,494	3,976
2006/07	78.9	86.9	2.7%	3,667	4,039
2007/08	85.8	92.4	6.3%	3,945	4,247
2008/09	92.4	96.6	4.6%	4,209	4,400
2009/10	99.8	102.5	6.1%	4,511	4,511
2010/11	102.0	102.0	-0.5%	4,618	4,488
2011/12 ²	105.0	102.7	0.7%	4,656	4,440
2012/13 ²	108.8	103.7	0.9%	4,710	4,391
2013/14 ²	111.4	103.5	-0.1%	4,784	4,347
2014/15 ²	114.4	103.7	0.2%	4,856	4,297

Notes: ¹ The difference between 2002-03 and 2003-04 is artificially high owing to HMT classification changes. However, the real terms increase is adjusted for this.

² Plan.

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 - 2010/11: HM Treasury *Public Expenditure Statistical Analyses 2011*, Table 1.8
2011/12 - 2014/15: HM Treasury *Budget March 2012*
HMT, *GDP deflator consistent with March 2012 budget*

Table 3: Programme Budgeting estimated England level gross expenditure for all programmes,2010/11

	£ billions 2010/11	% of programme budget
Infectious Diseases	1.80	1.7%
Cancers & Tumours	5.81	5.4%
Disorders of Blood	1.36	1.3%
Endocrine, Nutritional and Metabolic Problems	3.00	2.8%
Mental Health Disorders	11.91	11.1%
Problems of Learning Disability	2.90	2.7%
Neurological	4.30	4.0%
Problems of Vision	2.14	2.0%
Problems of Hearing	0.45	0.4%
Problems of Circulation	7.72	7.2%
Problems of the Respiratory System	4.43	4.1%
Dental Problems	3.31	3.1%
Problems of the Gastro Intestinal System	4.43	4.1%
Problems of the Skin	2.13	2.0%
Problems of the Musculoskeletal System	5.06	4.7%
Problems due to Trauma and Injuries	3.75	3.5%
Problems of the Genito Urinary System	4.78	4.5%
Maternity and Reproductive Health	3.44	3.2%
Conditions of Neonates	1.05	1.0%
Adverse Effects and Poisoning	0.96	0.9%
Healthy Individuals	2.15	2.0%
Social Care Needs	4.18	3.9%
Other Areas of Spend/Conditions	25.95	24.3%
Total	107.00	100.0%

Source: Department of Health: Programme Budget National Level Expenditure Data 2010/11

Table 4: NHS net expenditure, £m and per head, UK countries, 2006/07 to 2010/11

Year	Total expenditure, £m				Expenditure per head, £			
	England	Wales	Scotland	N. Ireland	England	Wales	Scotland	N. Ireland
2006/07	76,926	5,000	9,035	2,961	1,515	1,688	1,766	1,700
2007/08	83,335	5,273	9,727	3,055	1,631	1,772	1,891	1,736
2008/09	90,035	5,562	10,179	3,299	1,749	1,860	1,969	1,859
2009/10	97,272	5,917	10,593	3,443	1,877	1,973	2,040	1,924
2010/11	99,249	6,065	10,821	3,790	1,900	2,017	2,072	2,106

Source: *Public Expenditure Statistical Analyses, October 2011 update*

Note: figures for England may not be consistent with those in Table 2 because they are calculated on a different basis (HMT Total Expenditure on Services aggregate, rather than Resource Accounting basis)