

Finance for the Future

The NHS funding crisis
and how to solve it

January 2023



Finance for the Future

The NHS funding crisis and how to solve it

Prof Richard Murphy

January 2023

Contents

Summary	2
Structure of this report	5
Background	5
Data sources	6
Spending data	7
Interpretation of spending data	9
How £30 billion of additional health funding might be raised	12
Appendix – Glossary of terms	21

This work is © Richard Murphy and Finance for the Future LLP 2023

The report may be quoted for the purposes of fair reporting and shared for non-profit purposes without the permission of the copyright holders. All other rights are reserved and the permission of the copyright holders must be obtained for any use but those noted.

Finance for the Future LLP can be contacted at its registered address:
33 Kingsley Walk, Ely, Cambridgeshire, CB6 3BZ, UK

Richard Murphy is Professor of Accounting Practice, Sheffield University Management School, a chartered accountant and economic justice campaigner. He co-directs Finance for the Future. He blogs at <http://www.taxresearch.org.uk/Blog/> and tweets @RichardJMurphy.

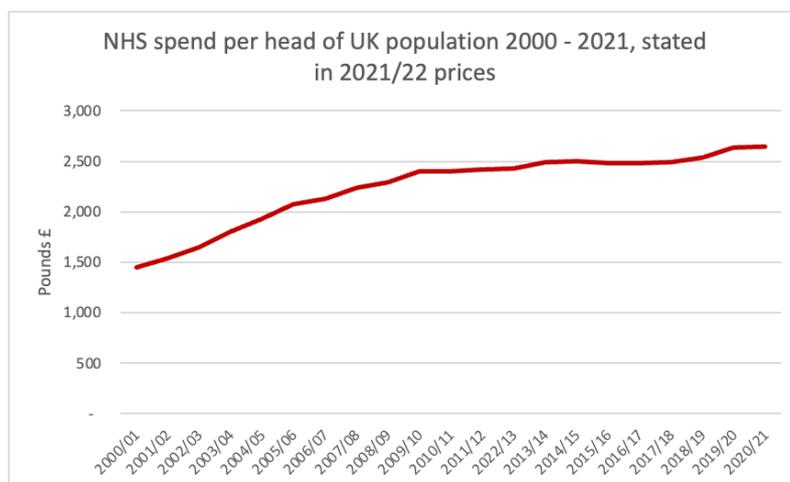
1. Summary

This report looks at the funding of the NHS over time. What it shows, using data on NHS spending from HM Treasury, inflation data from the Office for Budget Responsibility, population data and opinion from the respected healthcare think tank, The Kings Fund, is that it is likely that the NHS is now underfunded by £30 billion a year.

This underfunding is the result of austerity in NHS spending since 2010 when taking into account the demands of an increasing population in the UK and the rising costs of NHS treatments as the range of conditions that the NHS can tackle has grown over time.

The consequence of this underfunding is that at present the NHS should be funded by £3,058 for each person in the country if services supplied were to match the equivalent service level in 2009/10 when the Labour Party was last in office, but actual spending for each person in the UK is about £2,642, meaning that there is a shortfall of more than £400 per person a year in NHS funding in the UK at present.

The trend in spending per person, all stated at 2021/22 price levels, has been as follows:



Spending per person grew rapidly under Labour. It has stagnated since then, at least until the Covid era began.

Actual growth in spending after allowing for population change since 2010 has been less than 0.9% per annum, and ignoring population change 1.56% per annum.

The King's Fund has suggested that the last figure should be 4% per annum, apparently taking population change into account in that figure. The Labour Party delivered growth

of more than 5% per annum for the first decade of this century. It is the shortfall since then that has cumulatively created the annual shortfall of £30 billion of spending per annum that is likely to exist now.

The question to be asked in that case is how this sum might be funded? Identifying a problem without suggesting a solution helps no one. This report suggests that a range of options are available:

- £10 billion of the funding for this additional cost will arise as a result of the additional taxes paid by those employed by the NHS to deliver the services that are required. These taxes will be paid by those lured back to the service by better working conditions and higher pay, many of whom now work in lower paid jobs in the private sector, and by those lured back into work having given up on the NHS and work altogether. The impact of the extra NHS spending on growth elsewhere in the economy is also taken into account in this estimate¹.
- At least £5 billion might be raised from taxes paid by those able to return to the workforce either because their own conditions will be sufficiently well managed to allow this or because those that they care for will enjoy better health, letting them return to work.

In that case it is suggested that at least half of the funding required to bring the NHS up to required service levels will be directly generated from the benefits created by that additional spending.

There are, it is suggested, a range of options to meet the remaining £15 billion spending requirement. Three relate to borrowing in various ways:

- A government could simply decide to run a bigger deficit to fund the £15 billion requirement. The impact on the national debt is insignificant, at less than 0.6% of national debt on the basis that the government likes to state it per annum.
- As an alternative, The Bank of England currently has in place a quantitative tightening programme² of selling the government debt that it owns that it bought under the quantitative easing programmes that paid for the banking crises of 2008/9, the Brexit crisis of 2016 and the Covid crisis of 2020/21. If £15bn of this programme was cancelled each year and bonds to fund the NHS were sold instead

¹ This is commonly called the multiplier effect

² See the appendix to this report for an explanation of quantitative tightening

the funding to deliver the healthcare we need could be found. In this case there would be no net impact on the amount of UK national debt owned by third parties.

- If another option is needed, National Savings and Investments could issue NHS Bonds in ISA accounts to provide the funding. £70 billion is saved in ISAs each year. Properly marketed, it would be easy to find £15 billion a year this way.

Alternatively changes to the tax system that would have no impact on the vast majority of taxpayers could raise the additional funds. These might include:

- Halving the tax reliefs on savings available to the wealthiest 10% of people in the UK each year. At present it is likely that this group enjoy at least £30 billion of pension and ISA tax reliefs each year when they are already wealthy. That subsidy per wealthy person might exceed average Universal Credit payments to each person in receipt of that benefit. Halving this relief would still provide the wealthy with very generous subsidies for their savings but would also leave us with the NHS we all need, the wealthy included.
- Alternatively, since the Public Accounts Committee of the House of Commons has found that for every £1 spent on tax investigations £18 of additional tax is raised, investing £1 billion in additional funding with HM Revenue & Customs might be enough to recover the funds required for the NHS each year.
- If another option was required, the rate of capital gains tax in the UK is currently set at half the rate of income tax in most cases. This tax is very largely paid by the wealthiest groups in society. If the capital gains tax rate was set at the same rate as the income tax rate then it is possible that the revenue from this tax might double, raising £15 billion a year.
- Other options are also possible, each raising less than £15 billion. For example, another £6 billion a year might be raised by charging an additional 15% income tax on investment income of those below pensionable age who have more than £5,000 of investment income a year since they do not pay national insurance on this but enjoy the benefits of the NHS. And, as the Labour Party has been arguing, the so-called 'non-dom' rule that lets wealthy people with an origin outside the UK live here but not pay tax on their overseas income could be abolished, raising maybe £3 billion of tax a year.

It would, of course, be entirely possible to mix and match these options: there is no need for just one source of funding to be used.

What is clear is that to argue that there are no funds for the NHS is wrong: there are multiple options available to fund the NHS that we all need, and the same logic noted here used could also be applied to other essential public services as well.

No political party has an excuse for saying we cannot have excellent public services in that case: we can afford them. All that we need is the political will to deliver them.

2. Structure of this report

This report is in three parts. Firstly, the data on underfunding of the NHS is appraised.

Secondly, the approaches to raising additional funding for the NHS are considered before specific funding proposals are presented. Since the decision processes involved in funding public services are so little understood it has been thought appropriate to present the funding solutions in this two-part way.

Thirdly, an appendix provides definitions of the technical terms used in the report for those not familiar with them. This appendix can be ignored without affecting most of the meaning of the report itself.

3. Background

The question of whether the UK National Health Service (NHS) is appropriately funded, and whether shortfalls have arisen over time, is one that is persistently arising in UK politics. That is partly because of current pay and conditions disputes between NHS staff and their management which draw attention to this issue. It is also because it would seem that no mainstream political party does at present appear to be willing to address this issue or suggest how to solve it.

The Conservative Party response to any demand for additional funding for the NHS is twofold. Firstly, they claim that record sums are being paid to the NHS, which in purely numerical terms is undoubtedly true. However, this does not answer the question as to whether those sums are appropriate for the level of need that exists. Alternatively, they suggest that there is no more money available, which as a matter of fact is not true when the options of both additional taxation and borrowing as well as new money creation are open to them to use.

The Labour Party, in its role as the Official Opposition, is almost as reticent on this issue. They have committed to spending the proceeds of cancelling the so-called 'non-dom'

rule³ that lets wealthy persons with an origin outside the UK to pay less tax in this country than a person whose origin is within the UK might pay, but this sum might, at best, be just over £3 billion per annum. Beyond that they have said they are not willing to 'open their chequebook'⁴ (a metaphor probably lost on most young people who have never seen one).

In that case this report looks at:

- How funding for the NHS had changed since 2000, looking quite specifically as a result at data for two distinct periods of government, one Labour and the other Conservative.
- How the shortfalls that it is suggested have arisen in NHS funding might be funded.

4. Data sources

Data used in this report has come from the following sources:

- That on spending has come from budget statements for each of the years in question, based on HM Treasury data. That data could be refined slightly from other Treasury sources but is sufficiently accurate for the purposes of this exercise. This data has been collected from HM Treasury publications over twenty years.
- Data on mid-year GDP and inflation came from the Office for Budget Responsibility⁵. The data on inflation used has been the GDP deflator since this is macroeconomic information.

³ An appendix explaining many of the tax, finance and economic terms included in this report is attached to it to assist those who are not familiar with them. 'Non-dom' status is referred to under domicile in that appendix.

⁴ See <https://www.theguardian.com/politics/2023/jan/04/labour-will-not-open-big-government-chequebook-starmer-to-say>

⁵ <https://obr.uk/download/public-finances-databank-november-2022-2/>

- Population data has come from a site called Macrotrends⁶ for ease of securing annual figures. This data has been checked to data from the Office for National Statistics⁷ and has been found to be reliable.

No other data sources were required.

5. Spending data

Data on actual spending was noted first when preparing this report. This was then adjusted for inflation to state data in consistent 2021/22 prices. Data for 2021/22 was not, however, included in the work because it was heavily distorted by Covid spending. 2021/22 data was that estimated before the impact of Covid was fully known, meaning it is the estimated data on spend for that year on a reasonably normal basis.

The resulting data was then adjusted for the level of population since UK population over the period from 2000 rose from 58.9 million to 67 million, clearly impacting the level of demand for NHS services. No adjustment has, however, been made for the ageing population over the period. This is, instead, allowed for in the estimated real required increase in spending.

Actual growth rates in NHS spending per annum have been estimated based on the basis of the inflation adjusted spending per head.

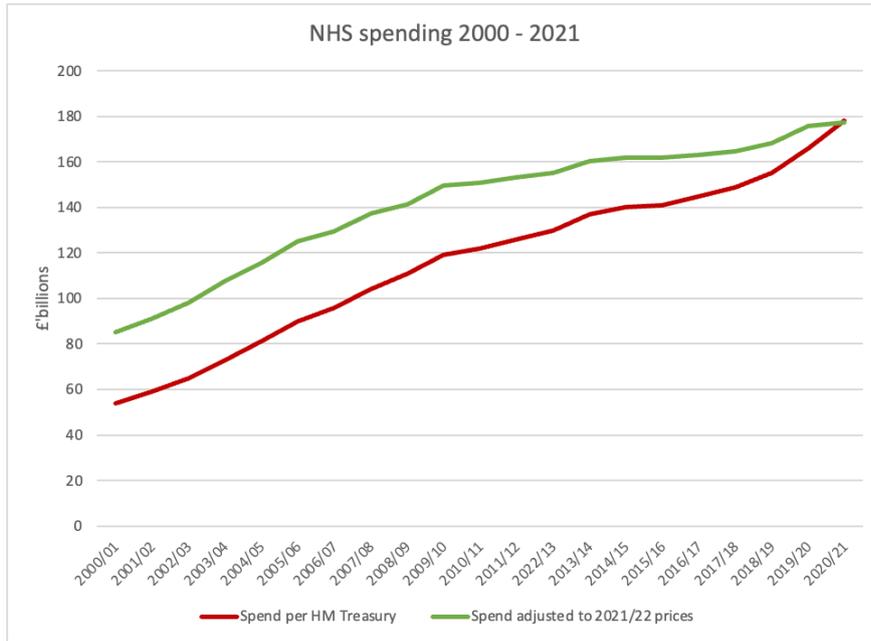
The actual spending on the NHS over this period both in original and current prices is shown by this chart:

⁶ <https://www.macrotrends.net/countries/GBR/united-kingdom/population#:~:text=The%20current%20population%20of%20U.K.,a%200.42%25%20increase%20from%202019.>

⁷

<https://www.ons.gov.uk/peoplepopulationandcommunity/populationandmigration/populationestimates/datasets/populationestimatesforukenglandandwalesscotlandandnorthernireland>

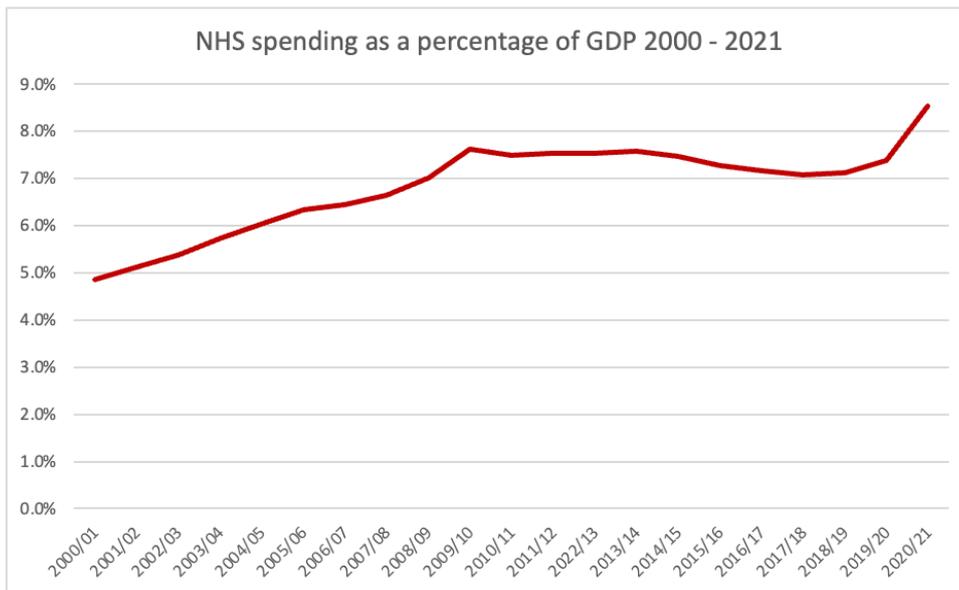
Chart 1



It is true that the current Conservative government is spending more on the NHS than ever before, but this claim fails to take population change and other issues into account. That said, it is noticeable that in real terms growth in spending under the Tories is much lower than it was under Labour, who were making good the deficit of Conservative spending to 1997.

This data does need to be contextualised. One way to do that is to express the spending as a percentage of GDP. Doing so, this chart results:

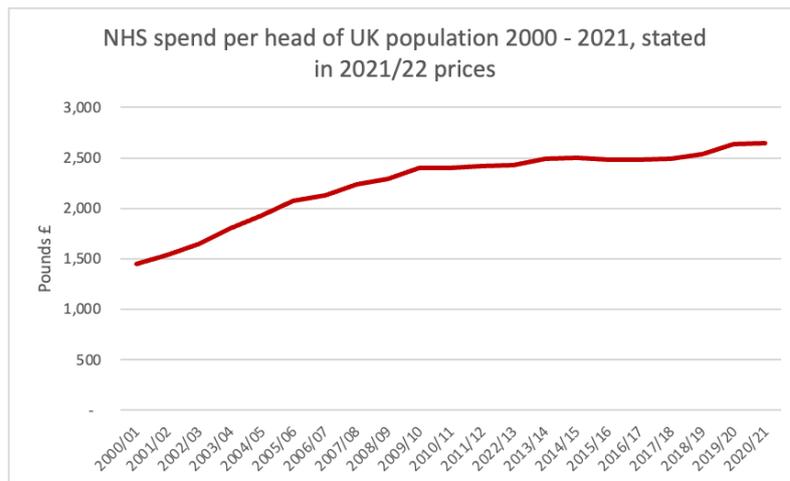
Chart 2



Labour significantly increased health spending because it had to if it was to tackle neglect and meet expectations. The Tories have since 2010 let spending fall, until Covid began and that required an exceptional response.

The other way to contextualise the data is to express it as a spend per head in current prices, resulting in this chart:

Chart 3



Labour increased spend per person, dramatically. Since then, Covid excepted, it has flatlined.

6. Interpretation of the spending data

It could be argued that if the Labour Party got spend per head right in 2009/10 then this should not be a matter of concern. There are good reasons to think this argument wrong. Those concerns are based on two issues:

- Medical inflation is above general inflation because of the growing complexity of medical care.
- The UK population is ageing, requiring proportionately more care per person.

The medical research charity The King's Fund has looked at this issue and has approximated the impact saying that⁸:

⁸ <https://www.kingsfund.org.uk/projects/verdict/how-much-money-does-nhs-need>

Over the period between 2010/11 and 2015/16, the NHS budget will have increased by £6 billion in real terms – an average of 0.9 per cent a year.

The data used in this report reproduces that real term budget increase. It also suggests after taking population change into account the real term growth rate is lower than The King’s Fund suggest: population adjusted real growth is less than 0.6% per annum.

What The King’s Fund also says is:

This is significantly lower than the long-term average increase in NHS spending which is 4 per cent.

The data prepared for this review almost exactly reproduces this King’s Fund data for 2000 to 2015.

The King’s Fund thought that 4% growth is required in NHS spending. In contrast and at best, over the period from 2010 onwards growth has been 1.56% on average in real terms (including the late surge because of Covid) before allowing for population growth and 0.68% on average having allowed for population change, all expressed in real prices.

Presuming that the funding requirement of 4% that The King’s Fund refers to allows for both increasing population and demographic change an estimate of underfunding can be prepared by comparing actual growth rates per year from 2010 onwards with the 4% rate that it is believed is required. The comparison is not meaningful before 2010: the Labour Party comfortably beat this target in every year excepting 2008/09. From 2010 onwards the figures are:

Table 1

Year	Estimated required total spend per annum - 2021/22 prices	Actual spend	Shortfall	Percentage shortfall
	£'bn	£'bn	£'bn	
2010/11	154.5	150.8	3.7	2.4%
2011/12	155.8	153.0	2.8	1.8%
2022/13	160.9	155.2	5.7	3.7%
2013/14	166.1	160.2	5.9	3.7%

2014/15	171.4	161.9	9.5	5.9%
2015/16	176.8	161.8	15.0	9.2%
2016/17	182.3	163.1	19.2	11.8%
2017/18	187.9	164.8	23.1	14.0%
2018/19	193.6	168.4	25.2	14.9%
2019/20	199.3	175.8	23.5	13.4%
2020/21	205.0	177.2	27.9	15.7%
Total	3016.2	2887.4	128.8	4.5%

It is important to be explicit about the assumptions implicit in this table. It has been assumed that:

- Labour had not created an optimal funding level for the NHS in 2009/10 that could then be allowed to plateau.
- The King’s Fund assumption that the average growth rate needed to continue after 2009/10 is correct.
- The assumed growth rate could cover for increasing demographic demand and medical complexity.
- No account is made of the additional demands created by Covid and follow up related issues, which are well documented and gave rise to 50,000 excess deaths in 2022⁹.

Assuming therefore that we had not suffered a major health crisis in 2020/21 and 2021/22, and assuming that funding did not need to be adjusted to allow for this, the table shows the cumulative impact of underfunding.

The impact of that underfunding is cumulative: the net impact is that by 2021/22 the NHS was being underfunded by £27.9 billion a year. It is, of course, very likely that this underfunding has now grown still further because of the increasing demands on the NHS not matched by additional funding required. It should be assumed that the underfunding is now at least £30 billion a year.

It is stressed that the deficit would be greater if comparison was made with the spending of other countries of similar type to the UK, almost all of whom spend more per annum on their health services but the making of this comparison is not the purpose of this exercise

⁹ <https://www.bbc.co.uk/news/health-64209221>

The impact on levels of health spending in the UK if these deficits had been addressed when expressed as a percentage of GDP (assuming GDP was not increased by the spend in question, which it probably would have been) would have been as follows:

Table 2

Year	Estimated required spending as a percentage of GDP	Actual NHS spend as a percentage of GDP
2010/11	7.7%	7.5%
2011/12	7.7%	7.5%
2022/13	7.8%	7.5%
2013/14	7.9%	7.6%
2014/15	7.9%	7.5%
2015/16	7.9%	7.3%
2016/17	8.0%	7.2%
2017/18	8.1%	7.1%
2018/19	8.2%	7.1%
2019/20	8.4%	7.4%
2020/21	9.9%	8.5%

The data for 2020/21 is heavily distorted by Covid and is not truly representative of trends as a result.

As is apparent, NHS spending would have increased as a percentage of GDP if the deficits noted had been addressed, but at nothing like the rate it had under Labour from 2000 to 2010 (see Chart 2). The growth rate assumed is modest, at best, as a result. It may still not be enough to meet need if the aim is to match the standard of health care provided in other countries.

7. How £30 billion of additional health funding might be raised

a. Conventional thinking

There are three ways in which it is conventionally suggested by politicians (but not necessarily economists) that a government can manage the supposed financial impact of

increased spending that it has to incur, which they assume will lead to an equal and opposite increase in its financial deficit¹⁰. It can:

- Increase tax revenues.
- Borrow more.
- Create more money.
- Save cost elsewhere.

Each method does however have at least two, and sometimes more, options implicit within it. For example, taxes may be increased by:

- Increasing tax rates for one or more taxes.
- Reducing tax expenditure¹¹ i.e., by cutting the allowances and reliefs people and companies enjoy within the tax system so that more of the income is subject to tax even though tax rates do not change.
- Reducing tax abuse, whether resulting from tax avoidance, tax evasion, simple error or as a result of neglect.

Borrowing can be undertaken by:

- Issuing more government bonds¹².
- Increasing the attractiveness of national savings accounts¹³.

Both are simply savings mechanisms: bonds are generally considered more complex products, but both exist to provide savers with the opportunity to save securely with the government.

Money creation can be undertaken by:

- Quantitative easing¹⁴.

¹⁰ See the appendix for explanation referring to both that term and fiscal policy.

¹¹ See the appendix for explanation of this term

¹² Government bonds are explained in an appendix

¹³ These are the products made available by National Savings and Investments.

¹⁴ Quantitative easing is explained in an appendix

- Increasing the overdraft the government has with its own central bank, the Bank of England, which it owns¹⁵.

Quantitative easing has been widely used to fund UK government deficits since 2009 when the policy began. During the Covid crisis almost all the government's supposed borrowing to fund the exceptional expenditure incurred was in fact financed by quantitative easing¹⁶. A total of £875 billion of quantitative easing had been undertaken by the Bank of England before it began to try to reverse the policy in 2022¹⁷.

Despite the impression given by many politicians and central bankers quantitative easing is not a money creation programme in itself. The creation of the UK official government money supply is a power reserved to the Bank of England¹⁸. The Bank of England can, as an alternative to the rather cumbersome, and deliberately hard to understand, quantitative easing mechanism also simply lend money on overdraft to the government on what is called the Ways and Means Account that the government maintains with it, which account is an overdraft in all but name. This was commonplace before 2008. Bank overdrafts are one of the ways in which all banks operating under government licence can create new money for use in the economy¹⁹.

Finally, the logic of saving costs elsewhere to pay for an additional cost to be incurred by the government assumes that the total amount to be spent by the government is constrained to a fixed sum or proportion of GDP that may not be exceeded. This is not true. The proportion of national income spent by the UK government has varied over time, whilst the amount spent by national governments in countries similar to the UK as a proportion of GDP also varies widely²⁰. The suggestion implicit in their needing to be a cut to permit additional spending is not matched by evidence in that case: it is always possible for a government to increase spending as a proportion of total GDP if it so wishes, and so long as this is done wisely GDP is likely to increase as a result.

b. Alternative thinking

The conventional political thinking, noted above, that any increase in NHS funding does require that tax, borrowing, long-term money creation or saving elsewhere must

¹⁵ Central banks and government overdrafts from them are explained in an appendix.

¹⁶ See <https://www.taxresearch.org.uk/Blog/2022/02/06/reversing-qe-could-be-a-recipe-for-economic-disaster/>

¹⁷ See <https://www.bankofengland.co.uk/monetary-policy/quantitative-easing>

¹⁸ See <https://www.taxresearch.org.uk/Blog/2022/06/17/how-are-the-central-bank-reserve-accounts-created/>

¹⁹ See <https://www.taxresearch.org.uk/Blog/2020/08/26/how-do-banks-create-money/>

²⁰ See <https://www.oecd-ilibrary.org/sites/6c445a59-en/index.html?itemId=/content/component/6c445a59-en#:~:text=In%2027%20of%2036%20OECD,%25%20and%2050%25%20of%20GDP.>

automatically follow, either separately or in combination, does need to be challenged. Most importantly the 'multiplier effect' that directly challenges this assumption has to be noted.

To understand the multiplier effect it has to be appreciated that the UK government, like the government of any country of any size, does not operate in a fashion remotely like that of a household, even though it is commonly (and inappropriately) assumed that governments must be run like households²¹.

The major reasons why governments are not like households are:

- i. ***When the government spends it does, unlike a household, almost invariably increase its income.***

Using as an example the NHS, if the government was to spend £30 billion more on the NHS in a year, and assuming that those additional resources could be found within the economy (which may well be true when there is considerable underemployment in the UK at present even if notional unemployment is low) then whilst government spending might increase in the first instance by £30 billion so too will the national income increase by about the same amount. That will be because the government's spending will become the income of the person working for the NHS. In other words, in contrast to a household, whose spending will rarely if ever increase its income, the spending of the government does increase the income of the country²².

The explanation for this is straightforward. If a household spends it invariably does so with people who are not part of the household. In that case there is a money outflow from the household.

If, however a government spends more, and most especially does so on wages, then its money outflow will largely go to those still within the national economy. There will not in that case be a money outflow from the economy. There will instead be an increase in activity within the economy, which is recorded as more income.

Vitaly, not only does the increase in income occur, but two other effects follow on. The first is that the recipient of the government spending will, almost invariably, pay more tax

²¹ See <https://www.taxresearch.org.uk/Blog/2023/01/15/the-origins-of-the-household-analogy/>

²² GDP is, in its most common form, considered to be the sum of consumption spending in the economy plus government spending on consumption, such as routine NHS spending, plus government and private sector investment plus the sum of exports minus imports. Additional government spending on the NHS will always boost national income as a result unless all the additional resources and people paid for by the NHS had previously been fully utilised in gainful employment elsewhere in the economy, which is unlikely.

as a result of that additional payment. The payment might be of income tax, national insurance or corporation tax (if it is a company that makes additional profit as a result) but whichever it is, the likelihood is that more tax is paid. If that additional tax is due because people are being paid then the combined income tax and national insurance from both employees and employers is likely to come to up to 40% of the total expenditure. In other words, this additional tax paid always helps fund additional government spending. This is almost never taken into account when considering this issue.

This, however, is not the end of the process. The person receiving the additional payment from the government is likely to spend much, if not most, of it. In that case this spending then boosts GDP for a second time. In addition, tax revenue is then boosted by tax paid as a result of the receipt of this second round of spending by those who receive it.

This process of continual increases in spending and tax paid continues until either the impact becomes so small that it is negligible (which may take some time) or until someone saves the money they are paid, which takes that cash out of circulation in the economy, which then stops this process working.

These so-called 'multiplier effects' are hard to measure in the real world because tracing money is always hard. Estimates of their impact vary as a result. What is agreed is that additional government investment has the highest multipliers of this sort of all, with it being possible that sums up to the total level of spending can be recovered in additional tax revenue in those cases²³.

Whatever the precise multiplier impacts, almost no one denies they exist and estimates of tax recoveries exceeding 30 per cent of additional spends are normal, even at the lower range of estimates. They do, as a result, have to be considered in this discussion.

ii. *The government can create additional money to make payments whenever it wishes*

This argument is a restatement of that presented previously, which is that any government with its own central bank, its own currency and which borrows only in that currency, can always create more money to fund its chosen level of expenditure because it always has to the power to do so. That is because it has its own bank that will always create the necessary money on the government's command. That the Bank of England must do this has been a legal requirement in the UK since 1866²⁴. Households are not in that position. To equate the capacity of households and governments to spend as being similar is, in

²³ See <https://www.imf.org/external/pubs/ft/tnm/2014/tnm1404.pdf> as example. See also <https://touchstoneblog.org.uk/2017/07/why-multipliers-matter/>

²⁴ See <https://www.legislation.gov.uk/ukpga/Vict/29-30/39/contents>

that case, wrong: governments can always spend in situations where households never could.

There is, however, a practical constraint on governments when using newly created money to fund additional spending. If the resources that they require to deliver the plans that the spending is funding are not available and currently not in use in the economy then there is a risk that the additional spending might create inflation unless taxes are raised at the same time as the new funds are spent to limit the possibility of that inflation arising. This need to tax for this reason might on occasion make it appear that taxation is funding the new spending, but that is not true. The spending is funded with new money. The taxes are used to limit the inflationary impact of doing so by taking excess demand out of the economy.

iii. Governments cannot go bust

Households can go bankrupt. They can run out of money to make payment to those to whom they owe money,

The UK government cannot do that. It ultimately creates all the money that can ever be used to pay its own debts, all of which are owed in sterling. This means that the UK government cannot go bust: unlike a government it can always repay its debt because it can always create the money to do so.

What is more, if it had to create new money to settle its debts that money would, when paid to the recipient to whom it was due, have to be deposited in a sterling bank account, which inevitably means that the cash created will always flow back to the Bank of England since it is the ultimate guarantor and regulator of all such accounts in all banks that offer them. The worst that happens in that case if new money has to be created to repay debt is that interest is then paid by the Bank of England on these new deposit balances, but they do not in any way ever compromise the ability of the UK to pay its debts.

For all these reasons, the assumption that because the UK is facing financial hardship as a whole this must prevent the UK government taking action to address that situation is false. Because of the government's unique situation where its spending also generates its own income, plus the fact that it has its own bank, meaning it can always create the money it requires to spend, and the fact that it can never go bankrupt by doing so, means that it not only can but also should spend to help the country when need within it is not being met if it is possible to do so using the resources available within our economy.

c. How to actually fund the £30 billion the NHS requires each year

The previous sections of this report have been intended to show how a government might fund the £30 billion cost of providing the NHS with the additional funding it really requires each year, at a minimum. The question to be asked having discussed the various options available is what choices should be made?

Firstly, it should be noted that the additional cost of this funding is not £30 billion. At a minimum, 30 per cent of the additional spending is likely to come back to the government in tax as a result of this money having been spent. It may be much more. But using the minimum assumption, £10 billion in extra tax will be collected, meaning that the true cost of supporting the NHS as required is reduced to £20 billion, at most. Additional NHS staff and other NHS suppliers would, by themselves, fund one third of the increase in the cost of the NHS.

Second, it is quite reasonable to think that this thirty per cent ratio is also too low in the case of the NHS. That is because the spending would include new investment which always has much higher multiplier effects. But what is also apparent is that many people are unable to work because of their current inability to secure the healthcare they need for themselves or for those they must care for as a result, it is apparent that spending on the NHS will have significant additional benefits for the economy. It is known that at least 500,000 people have dropped out of the workforce since the Covid epidemic hit. If these people (or others) were able to return to work as a result of securing the healthcare that they need it is likely that their additional incomes from working, plus savings from benefits paid, would generate at least £5 billion of extra tax revenue or savings. This is likely to be at the lower end of productivity gains arising from investment in the NHS, but using this assumption leaves just £15 billion to fund.

Third, whilst £15 billion is a significant sum, it is small in the overall scheme of UK taxation. It is just 1.6 per cent of the total taxes to be collected in the coming year (expected to be about £950 billion²⁵). In addition, the sum in question represents just 1.8% of the total quantitative easing to date so far not redeemed by the Bank of England. The sum also represents just 0.6% of UK government debt on the basis that they like to state it. The reason to make these points is to highlight that the sum in question is in government terms small. It is, for example tiny when compared to the cost of dealing with Covid (estimated at more than £400 billion) or of tackling the recent household energy cost of living crisis (cost unknown in total at present, but maybe £100 billion a year). Funds could be found for these issues: the remaining £15 billion required to fund the NHS properly can, therefore, also be found.

²⁵ <https://obr.uk/efo/economic-and-fiscal-outlook-november-2022/>

Fourth, it should be noted that whilst there are a range of options available for funding this spending, as noted below, the options that might be chosen by a government wishing to address this issue might change over time. This is particularly the case because whilst borrowing is quite easy for any government like that of the UK to arrange at short notice it takes longer to effect changes to the tax system and collect resulting revenues. There may in that case be a change in preferred methods of funding over time with a shift from borrowing to taxation being likely as the changes become embedded as a pattern of spending and funding develop.

Readily available options include:

- Increasing the deficit each year by £15 billion to cover the cost not likely to be funded by the those directly benefiting from additional spending on the NHS.
- Reducing the Bank of England's programme to reverse quantitative easing (which programme is called quantitative tightening) by £15 billion each year, and replacing that part of that bond selling programme with a programme selling new bonds specifically intended to fund the NHS instead.
- Launching NHS savings bonds to the public, offering commercially attractive rates of interest to the public within an ISA wrapper and heavily marketing these. When £70 billion a year is saved in ISA accounts already it should be easy to raise an additional £15 billion a year in this way.
- As a recent reports from the government have shown, the cost of subsidising pension savings in the UK has now reached £55 billion a year²⁶. Straightforward analysis of this data suggests that it is likely that £30 billion of this sum is used to subsidise the savings of the wealthiest 10% of people in the UK²⁷. If this subsidy was reduced, by for example capping the rate at which tax relief to the highest earners might be given to the basic rate of income tax and by further reducing the total amount on which reliefs might be given, then it is very easy to suggest that the whole of the extra £15 billion required to fund the NHS could come from this one source of funding, with the added benefit that inequality might be reduced as a result.

²⁶ See <https://www.gov.uk/government/statistics/main-tax-expenditures-and-structural-reliefs/non-structural-tax-relief-statistics-january-2023>

²⁷ <https://www.taxresearch.org.uk/Blog/2023/01/13/the-wealthiest-10-in-the-uk-get-at-least-30bn-a-year-in-subsidies-for-their-savings-each-year-enough-to-pay-for-the-nhs-for-9-weeks/>

- Alternatively, as the House of Commons Public Accounts Committee recently reported, for every £1 spent by HM Revenue & Customs on investigating tax abuse approximately £18 of additional tax is raised. It is thought that at least £42 billion of tax is not collected a year by HMRC. Other estimates are much higher²⁸. It is not clear precisely how much additional tax might be raised by investing £1 billion more in HMRC to stop tax abuse, but the country would be a better place if that abuse was stopped, and it is entirely plausible that the NHS might get the £15 billion it needs as well.
- If that option was not acceptable there are always others. For example, the rates of capital gains tax are at present almost half those of income tax. Only the wealthiest are ever likely to pay capital gains tax. If the rate of capital gains tax was set at the same level as income tax – as Tory Chancellor Nigel Lawson once did – then, assuming no changes in taxpayer behaviour, tax paid might also double. Since this tax brings in £15 billion a year that could be the source of the funding the NHS needs.
- Finally, the rate of tax paid by those with investment income in the UK is much lower than that paid by those who work for a living. That is because those who work pay national insurance and those who live off investment income do not, but still get all the benefits that the state provides. That is very obviously unfair. If an additional 15% income tax charge was imposed on those below retirement age earning more than £5,000 a year from their investments then it is likely that more than £6 billion of additional tax a year could be collected from those currently not contributing in this way. In addition, if the 'non-dom'²⁹ rule that also favours the wealthy was also cancelled it is estimated that another £3 billion of tax could be raised. The remaining required £6 billion could be raised in any of the other ways noted above.

It would, of course, be entirely possible to mix and match these options: there is no need for just one source of funding to be used. ~What is, however clear is that no politician can say that options are not available to them when they very clearly are.

²⁸ <https://www.taxresearch.org.uk/Blog/2019/06/19/the-uk-tax-gap-is-90-billion-a-year/>

²⁹ See domicile in the appendix for an explanation of this issue.

Appendix

Glossary of key terms

<p>Bank of England</p>	<p>The UK's central bank. Owned outright by the UK government via HM Treasury since 1946, the Bank has a number of roles:</p> <ul style="list-style-type: none"> • It produces and issues English and Welsh bank notes (but not coins) and issues them into the economy; • In practice it also regulates the issue of sterling bank notes in Scotland, Northern Ireland and the Crown Dependencies by requiring that deposits be made to cover the sums issued as notes, meaning that these note issues are akin to franchise arrangements with the Bank of England; • It regulates the bank deposit and payment systems, all of which ultimately operate through the central bank reserve accounts that UK clearing banks are required to maintain with the Bank of England for this purpose; • Seeks to control inflation, for which purpose it sets the base rate at which it is willing to pay on the central bank reserve accounts of commercial banks, which then influences other interest rates in financial markets; • Undertakes quantitative easing and quantitative tightening on behalf of HM Treasury, which indemnifies it for any profits and losses arising and must authorise all major decisions relating to these issues as a result.
<p>Bonds</p>	<p>A bond is, in effect, a form of savings account available to save in for a fixed period of time. It is offered by a savings institution, whether that be a bank, building society, government, or company. The currency in which the bond is issued is fixed. The interest rate payable upon the savings bond is also usually fixed for the duration of the period for which it is made available. That period can vary in length. It can be a few days but is usually a period of a year or more. Both governments and companies now issue bonds for periods as long as fifty years. Those offering repayment within two to ten years of issue are usually the most popular.</p> <p>In some cases no early redemption or repayment of the capital invested in the bond at the outset is allowed. In others this capital can be repaid early with a penalty being paid by the saver seeking that early repayment, usually in the form of interest foregone. In the case of government and corporate bonds early repayment is very rarely an option but the bonds are instead traded on a stock market. In that case the price paid by the buyer of a bond reflects their assessment of the creditworthiness of the issuer and the value of the interest rate paid on the bond when compared to current alternative issues. Bond prices can vary as a consequence.</p> <p>The bonds issued by governments are sometime called gilts, because the UK government once printed its bonds with a gold edge. The term now more commonly refers to the fact that a bond issued by a government like those of the UK, USA, Japan and Australia cannot fail as the central banks of the countries can always create the funds to ensure that repayment will be made. This cannot be</p>

	<p>said of other bond issuers. Because of this implicit Treasury guarantee in some countries, such as the USA, government bonds are called Treasuries. Collectively, government bonds form a part of what is commonly, and inappropriately, called government debt.</p>
<p>Central bank reserve accounts / base money</p>	<p>'Base money' is sometimes called 'central bank money'. It comprises the currency issued by central banks in the form of notes and coins and what are called the central bank reserve account balances or central bank reserve accounts (see separate entry). These balances are the sums owed by the central bank to the commercial banks who hold accounts with that central bank as a requirement of banking regulation.</p> <p>The central bank reserve accounts serve two purposes. Firstly, they provide the mechanism by which payments from commercial banks and their customers are made to and from the government. Secondly, they are the mechanism used by commercial banks to make settlement of the liabilities that they owe each other when fulfilling the obligations that their customers request be settled with customers of another bank.</p> <p>The central bank requires that the commercial banks hold funds in their central bank reserve accounts. As a result, these accounts are always liabilities of the central bank and assets of the commercial banks. Whilst the sum each bank might hold in their central bank reserve account will vary as inter-bank settlement takes place the quantum of funds in the overall central bank reserve accounts is always under government control and is determined by its decisions on the amount it spends (which creates new central bank reserve account balances), the amount it taxes (which removes money from these accounts), and the amount it issues in bonds (which also reduces the central bank reserve account balances since those buying bonds then have a different liability owing to them by the government). As such the overall central bank reserve account balances and so the quantity of base money is under central bank control.</p>
<p>Commercial banks</p>	<p>Consumer and business facing banks regulated by a central bank in the conduct of their trade.</p>
<p>Conventional monetary policy</p>	<p>This is a term used to describe the tools available to a central bank to deliver its mandate during what are called 'normal times', which might be considered to be the period until the collapse of Lehman Brothers in 2008, although few central bankers would define it that way. Given that the primary aim of central banks is to control inflation and central banks do not engage in direct lending to the public or governments in normal times the range of options available to them is limited. In effect, they set the interest rate on money held on deposit with them by commercial banks in their jurisdiction overnight. This then sets what is called the 'base rate' for interbank lending, which in turn is then used to establish the rate for other lending, which is usually specified to be at fixed percentage rate above this base level. As such conventional monetary policy really has only one instrument available to it. To be compared with unconventional monetary policy.</p>
<p>Deficit or fiscal deficit</p>	<p>The amount by which government spending exceeds government income from taxation during a period, which is usually a year.</p>

Domicile	<p>The country identified as a person’s natural country of origin even if that person has not been resident there for extensive periods of time. The concept is important in determining who pays tax in some countries, and most especially in the UK where a “non-domiciled” person need not necessarily pay tax on their worldwide income when domiciled people must. This explains why the UK is a tax haven for wealthy people.</p>
Fiscal policy	<p>One of the two generally recognised policy options available to a government to influence the behaviour of the economy for which they are responsible, the other being monetary policy (see separate entry).</p> <p>Fiscal policy describes the process by which a government determines its spending and overall level of taxation income with the intention of delivering a surplus or deficit when comparing government income with spending. The impact of the policy comes from a) the scale of the spending the government undertakes and b) the impact of the tax it withdraws from the economy (which has the consequence of reducing demand for private sector goods and services) and c) the relationship between the two.</p> <p>If government income exceeds spending it is generally presumed that this will have a deflationary effect within an economy by reducing the overall scale of economic activity, and vice versa.</p> <p>Deficits are more commonplace than surpluses, usually because economies are not running at full employment and fiscal policy is seen as a way of delivering that goal.</p>
Gilts	<p>A particular historic name of UK government bonds which were once issued on gilt edged paper. See bonds for a broader explanation.</p>
Government bonds	<p>Bonds issued by the government. See bonds for a broader explanation.</p>
Gross Domestic Product (GDP)	<p>Gross domestic product (GDP) is an estimate of the monetary value of all finished goods and services made within a jurisdiction during a specific period. GDP can be calculated in three ways, using expenditures, production, or incomes.</p>
Quantitative easing	<p>An unconventional monetary policy (see separate entry). Quantitative easing describes the process in which a central bank buys the debt or bonds of the government of its jurisdiction (and occasionally commercially issued debt as well) and then holds it. The aim is to force up the price of this debt by reducing the number available for sale in financial markets, which scarcity inflates their value, which in turn reduces the effective interest rate upon it. The theory is that this will then force investors seeking an adequate return to move their funds to riskier assets, so providing money for investment in private markets.</p> <p>The effect of quantitative easing is to increase the central bank reserve account balances of commercial banks held with the Bank of England, with the increase representing the amount that a central bank has paid to buy back the bonds previously issued by the government that owns or controls it, whilst reducing the quantity of government bonds available to those banks and their customers. The claimed intention of the central bank doing this in the periods after the financial crisis of 2008 was to encourage savers, other than commercial banks, to move their funds out of low-risk government bonds and into higher risk investments</p>

	<p>within the economy, which it was hoped would then encourage an increase in economic activity across the economy as a whole and so aid recovery of the economy. During the Covid crisis this did not, however, appear to be the motive of central banks using QE. Instead, those central banks appeared to be funding the expenditure of the governments that controlled them³⁰.</p> <p>Since the central bank reserve accounts held by commercial banks are a significant part of what is termed 'base money' (see separate entry) the consequence is that QE increases that part of the money supply because the sums paid for the bonds purchased by the central bank inflate these balances, meaning that QE is related to what can be considered money creation by a central bank.</p> <p>An alternative to this form of quantitative easing is called green quantitative easing or People's Quantitative Easing. In this version the central bank buys bonds issued by a government owned investment bank which provides funds for direct investment into the economy, including to projects to fund green infrastructure investment.</p>
<p>Quantitative tightening</p>	<p>The reversal of the quantitative easing process, where a government sells back to the financial markets some or all of the bonds that it acquired using the quantitative easing process. The policy can be motivated by a desire to:</p> <ul style="list-style-type: none"> • Force interests upwards by reducing the price of bonds due to their increased availability; • Reduce spending power in the economy by reducing the supply of government created money in central bank reserve accounts; • Draw funds away from market-based investments. <p>The effective of quantitative tightening is as yet largely unknown as only the Bank of England and US Federal Reserve have tried to do it, and then in relatively limited amounts.</p>

<p>Tax allowances</p>	<p>The statutory deductions available for offset by a taxpayer against their taxable income provided within the tax law of a jurisdiction. Examples include annual tax free allowances for income taxes and capital gains taxes. There may also be allowances for specific types of income e.g. investment income to a set annual limit.</p>
<p>Tax authority</p>	<p>The agency appointed by tax legislation to have the authority to calculate tax liabilities owing and to collect the resulting sums owing. This can be the Treasury of a jurisdiction but is more commonly a government agency with specific responsibility for undertaking this task. It is commonplace for there to be checks and balances in place to prevent political access to the personal data held by a tax authority and as such tax authorities frequently appear to have the appearance of being quasi-autonomous agencies.</p>

³⁰ As the New Economics Foundation has shown, between April 2020 and July 2021 99.5% of UK government deficits were funded by quantitative easing. <https://neweconomics.org/2021/10/99-5-of-government-covid-debt-has-been-matched-by-so-called-bank-of-england-money-printing>

<p>Tax avoidance</p>	<p>The term given to the practice of seeking to minimise a tax bill without deliberate deception (which would be tax evasion or fraud). The practice may be summarised as ‘seeking to get around the law’.</p> <p>Tax avoidance usually entails setting up artificial transactions or entities to re-characterise the nature, recipient or timing of payments. Where the entity is located or the transaction routed through another country, it is international avoidance. Special, complex schemes are often created purely for this purpose. Since avoidance often entails concealment of information and it is hard to prove intention or deliberate deception, the dividing line between avoidance and evasion is often unclear, and depends on the standards of responsibility of the professionals and specialist tax advisers.</p> <p>An avoidance scheme which is found to be invalid entails repayment of the taxes due plus penalties for lateness.</p> <p>Some claim that this term refers to any activity that reduces the amount of a person’s income subject to tax, for example, claiming of allowances and reliefs clearly provided for in national tax law. This is not the case. If the law provides that no tax is due on a transaction then no tax can have been avoided by undertaking it. This practice is now generally described as tax compliant. Tax avoidance instead refers to the practice of seeking to not pay tax contrary to the spirit of the law. Some also call this aggressive tax avoidance.</p>
<p>Tax base</p>	<p>The range of transactions that a country chooses to tax. A broad base includes a wide range of transactions. A narrow base includes relatively few transactions.</p>
<p>Tax evasion</p>	<p>The illegal nonpayment or under-payment of taxes, usually by making a false declaration or no declaration to tax authorities; it entails criminal or civil legal penalties.</p>
<p>Tax exemptions</p>	<p>Parts of a tax base that are not subject to tax as a result of legislative decisions. These may occur in any tax e.g. income from overseas is exempted from income tax by some jurisdictions, whilst some types of sale are exempted from value added tax or other sales taxes.</p>
<p>Tax expenditure (sometimes social tax expenditures STEs)</p>	<p>The total value of the tax reliefs, exemptions and allowances a government grants to promote social, economic, industrial and other policy objectives. The above can be referred to as tax expenditures in recognition of the fact they represent foregone revenue and can therefore be viewed as an equivalent to spending with social objectives, that constitute a form of fiscal welfare to their recipients.</p>

Tax policy	<p>The tax policy of a jurisdiction determines what objectives a government wishes to achieve using tax as an instrument of policy delivery. This means tax policy is likely to address:</p> <ul style="list-style-type: none"> • The social, economic and fiscal goals that a government wishes to achieve through the use of tax as a policy instrument; • How it sees the role of tax within its overall fiscal management of the economy; • The government’s objectives with regard to redistribution of income and wealth using the tax system; • How the government intends to use the tax system to compensate for market failures, most especially on taxing harmful products and providing subsidies through tax reliefs and exemptions; • How the government decides what to tax; its philosophy on setting tax rates and how tax exemptions, reliefs and allowance are decided upon; • The government’s approach to its tax administration, its management and its funding.
Tax rate	<p>The rate at which a tax is charged. This is usually expressed as a percentage of the chargeable tax base e.g. x% of income. It can, however, be expressed as a fixed sum e.g. \$Y per transaction undertaken.</p>
Tax reliefs	<p>The expenditure incurred by a taxpayer permitted for offset against taxable income by a jurisdiction. Examples include expenses incurred in the course of trade, subject to restrictions imposed to prevent abuse or for policy reasons. Allowances also include those permitted expenses of employees that are deemed appropriate for relief and expenses capable of deduction against sales, capital gains and other taxes.</p>
Tax spend (see Tax expenditures)	<p>Tax revenues forgone as a result of tax exemptions, reliefs and allowances</p>
Tax system	<p>The integrated elements that must exist if tax is to be charged, including:</p> <ul style="list-style-type: none"> • A government • Tax legislation • A tax authority • Tax collection mechanisms including tax return systems and payment processing mechanisms • Tax courts to enforce tax law • Appeal mechanisms • Tax reporting mechanisms for government and tax authority accounts • Processes to make change to the tax system, including mechanisms for legislative reform; consultations on those processes; budget setting processes and accounting mechanisms to provide feedback on the effectiveness of the reform process.

<p>Unconventional monetary policy</p>	<p>‘Unconventional monetary policy’ is a term used to describe the policy instruments used to control inflation, interest rates and the money supply since the collapse of Lehman Brothers in September 2008, which might be described as the time when ‘normal’ or conventional monetary policy (see separate glossary entry) came to an end. The term unconventional monetary policy describes any measures taken by a central bank to control interest rates or the money supply with the intention of controlling inflation or securing sufficient liquidity (i.e. money) within the jurisdiction for which they are responsible other than by controlling shorter term interest rates, which is what conventional monetary policy does. It covers as a result:</p> <ul style="list-style-type: none"> • Quantitative easing, or asset purchase programmes, particularly relating to the acquisition of government debt, but also involving the purchase of commercial company bonds. See separate glossary entry on this issue • The provision of new financing facilities to commercial banks by central banks, particularly for selected types of onward lending by commercial banks; • The use of what is called ‘forward guidance’ indicating what the central bank thinks that interest rate policy should be in the future to control market expectations; • Negative interest rates. <p>In broad terms the aim of the policy, at least in the period post-2008, was to reduce long term interest rates, which cannot be achieved using conventional monetary policy. The aim was to increase the amount of commercial borrowing within markets to boost economic activity, and therefore promote growth. The extensive use of quantitative easing since 2020 could be argued to be a form of government deficit funding. In countries like the UK the growth in quantitative easing almost exactly matched government deficits, month in month out, for a period of about two years.</p>
<p>Ways and Means account</p>	<p>A traditional term used by the Bank of England to describe the bank overdraft facility that it can provide to the UK government.</p>