

# Funding the Future

## The government will save £60 billion with its pay sett...

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I have [just posted this thread](#) on Twitter:

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The news that there had been a (bad) pay offer in the NHS pay dispute still gave rise to the almost inevitable cry of 'how are you going to pay for it?' from every journalist in the land. So, let's look at the answer to that question and others arising from this deal. A thread...

The pay deal offered is 4% for 2022 plus about 6% in bonuses, to be followed by 5% in 2023 and (I very strongly suspect) 1% for the years thereafter.

In 2021/22 the NHS cost approximately £230bn for the UK as a whole. About 75% of that was for wages, or about £172bn. This is my base point for what follows.

In 2021 NHS pay rose by 3%, or about £5.2 billion. It should have risen by 5% because that was inflation: that would have been £8.6bn. The government saved £3.4 billion.

In 2022 the pay rise will be 4% plus about a 6% bonus. So the pay rise is a basic increase of £7.1 billion and a bonus of £10.7 billion, making £17.8 billion. If an inflation-matching pay rise had been made based on what should have been paid in 2021 that would have been £18.1bn.

After that, the pay rises are based on the 2022 figure excluding the bonus. So 5% in 2023 might sound fair but it is based on pay that is 6% too low to match inflation, so of course it does not make good the loss from inflation in 2023.

The pay rise in 2023 will be £9.2bn, but if total pay had kept pace with inflation another £15.2 billion of pay should have been made that year. In other words, underpayments in 2021 should have been made good and the 2022 bonus should have been repeated.

That £15.2 billion shortfall means that NHS will on average be 6.4% worse off in 2023

than they should be. That is a fact.

So why has this terrible deal been accepted? I can only think that someone in the nurses' negotiating team thinks that if inflation falls heavily then so too do prices. But that is not true.

I cannot stress enough that just because inflation is falling in 2023, and will be almost non-existent after that, does not mean prices are falling. It just means that they are not rising anymore. Inflation measures the change in prices, not absolute price levels.

And what that means is that the cost increase for which a bonus was needed in 2022 is still there in 2023. So if that 6% extra cost is not covered by additional pay in 2023 those in the NHS who do not get that pay will be worse off.

I have estimated that the shortfall in pay amongst NHS staff is about 6.4% from 2023 onwards. That means in the terms of the NHS as a whole that the government will be saving more than £11bn a year on pay as a result of this deal.

From 2023 onwards so big is that saving to the government that they will be well over £60 billion by the end of 2026.

But the result is disastrous for the NHS. The recruitment and retention crisis that it has will continue as a result. And another strike will not work when inflation has fallen to 1%, which is what the government is relying on.

The NHS will, as a result, continue to haemorrhage staff.

The nation's health will continue to get worse.

The number of people in the workforce will continue to fall.

And less tax will be paid, overall.

In fact, the loss of tax paid on the missing pay rises and on the pay of those who cannot work as a result of the NHS crisis would, I am sure, be more than enough to have paid for an inflation-matching deal on basic pay in 2022 and onwards. But the government has refused that.

What it actually refused was what it should have appreciated, if only it could have thought like a government instead of like a shopkeeper, was a self-funding deal for a better NHS. Literally, a full-pay offer could have paid for itself.

Instead, it chose a deal that cannot fund itself, because NHS staff had to have inflation-matching pay rises for a self-funding deal to work.

You would almost think the government does not want a functioning NHS, or the

high-pay economy Rishi Sunak promised, or the people back at work Jeremy Hunt says he wants, because this deal will prevent all of those happening.

And saying that I have ignored the economic multiplier effect on growth from nurses having more to spend in the economy, which would boost growth for those they would spend their additional pay with, and result in yet more tax paid.

How to summarise this then? By thinking of the NHS as if it is a profit-maximising private company the government has offered a terrible pay deal that is bad for nurses, terrible for the NHS, dire for people in the country and awful for the economy. It really is that bad.

Economic madness does not come much worse than this. Excepting the fact, that is, that utterly bizarrely the NHS unions are recommending that this deal be accepted. I suspect that they too will suffer when their members realise how badly they have been misled.

The NHS is a long way from being out of trouble as a result of this deal: instead, things are going to get very much worse.

And for those who want them, these are my not very complicated workings on which this prophecy of doom is based. It's not rocket science.

NHS payroll costs	All costs are in £'billions					
	2021	2022	2023	2024	2025	2026
NHS cost	£ 230.0					
Pay proportion	0.75					
Pay cost	£ 172.5	£ 177.7	£ 184.8	£ 194.0	£ 196.0	£ 197.9
Pay rise	3%	4%	5%	1%	1%	1%
Increase in pay	£ 5.2	£ 7.1	£ 9.2	£ 1.9	£ 2.0	£ 2.0
New pay	£ 177.7	£ 184.8	£ 194.0	£ 196.0	£ 197.9	£ 199.9
Bonus	6%	£ 10.7				
Total pay should have been	£ 195.4					
Should have been	5%	10%	5%	1%	1%	1%
New pay should have been	£ 8.6	£ 18.1	£ 10.0	£ 2.1	£ 2.1	£ 2.1
Total pay should have been	£ 181.1	£ 199.2	£ 209.2	£ 211.3	£ 213.4	£ 215.5
Saving	£ 3.4	£ 3.8	£ 15.2	£ 15.3	£ 15.5	£ 15.6
Cumulative saving	£ 3.4	£ 7.2	£ 22.4	£ 37.8	£ 53.2	£ 68.9