

# Funding the Future

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If, as expected, Rachel Reeves increases employers' national insurance next week, and she doesn't compensate the NHS, education, local authorities and other departments for the cost, then the impact on public services is going to be very big – and in some cases bigger than any budget settlement they might get.

<https://www.youtube.com/watch?v=sbqGNOeS1IU?si=j6mll6aXM-m7c4xW>

The audio file is here:

[https://www.podbean.com/player-v2/?i=asyzq-171d25c-pb&from=pb6admin&share=1&download=1&rtl=0&fonts=Arial&skin=c73a3a&font-color=&logo\\_link=episode\\_page&btn-skin=ff6d00](https://www.podbean.com/player-v2/?i=asyzq-171d25c-pb&from=pb6admin&share=1&download=1&rtl=0&fonts=Arial&skin=c73a3a&font-color=&logo_link=episode_page&btn-skin=ff6d00)

This is the transcript:

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Rachel Reeves' national insurance increase is going to cost Wes Streeting and the NHS a very great deal of money.

Wes Streeting is already going around telling everybody, as smugly as only he can be, that he has secured a new settlement for the NHS from Rachel Reeves, and he really does look very conceited about it and admits that other ministers won't like him as a consequence.

Rumour has it he might have got £10 billion extra for the NHS in England, with consequent follow-on, we hope, for Wales, Northern Ireland and Scotland, and that ten billion might represent five per cent extra money for the NHS. Which, okay, we have to

allow for inflation, but that's still a real increase.

Until we understand, that is, that Rachel Reeves is going to increase employers' national insurance, and the National Health Service is the sixth biggest employer in the world right now.

So, what are the consequences of a national insurance increase for the NHS? I've done a few numbers. Let me be clear; these are indicative because I haven't got the payroll details of everyone who works for the NHS, of course. And so these numbers should be taken a little bit either way.

There are, at the moment, 1.6 million people working for the NHS. And I've assumed, on average, that they earn £36,000 a year, because that is the UK median wage, and that's pretty fair, because some of those people are on very low wages. Some of the cleaners, some of the porters, some of the kitchen staff and so on will most definitely be on nothing more than minimum wage and whilst of course there are some doctors who are on a lot more than that minimum wage and a lot more than the median wage, overall I think it's fair to assume that we have the NHS employing people on average at around that median wage of £36,000 a year.

Now what we know is that the national insurance increase paid by the employer, in this case, is likely to go up in the budget. We think it's going to increase from 13.8 per cent to 15.8 per cent. In other words, an extra 2 percent national insurance is going to be paid on the cost of employing all those people.

Will the government compensate the NHS for that increase in costs? I think that is amazingly unlikely. Any more than it will compensate the education department for the extra cost of employing teachers or any other department for employing large numbers of staff. And those two are the biggest employing departments, by the way.

So, what we see is the cost of employing people goes up, and the net cost of that 2 per cent increase in respect of all those 1.6 million staff who are on average paid £36,000 each is £720 per person, or a total of £1,152,000,000 in total. £1.15 billion in other words, a very large number. So that comes straight out of the extra £10 billion that West Streeting has just negotiated. That is going straight back to Rachel Reeves.

And then things get worse, because what we understand is that Rachel Reeves is going to put employers' national insurance contributions on the pension contributions that an employer makes on behalf of their staff. Now, the NHS pays 23.78 per cent of a staff member's salary into the supposed NHS pension fund as a consequence of their employment. There isn't, by the way, an NHS pension fund as such because it's paid out of future taxation. But that's the way the system supposedly works. And now that 23.78 per cent of the salary cost of people paid by the NHS will be subject to National Insurance for the first time, at 15.8 per cent.

Now when you work that out, the additional cost per person, given that the pension cost per person is £8,560 at present, which is 23.78 per cent of a salary of £36,000; the additional national insurance cost will be £1,352 per person. Again, we're talking averages here. And how much does that come to? £2,163,200,000, or £2.16 billion.

Put those two figures together that I've now talked about, and we come to a total increase in costs for the NHS as a result of Rachel Reeves increasing employers' national insurance contributions of £3.3 billion.

So, there we have it, Wes Streeting looking smug in his own very special way, thinking he's got £10 billion from Rachel Reeves, and now she's going to whip £3.3 billion of it back into Treasury coffers. Otherwise, she will claim her books don't balance. But, as a result, Wes Streeting has only got £6.7 billion for the NHS. And what is £6.7 billion on a total annual budget of around £200 billion, which is the cost of the NHS in England at present? Well, it's only a bit over 3%, and that's only a bit over the rate of inflation, meaning the real increase comes down from what looks to be a fairly useful 3 per cent to a little over 1 per cent.

Wes has not got himself a good deal from Rachel Reeves. In fact, he's got a pretty lousy deal overall, and the NHS is not going to sort out any of its problems on that basis.

But let's just for a moment imagine the situation of someone else; the Education Secretary, for example. We understand that education is not going to get a great deal from Rachel Reeves, but every school in the country is going to suffer these additional costs, with significant increases in their national insurance liabilities. How is that going to be managed? We might actually find some departments will be worse off because of what Rachel Reeves will be taking back in, what is in effect a tax, employers' national insurance contributions, than it was before any settlement she made.

This is not economically coherent thinking. This is the economics of the madhouse, to be blunt. Give on the one hand and take away with the other, and leave people with the claim that there has been funding, but actually there has been none. This is the basis for resentment, anger, and eventually considerable strife inside our public services, which are going to suffer as a result.

Oh dear, Rachel Reeves, you really do have to do better than this.