NHS to benefit from £13.4 billion debt write-off

- More than 100 NHS hospitals to be rid of historic debt, freeing them up to invest in maintaining vital services and longer-term infrastructure improvements
- Comes alongside new NHS funding model to make sure the NHS has the necessary funding and support to respond to the coronavirus (COVID-19) pandemic

From 1 April, over £13 billion of NHS debt will be scrapped as part of a wider package of NHS reforms announced by the Health Secretary today.

The changes will provide much needed financial support during this unprecedented viral pandemic, as well as laying secure foundations for the longer-term commitments set out last year to support the NHS to become more financially sustainable.

This is part of a package of major reforms to the NHS financial system, designed in a collaboration between the Department of Health and Social Care and NHS England, which will begin from the start of the new financial year.

This package is launched in combination with a simpler internal payment system to help NHS trusts in dealing with the coronavirus (COVID-19) response, which was agreed with NHS England last week.

This significant change will mean hospitals will get all the necessary funding to carry out their emergency response, despite many hospitals cancelling or limiting their usual services such as elective surgery or walk-in clinics due to the virus.

Health Secretary Matt Hancock said:

> As we tackle this crisis, nobody in our health service should be distracted by their hospital’s past finances.
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> Today’s £13.4 billion debt write off will wipe the slate clean and allow NHS hospitals to plan for the future and invest in vital services.
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> I remain committed to providing the NHS with whatever it needs to tackle coronavirus, and the changes to the funding model will give the NHS immediate financial certainty to plan and deliver their emergency response.

While many NHS trusts manage strong finances, under the existing rules, some took out loans to plug financial gaps in their day-to-day (revenue) or capital (infrastructure) budgets.

107 trusts have an average of £100 million revenue debt each, with the 2 trusts with the highest debts reaching a combined total of over £1 billion.

NHS chief executive, Sir Simon Stevens, said:

> We've advocated for and support this pragmatic move which will put NHS hospitals, mental health and community services in a stronger position – not just to respond to the immediate challenges of the global coronavirus pandemic, but also in the years ahead to deliver widespread improvements set out in our NHS Long Term Plan.

Under the new rules set out in a letter to all NHS trusts, should hospitals need extra cash this will be given with equity, rather than needing to borrow from the government and repay a loan.

The letters also include details on every local area's capital budget for 2020/21, providing certainty to the NHS for the new financial year and enabling investment in vital longer-term infrastructure upgrades as soon as possible.

These budgets come on top of the capital facility the government launched in February to ensure the NHS has access to whatever extra capital investment it needs, without charges, to respond to the COVID-19 outbreak.

Debt write-off: breakdown by region

- The debt to be written off at 31 March 2020 consists of a combination of interim revenue debt, which includes working capital loans and interim capital debt. The final principal is subject to validation by providers and audit but stands at £13.4 billion
- These loans will be frozen from 1 April when interest will cease, and loan principal and outstanding interest extinguished from balance sheets following a transaction during 2020/21
- The debt will be effectively written off by converting the loans to equity (Public Dividend Capital). Adjustments will be made to ensure providers' surplus/deficit positions are not negatively affected by debt write-off. The previous system saw trusts owe the value of the loan plus interest
- The loans that have been historically been issued as "Normal Course of Business" will be retained. These loans were entered into at the option of the provider, confirmed as affordable and continue to operate effectively
- The debt being effectively written off is a transaction within the DHSC group. This will not create additional borrowing or fiscal cost for the Exchequer