NHS Providers

The NHS debt "write-off": Will providers be better off?

In April the government announced a "£13.4 billion debt write-off", as part of a package of financial changes intended to help trusts respond effectively to the coronavirus pandemic. Beyond the headlines, however, the reality was a little more complicated: the "write-off" was in fact a conversion of historic debt to public dividend capital (PDC). And, while it did coincide with other changes to the NHS financial system that were a direct response to COVID-19, the change was one that had been under consideration for some time, as part of a wider set of improvements which had begun prior to the pandemic.

The £13.4bn total had amassed over several years as trusts, in increasingly difficult financial circumstances, had been forced to request loans from the Department of Health and Social Care (DHSC), either in the form of interim capital or revenue support. By the end of 2017/18, trusts' outstanding debts to DHSC exceeded their combined PFI liabilities. Roughly three quarters of these debts related to emergency revenue support at the close of the 2018/19 financial year – the most recent data available.

Under the old regime, trusts with budget deficits became reliant on interest-bearing loans simply to be able to support cash flow to pay staff and suppliers, or to carry out critical emergency repairs to facilities. As the National Audit Office has highlighted, while DHSC did move away from imposing interest rates as high as 6%, the interest owed nonetheless contributed significantly to the total debt – around £1.3bn of the total to be repaid by early 2020. Because some organisations were building up levels of debt they would never to be likely to repay, the loans became effectively an additional source of income for some trusts.

However the "write-off" does not eradicate the debt: instead, in replacing it with PDC, the DHSC has effectively swapped debt for equity. The PDC "dividend" that trusts will have to pay does not operate like a repayment of a loan. Where a loan sits on a trust's balance sheet as a liability, the PDC lump sum is an asset. But, as the King's Fund describe, PDC comes with its own financial conditions. Trusts have to pay an annual 3.5 per cent "dividend" to the DHSC, paid twice a year, and based on a provider's net relevant assets.

This form of financial support does not demand principal repayment. PDC repayments can be made when trusts have surplus cash, but crucially, if a trust is not in financial balance they will not be expected to repay the PDC lump sum.

It is not just historic debts that have been converted into equity: any further borrowing needs for capital investment will issued via PDC, rather than a loan. Moreover, it will also still be possible for some trusts to take on new loans with DHSC, where it can be shown that the investment has been prioritised by system partners within their capital envelopes, and that the repayments would be affordable to the provider.

Trusts' additional revenue needs will be also accommodated by PDC. Though as NHSE/I have acknowledged, the need for this type of revenue support should be less common than previously because other measures have been introduced to support trusts that have been struggling to reach financial balance.

So while the debt hasn't quite been "written off", the demise of the old loan system is welcome and the debt to equity swap is an improvement for the sector.

However, as NHS Providers highlighted earlier this year when the move was first reported, trusts whose loans are being converted to PDC will still have an ongoing cost pressure in the form of the PDC dividend payments. In addition, and more significantly, they will still need support to deal with the structural issues that have been driving their deficits. Many trusts have been running deficits for several years. They face workforce challenges they cannot fix on their own, geographic constraints which limit their capacity for efficiency savings, and they require substantial capital investment to reconfigure existing services.

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