

# Financial Briefing Paper for HSE EMT, ARC & Board – April 2023

## 1. Context

In the recent revision of the HSE's Letter of Determination 2023, in addition to a general concern in relation to the overall level of financial issues and risks still being referenced the HSE, two specific financial concerns were highlighted by the Minister. The first was the level of 'emerging expenditure trajectory' specifically in relation to COVID Acute and Community responses particularly given the unfunded / at best "once-off only" funding nature of this expenditure. The second specific concern was in respect of the already evident expenditure pressures within the hospital system. These concerns are shared by the HSE, including at Board, EMT and SLT levels.

## 2. Scale of Challenge 2023

The National Service Plan (NSP) 2023 was approved by the HSE Board, Minister for Health and was published on the 29<sup>th</sup> March 2023. The NSP calls out a number of financial risks and issues of up to 10.2% (or €2.2bn) that may arise in 2023, across 4 categories. Workings undertaken by the National Finance Division (NFD) indicate that the HSE will experience finance issues and risks as follows during 2023:

1. **Category I Financial Issues (€1,299m)**- This category comprises non-pay inflation (€239m), pay awards/HRA (€200m), private maintenance income (€113m), home support (€92m) and Winter Flu vaccine (€63m).
2. **Category II Financial Issues (€717m)** - This category comprises community operations (€279m), acute operations (€379m), and clinical services (€59m).
3. **Category III Financial Risks (€171m)**- This category comprises Pensions, PCRS and other demand-led. Expenditure in these areas is generally not amenable to normal budgetary control measures given the statutory and policy basis for the various schemes. As such, these costs will be reported and monitored.
4. **Category IV Other Issues & Risks (€446m before TRS / €70m after TRS)**- The HSE's intention is to substantially address these issues via the re-prioritisation of existing and new service developments.

DOH have indicated that in their view the HSE figures overstate the level of financial issue / risk. However, the DOH and HSE are fully aligned on the need for any mitigation measures related to addressing financial issues or risks NOT to impact negatively on planned service capacity, planned service activity or planned service access. The NSP'23 calls out a small number of mitigation programmes which are set out in section 4. and also references the fact that in a system where demand exceeds the current output from capacity, it is more likely that mitigation programmes will increase efficiency and lower average unit cost rather than reducing total cost and releasing cash. The draft financial management framework therefore for 2023 has been designed to take into account the challenges identified and a set of key principles has been reviewed and discussed by the EMT and SLT.

## 3. February YTD Financial Results – Key Messages

1. Acute operations deficit to date represents 165% of the total YTD Feb deficit of €126.9m. This is illustrative of the scale of the financial challenge with the hospital system, even after two months.
2. COVID – 19 represents 69% of the overall YTD Feb deficit of €126.9m. This is concentrated within COVID – 19 responses which hospitals and community services. These are separate and distinct to the main COVID programmes of Testing, Vaccines, PPE and Therapeutics.

3. Offsetting surpluses in Community Services / Other Operations and Pensions and Demand Led area would not be expected to continue as the year progresses. These offsetting surpluses are principally related to budget profiling.
4. The HSE Capital Plan has a February YTD expenditure of €38.1m against a YTD budget profile of €59.5m leading to a positive variance against profile of (€21.4m) or (35.9%), mainly due to timing of (€17.2m) for the National Children's Hospital and other projects within the Acute system.
5. The HSE's cash position is beginning to come under increasing pressure in April with a cash acceleration expected to be required by the last week in April and to be in the region of €180m.
6. Voluntary providers are also now experiencing cash flow issues with an increase in cash acceleration requests from these providers which has been drawing on the HSE's overall cash balances.
7. March YTD results will be available by April 21<sup>st</sup> 2023, CEO / EMT / Board will be briefed verbally once available.

#### 4. Overall Approach 2023 – Key Principles of Financial Framework

The control framework outlined below is complimentary to the HSE Performance and Accountability Framework 2020.

- i. Provide Services with Realistic Budgets- The intention is to work towards providing services with more realistic budgets subject to appropriate validation of deficits in order to manage risk appropriately. In essence;
  - a) The centre works to provide additional budget to regional and local services where needed – if this is beyond the recurring funding level available to the centre, then centre provides once-off budget and
  - b) The centre pursues and secures hopefully recurring budget from DOH.

This requires reaching a shared understanding of basis for specific unfunded costs, service outputs and justification in terms of alignment to NSP 2023 requirements i.e. critical and essential to deliver planned capacity, activity or access, rather than desirable. This will in some cases require more integrated, collaborative and trusting sharing of work and information between local, regional and national level which will enable and support any necessary business cases for future exchequer funding.

- ii. Report and Monitor - Any deviation in deficits arising under the relevant spend categories will require to be reported on monthly and robust evidence will have to be provided by relevant service areas in order to support requests for future funding for 2023 or 2024.
- iii. Mitigation Actions / Expenditure Management Programme - A small number of properly governed and resourced projects to support quality and value improvements are currently being put in place and prioritised. They will require significant clinical, financial, HR and other inputs and will be led by the Chief Operations Officer / relevant National Director with CEO / Executive Management Team (EMT) support and oversight. For each project involvement from key external stakeholders will include specific DoH representatives and will also involve DPER when appropriate. The list of these projects includes:
  1. **COVID-19 Hospital and Community Responses** – these responses were called out specifically as a material issue by the Minister in the 2023 revised LoD. These are separate to the three specific areas of test and trace, vaccination and PPE, and as part of securing 2023 funding there is a requirement for the continued evaluation of these COVID-19 responses in conjunction with DoH in order to determine what aspects of same can be eliminated and what are likely to be required to continue, including potentially beyond 2023, for which funding will then need to be sought via the 2024 estimates process.

A senior group of both DOH/HSE Senior Management has been established to consider these responses. The Group is represented of both HSE & DoH in Clinical, Operational and Finance areas. The purpose of the group is to agree immediate actions to address the current level of expenditure in relation to these COVID responses, and to undertake governance and oversight functions concerning the implementation of agreed actions. A series of 3 monthly in-person meetings have been scheduled to run over April, May & June 2023 with the first meeting of the Group held on Monday 17<sup>th</sup> April with follow on actions agreed including the issuing of an agreed memo to services around the overall project approach and oversight.

2. **Reduction in the use of external consultants** – the CFO, at the request of the CEO, is currently finalising a rapid review of expenditure in this area which will inform actions intended to ensure costs in this area reduced to the most appropriate level.
3. **Rostering / Management of overtime and agency** – to seek to manage both agency and overtime. This is likely to initially focus primarily on Acute Hospitals and is expected to consider which posts are funded / unfunded as a key factor in understanding and managing agency and over-time costs.
4. **Cost of Care in Public Long Term nursing homes** – to establish a roadmap to sustainable provision of high-quality care, with cost of care and occupancy levels that represent strong public value.
5. **High Cost Residential Placements (Disability and Mental Health)** – re-establish National Placement and Oversight Review Team project (NPORT).

An initial meeting between senior DOH and HSE officials has taken place in relation the overall range of mitigations listed above. It has been agreed that a programmatic approach will be utilised with an initial focus on agreeing and communicating the targets, outputs, deliverables, dependencies and risks etc. for these five initiatives after which progress including any the savings (efficiency / cash releasing) achieved from these measures will be reported on each month. In addition, pay bill controls and robust financial control generally must be clearly demonstrated by the operational system which will be supported in this regard. The SLT has agreed that we cannot tolerate services growing either headcount or commissioning infrastructure for which there is no funding stream.

#### 4 (a) 2023 Outlook – based on Quarter 1 Results

A monthly projection model for 2023 has been developed. For quarter 1 2023, this model utilises the March year to date financial information as a starting point. The model will then be circulated to the operational service areas to provide details of the following:

- A forecast for the remaining months of the year.
- Detailed explanation of any deficits.
- Detailed explanation of any growth outside the run rate.
- Detailed explanation of any time related savings (TRS).

These returns will then be consolidated, reconciled and reviewed to produce a complete organisational view of the projected HSE full year outturn for 2023. An additional top-down review is then completed by Finance teams with the assistance of each HG / CHO / National service to gain a shared understanding of the 2023 Financial Outlook. This initial 2023 Outlook is expected to be available by the end of May 2023

The overall 2023 financial challenge and the approach to same has been raised at EMT and SLT and will be a key focus at Acute & Community performance meetings throughout the financial year.

#### 4 (b) 2023 Outlook – Preliminary “crude run rate” early view based on Current Expenditure Rates.

In advance of the availability of the preliminary 2023 Financial Outlook based on Q1 results an initial analysis has been undertaken based on current expenditure levels and cash utilisation within services. Based on this early 'desktop' view, initial indications are an I&E 2023 deficit in the region of c€1.6b with a cash shortfall of c€1.1b. This compares to the up to €2.2b (10.2%) flagged in the NSP'2023. This assessment is heavily caveated and can, at best, only be used as an initial indicator of potential in expenditure for 2023. This will be superseded by the more detailed formal 'bottom up' forecast exercise undertaken by services based on Q1 results which will be available by the end of May 2023.

## 5. Conclusion and Next Steps

It is evident even at such an early stage of the financial year that health services face a significant material financial and operational challenge. The HSE must also acknowledge its legal requirement to protect and promote the health and wellbeing of the population, having regard to the resources available to it, and by making the most efficient and effective use of those resources.

Significant monitoring and engagement through internal governance structures, most notably the EMT, Audit and Risk Committee and the HSE Board will be undertaken in 2023. In addition, engagement with external stakeholders including the DoH via the Health Budget Oversight Group process will be continued and enhanced until the financial risk has been sufficiently bottomed out and mitigated as far as is practical via any, and all, available options.

Mitigation initiatives and any other ongoing improvements in efficiency and effectiveness are a normal part of any system and it is assumed that this is the case across the health system, including for 2023. However, it is appropriate to recognise the likely ongoing impact on capacity and capability for some due to the last three years of responding to the ongoing pandemic. It is also assumed that any improvements in efficiency and effectiveness are more likely to be consumed in mitigating the well evidenced unmet need and ongoing requirements to improve the safety and quality of services, rather than yielding significant net cash releasing savings.