Financial Paper for HSE Board Meeting 30th June 2023 (Draft 2.2 @ 230623)

1. **Context for year** (taken from Financial Control Framework 2023 – issued 28th April)

It (the Financial Control Framework) builds upon the pre-existing rules and practices around good financial management, including the National Financial Regulations, Performance and Accountability Framework and the 2022 Financial Framework.

These have supported the HSE in achieving an in year 2022 breakeven (actual €10m / 0.04% surplus), or a cumulative surplus of €76.2m / 0.01% across the 4 years 2019-2022 where the total expenditure was €79,172m and the vast bulk of all supplementary funding was for COVID related costs, post service plan decisions made outside of the HSE, or pensions and other demand led items, including reimbursement of the state claims agency.

The final version of the National Service Plan (NSP) 2023 has been adopted by the HSE Board, approved by the Minister for Health, and was published on the 29th of March 2023. The first NSP 2023 was adopted by the Board and submitted in early November 2022 within the statutory timeline of 21 days post receipt of Letter of Determination. Fundamentally, engagement around the extent and communication of the financial risk referenced below, is what delayed the final approval of the NSP by the Minister.

The NSP calls out several financial risks and issues of **up to** 10.2% (or €2.2bn) that may arise in 2023, across 4 categories. The NSP also explicitly states:

- 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 scale of the likely gap in funding referenced in the NSP, provides a range of obvious challenges to the HSE and some of its key voluntary providers.

Workings undertaken by the National Finance Division (NFD), and shared with DOH colleagues, as part of the 2023 Estimates process and as part of preparing NSP 2023, based largely on Q2 2022 data, and incorporating inputs from service colleagues, indicated that the HSE may experience financial issues and risks **up to** 10.2% 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), as well as COVID-19 cost pressures (€592m).
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-leds. 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.

NB – The HSE, in flagging the potential level of financial issues and risks above, was conscious of its legal obligation to protect and promote the health and wellbeing of the population, having regard to the resources available to it. Appropriately flagging such issues and risks is seen as being part of the obligation placed upon accountable officers within the overall public financial management requirements. In simple terms this means the HSE EMT, SLT and Board are clear that any year end position even close to the level identified above is a source of major concern and is certainly not in the medium to longer term interests of our patients and service users. Accordingly, the HSE is committed to managing its expenditure to a year end position that is as close to the available budget as practical. However, this needs to be interpreted by internal and external stakeholders realistically, given the scale of the issues and risks flagged above and the requirement to protect planned levels of access for patients and other service users.

2. Q1 Update – YTD March Actuals and Forecast to year end based on Q1

The revenue I&E financial position at the end of March 2023 shows a YTD deficit of €178.1m or 3.3%. Of this €42.8m / 24% is driven by the impact of COVID-19 with the remaining €135.3m / 76% relating to core activity. This core variance includes a net deficit of €212.8m in Acute Operations, offset by a likely temporary surplus of (€31.5m) in Community and (€40.0m) in Other Operations / Support Services. There is also a core surplus of (€6.0m) in pensions and demand led areas. Within the COVID-19 variance, Vaccinations is reporting a year-to-date surplus of (€20.9m) while Hospital and Community COVID-19 responses are reporting a year to date spend of €95.0m against a full year budget of €48.0m.

Table 1 – Net revenue expenditure by division -Q1 YTD March 2023

March 2023	YTD Actual Spend vs YTD Budget					YTD Variance Analysed As:	
	Approved Allocation	YTD Actual	YTD Budget	YTD Variance	YTD Variance	Core related variance	COVID-19 Related Variance
	€m	€m	€m	€m	%	€m	€m
Acute Operations	7,448.7	2,045.7	1,765.0	280.7	15.9 %	212.8	67.9
Community Services	8,096.7	1,967.9	1,966.4	1.5	0.1 %	(31.5)	33.1
Other Operations/Services	1,635.2	275.1	370.1	(95.0)	(25.7%)	(40.0)	(55.1)
Total Operational Service Areas	17,180.5	4,288.6	4,101.4	187.2	4.6 %	141.3	45.9
Total Pensions & Demand Led Services	5,089.5	1,218.4	1,227.5	(9.1)	(0.7%)	(6.0)	(3.1)
Overall Total	**22,270.0**	**5,507.1**	**5,328.9**	**178.1**	**3.3%**	**135.3**	**42.8**

April results - €367m / 5.1% overall cumulative deficit to end April, up from €178m / 3.3% to end of March. Of this cumulative €367m deficit, €57m is related to COVID, indicating that the April figure is similar to the Q1 monthly average, and €310m is related to core. This €310m indicates an uplift of c. €130m in April core (non-COVID) expenditure beyond the Q1 monthly average. €107m / 82% of this €130m uplift in April relates to the Pension and Demand Led area with most of it specifically due to State Claims Agency (SCA), where reported expenditure is highly dependant on when large cases settle and fall to be reimbursed to the SCA. There is a further €24m uplift in the deficit in Acute Operations, albeit this is mostly due to budget profiling rather than an uplift in the monthly net expenditure.

Q1 Forecast – 1. (Shared with DOH in draft 26th May as per agreed reporting schedule)
2. (Updated following internal review and shared with DOH following internal review on 21th June)

A Q1 2023 I&E forecast to year end was prepared (26th May) based on January to March results. This has now been reviewed internally and updated (21st June) to incorporate the adjustments detailed below. This projection incorporates both a high scenario, which is mostly based on a CHO / HG / National service 'bottom up' outlook for 2023, and a low scenario, which is the result of the top down review and adjustment of the high scenario. The 2023 Q1 updated forecast, **excluding** first charge of €185.0m, is showing that the revenue I&E outlook may be in the range of **€1,569m High** - **€1,312 Low i.e., the review has led to a reduction of c.€150m compared to the first version of the Q1 forecast.**

An additional **first charge of** €185m from 2022 (COVID related, made up of €195m unfunded COVID 2021 and €10m in year surplus 2022) falls to be dealt with in 2023, which increases the range to **€1,754m High** - **€1,497 Low.** This is illustrated in the table below. **In summary terms the range between the high and low scenarios forecast outturns is c.€250m or just over 1%.**

Table 2 – Forecast Scenarios

Forecast Scenarios 2023			
Service	2023 High Scenario Variance	2023 Low Scenario Variance	NSP Financial Framework Deficit
	€m	€m	€m
Core Operations	1,287.7	1,177.2	1,594.4
Operational Services	909.7	839.9	1,414.9
Pension & Demand Led	378.0	337.2	179.9
COVID - 19 Programmes	280.9	135.2	591.8
Total HSE (Note 1)	**1,568.6**	**1,312.4**	**2,186.1**
2022 1st charge - COVID 19	185.0	185.0	0.0
Total inc. First Charge (Note 2)	**1,753.6**	**1,497.4**	**2,186.1**
Cash Requirement (Note 3)	**836.0**	**610.0**	

1. Operational Services, High €909.7m / Low €839.9m **(NSP'23 €1,532m)**
2. Pensions & Demand Led Areas, High €378m / Low €337m **(NSP'23 €180m)**
3. COVID – 19 Programmes, High €281m / Low €135m **(NSP'23 €592m)**
4. Total Core & COVID 19, High €1,569m / Low €1,312m (NSP'23 €2,186m)
5. Total Core & COVID 19, High €1,754m / Low €1,497m (Including 1st Charge)

Following internal review of the Q1 forecast, and recognising that engagement with DOH is ongoing, the following are worthy of note:

I. More than €204m of the €1,754m-€1,497mm full Q1 forecast relates to items that were not part of the up to €2.2bn / 10% financial risk referenced in the NSP i.e., the up to €2.2bn / 10% did not include any estimate of a 2022 first charge, or any element related to the new public only consultant contract. **Accordingly, the adjusted comparable figure is c. €1,549m-€1,293m V the up to €2,186m.**

II. The estimated range included of €19.1m-€13.6m for the public only consultant contract is now representative of the likely 2023 cost based on consultant sign up and expressions of interest. In addition the SCA has been adjusted from breakeven, to a potential deficit level of €94m-€54m based on known experience of budget overruns and expenditure growth over recent years. A 2023 assessment has also been requested from the SCA directly.

III. To get to a total all in forecast deficit level of €1,754m-€1,497m, requires growth above the Q1 run in the amount of €1,636m to €1,374m. This is a significant level of growth i.e., c.5.5-6.5% above the Q1 run rate forecast. The elements of this level of predicted growth are currently being examined, to assess the extent to which the various elements are:

   a. Funded or unfunded – Initial indications are that a range of €215m-€155m of this growth is in the unfunded space i.e., more than 85% of the projected growth appears to be funded growth.
   b. Critical and essential to achieving the primary objective set out in the 2023 Financial Control Framework.
   c. Likely / feasible to proceed.

IV. The April YTD results are currently broadly aligned with the higher expenditure scenario and monthly profile contained in the 2023 I&E projection. This is illustrated below.

a. April PR Expenditure €7,502m
b. 2023 Projection (High Scenario) €7,486m

This indicates a difference of €16m or 0.2% from the latest projection.

May results have just become available and initial indications are that in-month expenditure levels are €38m below the Q1 High forecast and €19m below the Q1 Low forecast. The potential level of financial issues and risks which were flagged in the NSP'2023 which are now manifesting in the updated 2023 forecast based on Q1 are as follows;

a. Category I Financial Issues of (€1,299m) - The projection is showing a deficit risk of up to (**€831m)** against the total risk that was flagged as part of NSP'23. This (€831m) comprises non-pay inflation (€165m), pay awards (€64m), private maintenance income (€70m), Winter Flu vaccine (€58m), as well as COVID-19 cost pressures (€465m = €280m+€185m 1st charge) and Other HRA of (€7.2m).

b. Category II Financial Issues (€717m) - The projection is showing a deficit risk of up to **€545m** against the total risk that was flagged as part of NSP'23. This (€545m) comprises community operations (€167m), acute operations (€470m), and clinical services and regional services €93m surplus.

c. Category III Financial Risks (€171m)- This category comprises Pensions, SCA, PCRS and other demand-leds, and the projection is showing a deficit risk of up to **€378m** against the total risk that was flagged as part of NSP'23. As already mentioned, 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.

The 2 tables below illustrate with some thematic detail what is summarised above at a. to c. i.e., the financial issue / risk areas which have been reported as part of the Q1 projection process (High scenario) and compares these to the level of financial risk that was highlighted in the NSP 2023.

Table 3 – High Q1 Forecast 'Themes' versus NSP'2023 Financial Risk Areas (Including COVID)

	Q1 Projection						NSP'23	
Financial Framework vs Q1 Projection	Acute + NAS	Community	Other Operations	Pensions & DLS	COVID - 19	Total	Fin.Framework	Q1 (Lower) / Higher
	€m	€m	€m	€m	€m	€m	€m	€m
NP Inflation	141.4	23.4	0.0			164.8	239.0	(74.2)
HRA	0.0	7.2	0.0			7.2	129.0	(121.8)
Private M Income	70.0	0.0	0.0			70.0	113.0	(43.0)
Pay Awards	0.0	0.0	64.0			64.0	71.0	(7.0)
Home Support	0.0	0.0	0.0			0.0	92.0	(92.0)
Winter Flu	0.0	0.0	58.8			58.8	63.0	(4.2)
Acute Gross Costs	470.6	0.0	0.0			470.6	379.0	91.6
Community Costs	0.0	(18.1)	0.0			(18.1)	107.0	(125.1)
Public CNU	0.0	83.9	0.0			83.9	89.0	(5.1)
Disability Operations	0.0	101.1	0.0			101.1	83.0	18.1
Consultant contract	0.0	0.0	19.1			19.1	0.0	19.1
Pensions & DLS				377.9		377.9	171.0	206.9
COVID - 19 (Includng 1st Charge)					465.9	465.9	592.0	(126.1)
Other	21.1	22.1	(154.8)			(111.6)	59.0	(170.6)
Total	**703.1**	**219.5**	**(12.9)**	**377.9**	**465.9**	**1,753.5**	**2,187.0**	**(433.5)**
Total Core	**703.1**	**219.5**	**(12.9)**	**377.9**		**1,287.6**	**1,595.0**	**(307.4)**
Total COVID - 19					**280.9**	**280.9**	**592.0**	**(311.1)**
COVID - 19 1st Charge					**185.0**	**185.0**	**0.0**	**185.0**
Grand Total	**703.1**	**219.5**	**(12.9)**	**377.9**	**465.9**	**1,753.5**	**2,187.0**	**(433.5)**

Key Messages

1. This comparison is between the High Q1 forecast and the up to 10% / €2.2bn flagged in NSP 2023.

2. Non-pay price Inflationary pressures are not readily reported on via our current systems and therefore there is a risk that the currently estimated deficit of up to €164m may be under stated.

3. Similarly, reporting on the level of unfunded costs due to the replacement of HRA hours remains a significant challenge and therefore the currently estimated €7.2m may be understated.

4. Acute costs are broadly aligning to the level of financial risk that was highlighted for 2023.

5. Community Core Operations (Excluding Disability) – Is currently projected lower than was highlighted for 2023, principally within Older Persons services and Primary Care.

Table 4 – Q1 Forecast COVID – 19 versus NSP'2023 Financial Risk Areas

HSE Financial Outlook vs Financial NSP Risks	Variance High	Variance Low	Financial Framework Deficit
COVID-19 Programmes	**€m**	**€m**	**€m**
Cyber Resilience	(0.0)	(10.0)	2.0
Access to Care	2.0	(10.9)	82.0
Waiting List Measures	59.8	42.8	94.0
PPE	5.9	(3.4)	0.0
T & T	(10.1)	(19.4)	0.0
Vaccine Programme	(66.3)	(85.0)	0.0
Therapeutics	(0.5)	(2.1)	0.0
Other - Disability Services	(3.3)	(7.6)	0.0
Other - Hospital & Community Responses	293.5	231.0	413.8
COVID Deficit in Core	0.0	0.0	0.0
COVID 19 Excess costs / 1st Charge 2022	185.0	185.0	0.0
Total COVID - 19 incl. 2022 1st Charge	**465.9**	**320.2**	**591.8**
Total COVID - 19 excl. 2022 1st Charge	**280.9**	**135.2**	**591.8**

1. Excluding the 2022 1st charge, we are currently projecting a variance of between **€281m - €135m** for all COVID – 19 programmes.
2. This is between **€311m - €457m** lower than the total financial risk that was flagged for 2023. This is concentrated within the following programmes;
    a. Hospital & community responses - €120m - €183m lower.
    b. Vaccine Programme - €`63m - €85m lower due to vaccine expected uptake.
    c. Access and WLAP - €114m - €144m lower.
    d. All other programmes €10m - €44m lower.

3.0 HR WTE Position 2023 – added complexity and related internal and external risk, not limited to but including in terms of financial management and reporting.

Approved Recruitment Pool 2023- c.12,200 WTE: The current version of the HSE Pay and Numbers Strategy (PNS) for 2023 lists a pool of up to c. 12,200 WTE posts that are approved, and from which recruitment can be commenced in 2023. This 12,200 is before the recent ministerial letter adding 850 WTE re the Safe Staffing Framework, and is also subject to ongoing validation, with the latter likely to reduce the number somewhat.

Available in the Market – c.6,000 WTE: It is noted in the HR report that is also being considered at the June Board meeting, that the NSP 2023 estimate of 6,010 WTE, being the likely feasible net 2023 growth from within the pool of c.12,200, has now been revised to the slightly higher figure of 6,186 WTE. In summary 6,010 to 6,186 WTE seems to be the likely feasible net growth when we consider the available labour market and what can be secured given its constraints

This operation of a pool of up to 12,200+ has many positive aspects albeit given our current systems it brings significant additional complexity and some risk, including but not limited to those around financial management and financial reporting.

Efforts are ongoing to mitigate the internal risk involved, including by validation of the specific posts, seeking assurance from the delivery system as to the controls that are in place around approval of additional hours and posts, and seeking to assess the current level of unfunded posts.

Affordable in 2023 – 6,500 WTE: The estimate of what is "affordable" **on a full year basis** remains at the c.6,500 set out in the PNS and therefore the actual level of financial risk for 2023 is low, given that net additional posts will arise over the course of the year. However, in addition to the general complexity and risk, including around financial management and reporting, the multi-year nature of the approach set out in the approved NSP 2023 / PNS 2023 brings some external risk.

That external risk is the risk that DOH will not be able to secure in 2024 and 2025, sufficient additional monies to meet the additional costs of posts recruited, within the 12,200 pool, but beyond the affordable level of 6,500, recognising that such posts are likely to part of the recruitment efforts in the latter part of 2023 and yield additional onboarded staff from early 2024 onwards.

A more typical way in the past to manage this type of external risk was to have separate annual recruitment plans that would in effect mean that any new posts that had no specific funding attached to them would not start to be recruited until after that years NSP had been settled and converted into recruitment plans. From where we are today that would be experienced as a "substantial reduction / partial pause" in new development related recruitment at some point in the latter part of 2023.

Conclusion:

The internal risks are that are being managed are:

1. Posts in the pool of c.12,200 would not be fully validated or fully and specifically supported and approved by DOH and / or

2. Some posts that are being recruited are not funded i.e. are not part of the fully approved posts

The external risks are that DOH may not be able to secure sufficient additional resource in 2024 and 2025 to keep up with our continuous recruitment process which is driving toward the 12,200 WTE.

We are not yet at the stage where we can be satisfied that these risks, particularly the internal risks, are being managed effectively, despite significant efforts and improvements around seeking to ensure only DOH and approved posts are being recruited.

4. What are we doing to limit any likely budget over run?

4.1 Financial Control Framework issued end April / Early May, some (5 of 7) of its key principles, in summary, included:

I. **The primary objective is improving access to quality services by delivering on the planned capacity, planned activity and planned access times set out in NSP2023, while operating within the available budget to the greatest extent possible.**

II. **Growing unfunded costs in 2023 <u>beyond the average level they were at in 2022</u> is Not acceptable, even in pursuit of this primary objective. All services areas / providers will need to assure themselves, and provide assurance, that robust financial controls, particularly pay bill controls, are in place.** This is particularly the case as regards unfunded **<u>pay volume</u>** i.e. growing unfunded hours / WTE's of staff time on rosters or similar, including agency and overtime, whether this is in directly run HSE services, HSE funded voluntary partners or outsourced Private Providers (including Private Hospitals).

III. **It is a very important 2023 objective for services to eliminate, or significantly reduce, unfunded costs, particularly COVID Hospital and Community Costs, and unfunded pay costs, other than to the extent that they have assured themselves, and can provide robust assurance, that such costs are essential and critical, to the delivery of the primary objective, rather than simply being desirable.**

IV. **Improving <u>efficiency</u> by delivering more good quality activity, through the <u>same volume of staff hours (regardless of whether they are HSE / Voluntary or Private Provider staff hours),</u> is a very important objective that is to be pursued in 2023. Simply providing more activity via more staff is not improving efficiency.**

V. **Making progress on the Mitigation Actions / Expenditure Management Programme relevant to their service area (see p.6) is an important 2023 objective for both HSE run and Voluntary run services.**

4.2 NSP Mitigation Actions – Expenditure Management Programme

NSP 2023 set out a small number of cost mitigation action areas which are to be part of a structured Expenditure Management Programme, jointly governed with DOH colleagues, to progress efficiencies and savings. Within the HSE this programme is being led by the Chief Operations Officer with support from Clinical, Finance, HR and other divisions as necessary, as well as EMT / SLT support and oversight.

<u>NB Update as at 13th June :</u> Some reasonable progress being made on COVID Hospital and Community responses albeit behind schedule, partly due to the exceptional pressure on services in Q1 due to Winter RSV, Flu and COVID. **These "responses" are separate to the three specific areas of test and trace, vaccination, and PPE. The focus is on the elimination, or significant reduction, of costs that are not essential or critical as rapidly as this can safely be achieved.**

Positive initial dedicated meeting also recently held with DOH colleagues in relation to the next biggest area, Rostering / Agency & Overtime i.e., limiting the level of unfunded pay costs is a priority.

Progress is also being made on Consultancy costs, drug costs and hospital private income.

The individual mitigation action / expenditure management project areas include:**–**

1. **COVID-19 Hospital and Community Responses** –These are separate to the three specific areas of test and trace, vaccination, and PPE, and as part of securing 2023. The focus is on the elimination, or significant reduction, of costs that are not essential or critical as rapidly as this can safely be achieved.
2. **Reduction in the use of external consultants (including management consultancy)**– the CEO has targeted a significant reduction in the use of external consultancy supports i.e. a 10% & 30% reduction in Q3 and Q4 2023 respectively, when compared to Q1 2023, bearing in mind the c.€113m that was utilised over the course of 2022. The intention is that these reductions would be maintained for the full year 2024 and added to until there is strong assurance that costs of this nature have been 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 Mental Health and is expected to include consideration of 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. This will build on bed census and other foundational work that was advanced in 2022.
5. **High-Cost Residential Placements (Disability and Mental Health)** – re-establish National Placement and Oversight Review Team project (NPORT).
6. **Private Maintenance Income –** This affects acute hospitals generally as well as three community s.38 voluntary organisations.

An initial series of meetings, commencing mid-March, 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 initiatives after which progress including any the savings (efficiency / cash releasing) achieved from these measures will be reported on each month.

Project sponsors, project management arrangements and a summary time-lined workplan has been agreed in respect of the COVID Hospital and Community Reponses. Draft project charters have been circulated for the other projects.

Other mitigation areas are being explored to ensure opportunities to increase efficiency and limit unfunded costs are maximised. These include:

7. **Drugs and Medicines** - continued focus, including on HTA / robust evaluation process, bio-similar switching, reference pricing and generic substitution.
8. **Service Productivity, Efficiency and Value** – One area of key focus is the 2023 waiting list action plan which includes a focus on:
    a. Maximising the efficiency of capacity utilisation, such as in the hospital OPD area.
    b. Maximising the efficiency of theatre utilisation.
9. **Procurement –** After many years of making substantial savings by holding prices constant or negotiating price reductions, the focus for 2023, given the inflationary outlook, will be on limiting unfunded cost growth or avoiding same to the greatest extent practical, along with a significant focus on compliance with public procurement requirements.