

2021 – Board Finance Update – October YTD 2021 - KEY MESSAGES

1.0 2021 Revenue Income & Expenditure (Current Expenditure)

- I. The revenue I&E financial position at the end of October 2021 shows a YTD deficit of €109.8m or 0.7%, with a significant element of this being driven by the direct impacts of COVID-19, with €430.4m adverse variance on COVID-19 related costs being offset by a (€320.5m) positive variance on core costs (i.e. non-COVID). Given the earlier timing of the December Board meeting, the November revenue results are not yet available and a preliminary view of these results will be available the week beginning 20th December.
- II. The year-end forecast indicates that the **I&E Revenue** outlook is likely to be in the range of **(€136.9m / 0.7%) surplus - €73.9m / 0.4% deficit**. This will be reassessed once November results are available. This range, as has been the case with all our forecasts, assumes access to the full amount of the central Government contingency of €205m for the Testing & Tracing Programme.
- III. At the outset of the 2021 financial year, given the uncertainty around COVID testing volumes, an additional €205m was set aside by Government which was to be held by DPER. This funding could be accessed if expenditure on the Testing Programme was expected to exceed the initial €445m allocated in the NSP'2021. A request to access this funding in full was formally made on August 31st based on the financial outlook for the programme to the end of 2021.
- IV. The HSE have reinforced the requirement for this funding through documented correspondence, and in engagements with DOH, in the latter half of 2021. The DOH has not sought access to this funding from Government and have advised that they are exploring an alternative funding mechanism that would offset any potential shortfall at year end.
- V. Based on our current assessment of what is summarised above, the outturn position for Revenue I&E of a substantial breakeven, or a small surplus, is still realistic, noting the points related to the €205m test and trace contingency, and remembering that every 0.1% estimation margin equates to c. €21m.

2.0 2021 Capital I&E

- I. It is also now expected that the construction capital programme will present a **surplus in 2021 in the range of (€40m) to (€94m)**. This projected variance is as a result of timing savings on capital projects. The Department of Health's Capital Unit are well advanced as regards securing DPER approval for any 2021 surplus, up to (€94m), to be ring fenced and carried forward for use in 2022.
- II. In addition ICT capital is expected to broadly present a balanced position with additional capital costs relating to cyber broadly offset by consequent delays to other initiatives and savings resulting from same.

3.0 2021 Cash Position

- I. The HSE is an entity required by legislation to account and report on an accrual accounting basis and is funded by DOH which is required to account and report on a vote (cash) accounting basis.

Cash payments inevitably lag behind accrual based expenditure and the standard practice in recent years has been for the HSE to transparently drawn down its full cash entitlement and hold any unused cash across the year end to ensure that it is always in a position to meet its liabilities.

- II. As per previous briefings this has been an area that DPER and DOH have placed significant focus on in the current year. In engagements and correspondence with DOH and DPER throughout 2021 it has been made clear that the HSE has no wish to, and does not gain any benefit from, holding any greater level of cash than is needed to meet its liabilities as and when they fall due.
- III. The HSE is also fully aware and respectful of the principle that the state should not have to borrow unnecessarily in order to provide any department or agency with cash in advance of when that cash is required. The issue around the HSE's end of year central cash holdings is understood to fall within the above context and the HSE has always expressed it's wish to be fully collaborative in working with the DOH and DPER in resolving this issue.
- IV. Discussions have been ongoing with DOH and DPER for the last several months with a view to identifying a workable mechanism, where DOH or DPER would 'hold' any cash entitlement that was not drawn by HSE at year end until such time as liabilities crystallise and it was needed. These discussions have now concluded without identifying a mechanism to achieve this.
- V. As a result the HSE has in recent days requested the drawdown of its full cash entitlement at year-end which would entail an estimated year end cash balance in the region of **€881m/ 14.6 days cash**. This cash holding compares to €812m (13.5 days cash) at the end of 2020.
- VI. DOH has advised HSE that a maximum year end cash holding level for 2021 has been agreed between it and DPER. It is understood that this is likely to be in the region of €600m (c.10 days cash) with the vote related to any cash beyond this level being permanently returned by DOH to the exchequer.
- VII. This creates a situation where the HSE will have year-end liabilities that are not fully matched by cash which is readily available to the HSE. In a period when the economy is stable or growing and the budget for health and other public services is also stable or growing, this should not pose a problem. However it is likely to be a potential issue at some future point if there is a period of one or more years of significant economic downturn during which the vote (cash limit) for public health services was reduced and was insufficient to meet the liabilities, both past year and current year, falling due within that year.
- VIII. This is a potential issue in the first instance for DOH, and in turn for the HSE and our correspondence has set this out and requested that there be an appropriate governance and documentation process to ensure this potential issue is properly mitigated. This requires, at a minimum, that it is kept fully visible each year between the three organisations in a very formal way. The DOH have confirmed that they are engaging with DPER to deliver on this requirement including ensuring that suitable references to any surrendered cash balances and the related liabilities would be inserted each year into DOH's own letter of sanction from DPER and subsequently into the HSE's Letter of Determination from DOH.
- IX. We await the formal documented outcome of this overall process and we will continue to collaboratively work with both Government departments in relation to cash management and reporting.