

# Health Service Executive

## Note 1 Accounting Policies

### Statement of Compliance and Basis of Preparation

The Financial Statements have been prepared on an accruals basis, in accordance with the historical cost convention. Under *Section 36(3) of the Health Act 2004*, the Minister specifies the accounting standards to be followed by the HSE. The HSE has adopted Irish and UK Generally Accepted Accounting Principles (GAAP), FRS 102, in accordance with accounting standards issued by the Financial Reporting Council subject to the following exceptions specified by the Minister:

1. Depreciation is not charged to the Statement of Revenue Income and Expenditure, rather it is charged against the Capitalisation (Reserve) Account balance. Under GAAP depreciation must be charged in the Statement of Revenue Income and Expenditure.
2. Capital grants received from the State to fund the purchase of property, plant and equipment are recorded in the Statement of Capital Income and Expenditure. Under GAAP, capital grants are recorded as deferred income and amortised over the useful life of related property, plant and equipment, in order to match the accounting treatment of the grant against the related depreciation charge. Capital expenditure in relation to assets other than those purchased by way of service concession arrangement are recognised in the Statement of Capital Income and Expenditure as incurred. Under FRS 102, such expenditure is capitalised and charged to income and expenditure over the life of the asset.
3. Pensions are accounted for on a 'pay as-you go' basis. The provisions of FRS 102 '*Section 28: Employee Benefits*' are not applied and the liability for future pension benefits accrued in the year has not been recognised in the financial statements.
4. Claims under the Clinical Indemnity Scheme which are paid by the HSE, and administered by the State Claims Agency on the HSE's behalf, are accounted for on a 'pay as-you go' basis. This does not comply with FRS 102 '*Section 21 - Provisions and Contingencies*'. Details of the amount recognised in the Statement of Revenue Income and Expenditure in 2021, together with the actuarially estimated future liability attaching to this scheme at 31 December 2021, are set out in Note 11.

The HSE financial statements are prepared in Euro and rounded to the nearest €'000.

### Going Concern

The HSE is an organisation that has experienced significant pressures in terms of the COVID-19 ongoing pandemic, the impact of the cyber-attack in 2021 and the ongoing structural changes as envisaged by the Slaintecare programme. The HSE has received the Letter of Determination for 2022 which aligned to the National Service Plan for 2022 and confirms that the HSE has Government support to ensure funding is available for the provision of Health and Social Services. The financial statements for 2021 are therefore appropriately prepared on the Going Concern basis

### Income Recognition

#### *Department of Health Revenue and Capital Grant*

Monies to fund the health service are voted to the Department of Health (Vote 38). The Department of Health provides grants to the HSE in respect of administration, capital and non-capital services.

*Section 33(1) of Health Act 2004*, as amended provides that each year the Minister will issue a Letter of Determination to the HSE setting out the maximum expenditure it may incur in the relevant financial year. The final Letter of Determination in relation to 2021 was received on 28th February 2022.

In accordance with the accounting standards prescribed by the Minister, the HSE accounts for grants on an accruals basis. Accordingly, the amount specified in the Letter of Determination for the relevant financial year is recognised as income in that year.

Grant income in respect of administration and non-capital services is accounted for:

- in the Statement of Revenue Income and Expenditure where it is applied to non-capital areas of expenditure;
- in the Statement of Capital Income and Expenditure under the heading '*Revenue Funding*'

# Health Service Executive

## Note 1 Accounting Policies

*Applied to Capital Projects'* where non-capital grant monies is used to fund capital expenditure.

Grant income in respect of capital services is accounted for in the Statement of Capital Income and Expenditure.

*Section 33(3) of the Health Act 2004*, as amended, requires the HSE to manage and deliver services in a manner that is in accordance with an approved Service Plan and within the determination notified by the Minister. The Act provides for any deficits to be charged to income and expenditure in the next financial year and, subject to the approval of the Minister with the consent of the Department of Public Expenditure and Reform, for surpluses to be credited to income and expenditure in the next financial year. In 2021 Surpluses from both of the 2020 Statements of Income and Expenditure have not been credited to the Statements of Income and Expenditure this year on the instruction of the Department of Health. In 2021, the revenue and the capital operating surplus from 2020 have been used to offset unused allocations from the Department of Health.

### **Other Income**

- (i) Patient and service income is recognised at the time the service is provided.
- (ii) Superannuation contributions from staff are recognised when the deduction is made (see pensions accounting policy below).
- (iii) Income from all other sources is recognised when received with the exception of advanced payments for specified products and services that are to be delivered in the future where the expenditure has not yet occurred.

### **Grants to Outside Agencies**

The HSE funds a number of service providers and bodies for the provision of health and personal social services on its behalf, in accordance with the provisions of *Sections 38 and 39 of the Health Act 2004*. Before entering into such an arrangement, the HSE determines the maximum amount of funding that it proposes to make available in the financial year under the arrangement and the level of service it expects to be provided for that funding. This funding is charged, in the year of account, to income and expenditure at the maximum determined level for the year, although a certain element may not actually be disbursed until the following year.

### **Leases**

Operating Leases - Rentals payable under operating leases are dealt with in the Financial Statements as they fall due. Lease incentives are recognised over the lease term on a straight line basis.

Finance Leases - The HSE is not permitted to enter into finance lease obligations under the Department of Public Expenditure and Reform's Public Financial Procedures, without prior sanction or approval. Where assets of predecessor bodies have been acquired under finance leases, these leases have been taken over by the HSE on establishment. For these leases, the capital element of the asset is included in fixed assets and is depreciated over its useful life.

Assets purchased by way of finance lease are stated at initial recognition at an amount equal to the fair value of the leased property or, if lower, the present value of the minimum lease payments at inception of the lease. At initial recognition, a finance lease liability is also recognised at an amount equal to the fair value of the leased property or, if lower, the present value of the minimum lease payments.

In addition to the normal GAAP treatment for assets acquired under finance leases, the cost of the asset is charged to the Statement of Capital Income and Expenditure and the Capitalisation (Reserve) Account is credited with an equivalent amount. The outstanding capital element of the leasing obligation is included in creditors. Interest is calculated using the effective interest rate method and charged to income and expenditure over the period of the lease.

### **Capital Grants**

Capital grant funding is recorded in the Statement of Capital Income and Expenditure. In addition to capital grant funding some minor capital expenditure is funded from revenue. The amount of this revenue funding expended in the year in respect of minor capital is charged in full in the Statement of Revenue Income and Expenditure. This accounting treatment, which does not comply with generally accepted accounting principles, is a consequence

# Health Service Executive

## Note 1 Accounting Policies

of the exceptions to generally accepted accounting principles specified by the Minister.

### Property, Plant and Equipment and Capitalisation Account

Valuation - Property, Plant and Equipment comprise Land, Buildings, Work in Progress, Equipment and Motor Vehicles.

- The carrying values of assets taken over from predecessor bodies by the HSE were included in the opening balance sheet on establishment day, 1 January 2005, at their original cost/valuation. The related aggregate depreciation account balance was also included in the opening Statement of Financial Position. On establishment of the HSE, land of predecessor bodies was included at valuation based on rates per hectare/square metre supplied by the Department of Health and Children following consultation with the Valuation Office. These valuations were last updated in 2002. The HSE continues to value land taken over from predecessor bodies using these rates. It should be noted that lands owned by the HSE are held for the provision of health and personal social services.
- Property plant and equipment additions since 1 January 2005 are stated at historic cost less accumulated depreciation.

Capital Expenditure Recognition - In accordance with the accounting standards prescribed by the Minister, expenditure on property, plant and equipment additions is charged to the Statement of Revenue Income and Expenditure or the Statement of Capital Income and Expenditure, depending on whether the asset is funded by capital or revenue funding.

Capitalisation Policy - Capital funded assets and revenue funded assets are capitalised if the cost exceeds certain value thresholds: €2,000 for computer equipment and €7,000 for all other asset classes. Asset additions below this threshold and funded from revenue are written off in the year of purchase. Asset additions below this threshold funded from capital are included in Note 13(b) under '*Expenditure on HSE projects not resulting in Property, Plant and Equipment additions*'. A breakdown of asset additions by funding source is provided in Note 13(a) to the accounts.

Primary Care Centres acquired under Public Private Partnership (PPP) service concession arrangements are capitalised and accounted for using the finance lease liability model.

The value of the Primary Care Centre asset and the service concession liability is recognised as assets and liabilities in the Statement of Financial Position at amounts equal to the fair value of the leased property or, if lower, the present value of the minimum lease payments, each determined at the inception of the lease. Future minimum lease payments are calculated from the unitary charge payments set out in the contract, to be made directly by the HSE. The property elements of the unitary charge plus any reliably measured capital element of operational payments are used as the basis of the future minimum lease payments.

PPP service concession arrangements are accounted for in the HSEs accounts using the Capital Investment Approach. This provides for the accumulation of capital value reflecting the State's equity in PPP property assets. Using this approach the PPP capital commitment is recognised in the Capitalisation (Reserve) Account at an amount equal to the related finance lease liability. Over the life of the concession, the reduction in the outstanding finance lease liability is amortised annually through the Statement of Capital Income and Expenditure with the corresponding entry to the Capitalisation (Reserve) Account.

Depreciation - In accordance with the accounting standards specified by the Minister for Health, depreciation is not charged to the Statement of Income and Expenditure over the useful life of the asset. Depreciation is reflected on the Statement of Financial Position, through the reserve account. This reserves entry (in the Capitalisation Account), is the reciprocal entry to Property, Plant and Equipment. Depreciation is charged to the Capitalisation Reserve Account over the useful economic life of the asset.

Assets are not depreciated where they have been acquired or are managed under PPP service concession agreements which guarantee residual useful lives and operating capacity at the end of the concession term that would be equivalent to that of the asset when it was first commissioned. Other

# Health Service Executive

## Note 1 Accounting Policies

fixed assets, where subject to depreciation, are depreciated for a full year in the year of acquisition.

Residual value represents the estimated amount which would currently be obtained from disposal of an asset, after deducting estimated costs of disposal, if the asset were already of an age and in the condition expected at the end of its useful life.

Depreciation on all other property, plant and equipment is calculated to write-off the original cost/valuation of each asset over its useful economic life on a straight line basis at the following rates:

- Land: land is not depreciated.
- Buildings: depreciated at 2.5% per annum.
- Modular buildings (i.e. prefabricated buildings): depreciated at 10% per annum.
- Work in progress: no depreciation.
- Equipment - computers and ICT systems: depreciated at 33.33% per annum.
- Equipment - other: depreciated at 10% per annum.
- Motor vehicles: depreciated at 20% per annum.

On disposal of fixed assets both the Property Plant and Equipment and Capitalisation Accounts are reduced by the net book value of the asset disposal. An analysis of the movement on the Capitalisation Account is provided in the Statement of Changes in Reserves.

The Letter of Sanction for Capital provides for an allowance to re-invest proceeds of sale of fixed assets of up to €2.5 million in 2021 (2020: €9.1 million). The proceeds of the sale of assets in the 2021 AFS is below this €2.5 million threshold and is not considered to be Extra Exchequer Receipts (EERs) and in 2021 are reflected under Capital and Reserves.

### Public Private Partnerships Service Concession Agreements

The HSE has entered into a public private partnership (PPP) or service concession agreement with a private sector entity to design, build, finance and maintain infrastructure assets for a specified period of time (concession period). This is a single PPP contract for the delivery of fourteen Primary Care Centres (PCC).

The HSE controls or regulates what services the operator must provide using the PCC infrastructure assets, to whom,

and at what price; and the HSE controls the residual interest in the assets at the end of the term of the concession period.

The HSE makes payments over the life of the concession for the construction, financing, operating, maintenance and renewal of the PCC infrastructure assets and the delivery of services that are the subject of the concession.

The contract entered into is on an availability basis and is for a 25 year service period from the date of service commencement for each PCC, it is payable by way of an annual unitary charge. The unitary charge is subject to deductions for periods when the assets are unavailable for use.

Service charge elements of the unitary charge payments are expensed in the Statement of Capital Income and Expenditure. Obligations to make payments of an operational nature are disclosed in Note 22 to the financial statements.

### Pensions

Eligible HSE employees are members of various defined benefit superannuation schemes. Pensions are paid to former employees by the HSE. The HSE is funded by the Department of Health on a pay-as-you-go basis for this purpose. Funding from the Department of Health in respect of pensions is included in income. Pension payments under the schemes are charged to the Statement of Revenue Income and Expenditure when paid, as follows:

- (i) Superannuation paid to retired HSE employees is accounted for within the pay classification (see Note 6);
- (ii) Superannuation paid to retirees from the voluntary health service providers are accounted for under grants to outside agencies within the non-pay classification (see Note 8 and Appendix 1).

Contributions from HSE employees who are members of the schemes are credited to the Statement of Revenue Income and Expenditure when received. Contributions from employees of the voluntary health service providers who are members of the scheme are retained as income of the health service provider.

# Health Service Executive

## Note 1 Accounting Policies

No provision has been made in respect of pension benefits earned by employees and payable in future years under the pension scheme, consistent with the accounting treatment in previous years. This continues to be the treatment adopted by the HSE following the accounting specifications of the Minister.

The *Public Service (Single Scheme and Other Provisions) Act 2012* introduced the new Single Public Service Pension Scheme ("Single Scheme") which commenced with effect from 1st January 2013. All new staff members to the Health Service Executive, who are new entrants to the Public Sector, on or after 1st January 2013 are members of the Single Scheme. Single Scheme member contributions are paid over to the Department of Public Expenditure and Reform.

### **Additional Superannuation Contribution (ASC)**

ASC was introduced & operative from 1st January 2019 and replaces the Pension Related Deduction (PRD). Whereas PRD was a temporary emergency measure, ASC is a permanent contribution in respect of pension. Details of the amounts collected in respect of the ASC are set out in Note 5(a) to the Financial Statements.

### **Inventories**

Inventories are stated at the lower of cost or replacement cost. The HSE historically carries a provision against specific vaccine inventories and any other write offs. Adjustments for obsolescence are charged in the current year against revenue income and expenditure.

### **Patients' Private Property**

Monies received for safe-keeping by the HSE from or on behalf of patients are kept in special accounts separate and apart from the HSE's own accounts. Such accounts are collectively called Patients' Private Property accounts. The HSE is responsible for the administration of these accounts. However, as this money is not the property of the HSE, these accounts are not included on the HSE's Statement of Financial Position. The HSE acts as trustee of the funds. Patients' Private Property accounts are independently audited each year.

### **Critical Accounting Judgements and Estimates**

The preparation of the financial statements requires the HSE to make significant judgements and estimates that effect

the amounts reported for assets and liabilities as at the Statement of Financial Position date and the amounts reported for revenue and capital income and expenditure during the year. However the nature of estimation means that actual outcomes could differ from those estimates. Whilst determining these judgements and estimates the HSE has taken into consideration the impact of COVID-19. The following judgements and estimates have had the most significant effect on amounts recognised in the financial statements.

### **Accounting for Contingent Assets relating to Vat Receivable**

Vat has been charged on some of the COVID-19 testing services provided. The HSE's view, and that of its advisors, is that the services provided are exempt and that the VAT paid is recoverable. The HSE has therefore recognised the VAT amount recoverable as a Contingent Asset on the basis that an inflow of economic benefits is deemed probable.

### **Quantification of PPE Replacement Cost**

The HSE is required to revalue its year end inventories at the lower of cost or replacement cost and additionally, to determine whether these stocks should be impaired. The revaluation of PPE in 2021 resulted in an overall impairment of €109m.

### **Accounting for Bad and Doubtful Debts**

Known bad debts are written off in the period in which they are identified. Specific provision is made for any amount which is considered doubtful. Provision is made for patient debts which are outstanding for more than one year.

### **Accrued Holiday Pay**

Salaries, wages and employment related benefits are recognised in the period in which the service is received from employees. The cost of leave earned but not taken by employees at the end of the financial year is recognised in the financial statements to the extent that employees are permitted to carry forward unpaid annual leave into the following year. The estimates underlying the holiday pay accrual, for which amounts are recognised in the financial statements, are determined (including employee profiles and the pattern of holidays taken) based on current

conditions. Similar to 2020, due to the COVID-19 pandemic there has been an increase in the number of annual leave days not taken by HSE staff and this will be reflected in the quantum of the accrual as at 31 December 2021.

### **Primary Care Centres: Valuation, Depreciation, Residual Values and Future Minimum Lease Payments**

Primary Care Centres (PCC) purchased by way of Public Private Partnership (PPP) service concession arrangements are capitalised and accounted for using the finance lease liability model.

The value of the PCC asset and the service concession liability is recognised as assets and liabilities in the Statement of Financial Position at amounts equal to the present value of the minimum lease payments.

Assets acquired under service concession agreements are, under specific contractual obligations in those agreements, handed back to the HSE at the end of the concession term with useful lives equivalent to that of the asset when originally commissioned. Performance of the 'hand back' provisions is guaranteed by significant financial retentions and penalties provided for in the concession agreements. As a result of these provisions the HSE does not charge depreciation on these assets

Future minimum lease payments are calculated from the unitary charge payments set out in the construction contract financial model, to be made directly by HSE. The property elements of the unitary charge plus any reliably measured capital element of operational payments as used at the basis of the future minimum lease payments. In line with FRS 102, the effective interest rate is used to discount the future construction related liabilities arising from concession agreements. The HSE selected a discount rate of 3.32% after consultation with the National Development Finance Agency (NDFA), on the basis that it reflects an appropriate rate for long term infrastructure assets.

The HSE have reviewed the asset lives and associated residual values of the Primary Care Centres and have concluded that the asset lives and residual values are appropriate.