PAC-R-1248

Correspondence 3B.2
Meeting 116 –
20/02/2014

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Mr John McGuinness TD
Chairman
Committee of Public Accounts (PAC)
Leinster House
Dublin 2

Our Ref: CF/DH

3rd February, 2014

Our Client: Paul Kiely

Dear Mr. McGuinness

We act for Mr. Paul Kiely and have been instructed by him to write to you with a view to addressing matters raised in a letter dated 9th January 2014 received by him from the Secretariat of the Committee. Mr Kiely wishes to clarify the position regarding monies that were and continue to be paid by the CRC to the Mater Hospital to enable staff of the CRC to be included in the Voluntary Hospital Superannuation Scheme (VHSS).

This VHSS is administered by the Mater Hospital on behalf of the CRC. The arrangement however necessitated the staff concerned to be technically placed on the Mater Hospital payroll. Each year the Mater Hospital would request from the CRC a list of its employees and their salaries. The Mater Hospital would then forward a cheque in respect of the salaries of these employees to the CRC. The CRC would then send back a cheque to the Mater Hospital to cover the salaries together with the relevant contributions to be made by the employees themselves (6.5%) and the Clinic's contribution as an employer (13%). This administrative arrangement commenced in 1979 and continues to this day. Mr Kiely's understanding is that the VHSS is like the public service pension schemes whereby there are no actual funds as such and whereby pensions are funded from current revenues.

The scheme has a legal basis as confirmed by Mr. Kiely. When asked why the CRC continued to pay the Mater he confirmed that there was a legal agreement going back over 30 years. This point was corroborated by the evidence given by the Mater Hospital on 19th December 2013 and by copies of the relevant documents subsequently lodged with the PAC by the Mater Hospital.

Mr. Kiely was informing the Committee of the apparent inequity of treatment between the CRC and the Mater Hospital as employers. The CRC are obliged to pay an employer contribution in respect of its employees who are members of the VHSS whereas the Mater Hospital pays no such contribution as corroborated by the Mater Hospital's Financial Statements 31 December 2012, Note 24 Pensions and the Superannuation Note in the statement of accounting policies (copies attached). Accepting the fact that the liability for future pension payments on behalf of CRC staff rests with the Mater Hospital it was however confirmed, in the Mater Hospital evidence to the PAC that the scheme as a whole is actually underwritten by the Minister / HSE. The evidence given by the Mater also confirmed that CRC as an employer has contributed €9.5m to the VHSS since 2001 while only €1.7m has been paid out over the same period.

Mr. Kiely had sought to change this arrangement and have the CRC administer the payments to the VHSS in respect of its own staff without the involvement of the Mater Hospital. Mr. Kiely as CEO had tried to have the CRC recognized as a body under the VHSS so that it could administer its employee contributions and not have to make employer contributions. Mr. Kiely's understanding is borne out by the evidence of the Director of Finance of the Mater Hospital at the PAC hearing on the 19th December 2013. Ms. Piggott confirmed that the payments received from the CRC in respect of the staff and the contributions towards the VHSS are not put into a fund. Nor are employer contributions required under the VHSS as the Scheme is guaranteed by the Department of Health. If the CRC could administer its participation in the Scheme it would be able to save on the employer contributions which at €660,000 annually, is a significant sum.

This was refused by the Department of Health and Children in November 2004 on the basis that the VHSS was only available to Hospitals. The Department confirmed however that it was happy for the existing arrangements to continue.

As regards the comments made by Mr. Barry O'Brien on the 19th December 2013, Mr. Kiely was not the Chief Executive of the CRC when the documentation was written between the Department of Health and the Mater to agree to take on the staff of the CRC into the VHSS. Mr. Kiely did not say that there was a fee charged between the Mater Hospital and the CRC. The questions posed by Deputy Ross on this issue arose towards the end of the lengthy session on the 11th December and Mr. Kiely was responding to his reference to a 'fee'. His intention at the time of this questioning was to refer to the employer contributions (he inadvertently used the term "premium") which he believed were not necessary (in circumstances where he understood that no other employer participating in the VHSS has to make employer contributions) and the fact that the Mater Hospital has access to these employer contributions (they do not go to the VHSS) as income which the CRC could properly benefit from by retaining the money for its own services and projects.

This matter was raised by the Committee on the 11th December 2013 after some 5 ½ hours in session with only a very short ten minute break. Had Mr Kiely been afforded prior notice that this matter was to be raised by the Committee, he would have been in a better position to comprehensively deal with the questions raised. If by his responses Mr. Kiely inadvertently caused any misunderstanding or confusion he truly regrets doing so.

We note that Mr. Kiely has received a letter dated 21st January 2014 from the Clerk to the Committee and it is his intention to comply with that request to attend and give evidence on the matters referred to.

Yours sincerely

Carol Fawsitt

Enc.

REF:PAC-R-1164 Date 16/1/2014

PAC-R-1164

Correspondence 3A.5 (A+B) Meeting 108 – 16/01/2014

Mater Misericordiae University Hospital

Annual Financial Statements for the year ended 31 December 2012

BASIS OF ACCOUNTING

These accounts were prepared on an accruals basis under the historical cost convention, in accordance with the accounting standards laid down by the Minister for Health & Children, except as disclosed on Page 5.

INCOME

Health Service Executive Funding
The Health Service Executive (HSE) provides funding towards the net annual running costs of the Hospital in accordance with the Service Level Agreement. These grants / funding are accounted for on an accruals basis to the extent that they have been approved by the HSE.

Non-grant income other than in-patient income is accounted for on a cash receipts basis. In-patient income is accounted for on an accruals basis.

Out Patient and Road Traffic Accident Income
This income is accounted for on a cash receipts basis.

FIXED ASSETS AND DEPRECIATION

All fixed asset acquisitions are stated at cost less accumulated depreciation. Equipment purchased using Revenue funds are only capitalised if the cost exceeds €3,809 in respect of medical and other equipment and €1,270 in respect of computer equipment.

Fixed assets are depreciated in compliance with the Department of Health & Children accounting standards. The depreciation is matched by an equivalent amortisation of the capital reserve. Depreciation is provided over the assets as follows:

Owned and Leased Equipment - Over the estimated useful life of 5 years.
Building additions are transferred to the Company's Parent Company on completion and commissioning.

RETROSPECTIVE PAY AWARDS

The expense is charged in the year in which the Department of Health & Children allows the corresponding revenue allocation and therefore not necessarily in the year to which the expense relates.

STOCKS

Stocks on hand at year end are included in the financial statements at the lower of cost and net realisable value. These are comprised of pharmaceutical stocks held in the Pharmacy and Wards, stocks in the Orthopaedic, Anaesthetic and Cardiovascular Theatres and in the Central Surgical and Central Supplies Departments. All other stocks are held on an ongoing basis and are not included in the accounts.

SUPERANNUATION

The Hospital operates a defined benefits pension scheme in respect of employees eligible for inclusion under the Voluntary Hospital Superannuation Scheme. The Scheme is administered, funded and underwritten by the Department of Health & Children. The Hospital acts as an agent in the operation of the Scheme and does not make any contributions to the scheme. Contributions are received from eligible employees only. In accordance with the service plan agreed with the HSE and the DOH&C, pension contributions received may be offset against pension payments made and the surplus or deficit each year forms part of the funding for the Hospital.

Contributions received are credited to the Non Capital Income and Expenditure Account as they are received. Payments made under the Scheme are charged to the Non Capital Income and Expenditure Account as they fall due.

Refunds of Contributions paid are charged to the Income and Expenditure Account when notification is received from the Department of Health & Children to make a payment to an employee who is leaving the Scheme.

Note 20 – Analysis of Changes in Net Debt	At 1 Jan 2012 €	Cash Flow €	Non Cash changes €	At 31 Dec 2012 €
Cash in Hand and Bank Balance	-	41,165	-	41,165
Bank Overdraft	(10,962,440)	1,452,003	-	(9,510,437)
	(10,962,440)	1,493,168	-	(9,469,272)
Bank Loans due within one year	(143,385)	(3,687)	-	(147,072)
Bank Loans due after one year	(146,752)	146,752	-	-
	(290,137)	143,065	-	(147,072)
	(11,252,577)	1,636,233	-	(9,616,344)

Note 21 – Reconciliation of Net Cash Inflow to Movement in Net Debt	2012 €	2011 €
Net Debt at 1st January	(14,818,081)	(16,498,454)
Increase in Cash in the Year	1,636,233	1,680,373
Net Debt at 31st December	(13,181,848)	(14,818,081)

Note 22 – Capital Commitments

Annual commitments under operating leases in respect of buildings amount to €1,341,000 and this operating lease expires in 2018 and 2019.

Note 23 – Contingent Liabilities

The Hospital had no material contingent liabilities at 31st December 2012.

Note 24 – Pensions

The Hospital operates a defined benefits pension scheme in respect of employees eligible for inclusion under the Voluntary Hospital Superannuation Scheme.

In the year ended 31st December 2012 €9,282,070 (2011: €9,408,234) was retained as income, €10,380,112 (2011: €9,439,564) was paid to pensioners and refunded to employees leaving the scheme and €3,332,946 (2011: €3,856,998) was paid in respect of lump sums.

The scheme is a defined benefits scheme, however the Hospital has availed of the disclosure exemptions in respect of multi-employer pension schemes outlined in paragraph 9(a) of FRS 17. On this basis the scheme is considered for disclosure purposes as a defined contribution scheme and no further disclosures are required.