



14 July, 2017

**Mr. Kieran Lenihan,
Clerk to the Committee of Public Accounts,
Leinster House,
Kildare Street,
Dublin 2**

Dear Mr. Lenihan

I refer to the Committee meeting of 15th June, which met to examine the Annual Financial Statements of the Health Service Executive for the years 2015 and 2016.

At the meeting, the Committee requested further information in relation to:

- Contingent liabilities that are not shown in the accounts or financial statements;
- A reconciliation of the outturn figures in the Appropriation Account of the Department of Health with the figures shown in the HSE financial statements;
- An explanation for the exclusion of home helps from the staffing numbers.

Contingent liabilities:

There are no contingent liabilities in the HSE which are not referenced in the Annual Financial Statements.

Under Section 36 of its establishing legislation (The Health Act 2004) the HSE is required to

- (i) prepare annual financial statements in such form as the Minister may direct.
- (ii) The annual financial statements shall be prepared by the Executive in accordance with accounting standards specified by the Minister

In practical terms, the HSE prepares its accounts under FRS102 (previously GAAP) subject to a number of specific derogations from the Minister for Health. These derogations are set out in Note 1 to the Annual Financial Statements and are:

- **Pensions:** 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 or disclosed in the Notes to the Accounts.
- **State Claims Agency:** Claims under the Clinical Indemnity Scheme are accounted for on a 'pay as-you go' basis. This does not comply with FRS 102 'Section 21 - Provisions and Contingencies'.
- **Depreciation:** Not charged to the Statement of Revenue Income and Expenditure, rather it is charged against the Capitalisation (Reserve) Account balance. Under GAAP, depreciation would be charged in the Statement of Revenue Income and Expenditure.

- **Capital grants:** 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.

In the case of the HSE, there are three contingent liabilities which are disclosed in **Note 27** (contingent liabilities). These are

- 1) Parallel importers legal case, (disclosure without value provided nor provision),
- 2) Consultants contracts (disclosure without value provided nor provision), and
- 3) Patient Private Property retained interest (partial not full provision, details not value disclosed)

These are the only items which meet the definition, under GAAP, of a contingent liability. The treatment and level of disclosure is accepted by the Comptroller and Auditor General in the course of his audit.

In the case of pensions and the State Claims Agency, these are not contingent liabilities as the liability exists, albeit that the value is estimated, and the HSE will have to meet the costs in the future. Therefore, these would be considered actual liabilities and not contingent liabilities. Under accounting principles, in the absence of a Ministerial derogation, the HSE would be required to recognise these liabilities on its Balance Sheet.

In the health sector, pensions have traditionally been accounted for on the “pay as you go” principle, with the current period cost of pensions and lump sums charged to the accounts in the year they are paid. For the health sector, there are practical considerations relating to the calculation of the pension liability and the recording and recognition of a matching asset; this is further complicated by pension obligations in the voluntary sector. While this is being considered, a Ministerial derogation from compliance is necessary. However, with the recent introduction of FRS102, and the adoption of a new EU Regulation (EU549/2013), this matter is now being reconsidered, and an inter-Departmental Working Group has been established to review current practices across all State agencies and public sector bodies.

In the case of the State Claims Agency, it was concluded, in consultation with the Office of the Comptroller and Auditor General, that although recognition of an estimated provision for CIS liabilities may be technically feasible, it would be inappropriate in the context of the mechanism of Estimates funding of the HSE, and that disclosure is the appropriate treatment. This is specified as an exception to normal accounting policies in the HSE Statement of Accounting policies, and a Ministerial derogation is provided.

Reconciliation of AFS (HSE) with Appropriation Account (D/Health):

The gross current budget approved by the Oireachtas for the Health Sector for 2016, as published in the Revised Estimates for Public Services 2017, was €13.695 billion. Of this total amount, €13.490 billion related to HSE subheads to be issued as grants to the HSE under the provisions of the Health Service Executive (Financial Matters) Act 2014. In addition to this sum, the Department of Health received a virement sanction from the Department of Public Expenditure and Reform to transfer €25m from savings in a number of Health vote subheads to fund overspends in the HSE, while the level of grants was reduced by €1.2m to reflect an underspend in approved Dormant Account Funding for 2016.

Therefore, the 2016 final revised approved grant payable to the HSE under the Health Vote amounted to €13,514 billion which matches the Department of Health Grant figure reported in the HSE Annual Financial Statements 2016. An analysis of this position is set out in the table below. This final 2016 AFS Income figure can be matched to the Vote 38 2016 Appropriation Account as submitted for audit.

Reconciliation of Health Vote to HSE AFS Department of Health Grant Income - 2016	
HSE Approved Current Grant per REV 2017	13,489,931
DPER Sanctioned Virement to HSE Current Subheads	25,000
<u>Exchequer Surrender (Unspent Dormant Account Funding)</u>	<u>(1,174)</u>
<u>Final Current Vote Grant to HSE -per D/Health Appropriation A/C</u>	<u>13,513,757</u>
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Department of Health Grant Income per 2016 AFS	13,513,757

Further detail is attached at **Appendix 1**.

Exclusion of Home Help numbers from the general staffing numbers:

Staff numbers are reported annually in the AFS and monthly in the HSE's Employment Control Reports and the Performance Reports. In the AFS and the Employment Control Reports home help numbers are reported as a separate line item outside the overall staffing number. The reason for this anomaly is historic.

It was only following a Labour Court ruling (c1997) that home helps established employment status. This led to 4,000 WTE (12,000 headcount) home help numbers being collected as part of health service personnel statistics. It was decided at the time to report them discretely to avoid a sudden 4,000 increase in overall WTE numbers, especially given that this increase was not real and merely a function of reporting. Previously, the controls on public sector employment concentrated on the numbers of staff employed rather than also taking account of the pay bill; had these 4,000 WTE been included in the overall total for the health sector it would have resulted in a technical breach of the the employment ceiling under the Employment Control Framework (ECF).

This separate reporting of home helps has continued, given the need to properly analyse trends over time. That said, the Department of Health will engage with stakeholders on this issue with a view to reconsidering the reporting arrangements going forward. Our aim would be to recognise the employment status of home helps, whilst conscious of the necessity to analyse trends across the various employee types.

I trust that this information will be of assistance to you. Should you have any further queries the Department would be happy to provide further briefing.

Yours sincerely,



Jim Breslin
Secretary General

Appendix 1

Published 2016 REV Health Vote - Reconciled to HSE AFS

Current Expenditure (€'000)	2016 REV
DoH Administration	34,296
DoH Agency /Programme Funding	170,777
Sub-Total DoH	205,073
Health Service Executive	13,489,931
Total Gross Current Vote	13,695,004
Current A-in-As	-459,971
Total Net Current Vote - Per Published REV	13,235,033

Capital Expenditure	
DoH	15,000
HSE	399,250
Total Gross Capital Expenditure	414,250
Capital A-in-As	-250
Total Net Capital Expenditure	414,000

Summary	
Total Gross Vote	14,109,254
Total A-inA's	-460,221
Total Net Vote	13,649,033

HSE AFS	2016
Income	
Department of Health Revenue Grant	13,513,757
Deficit on Revenue I&E b/fwd	-7,931
	13,505,826
Patient Income	450,515
Other Income	610,899
Total Income	14,567,240
Expenditure	
Pay & Pensions	5,110,826
Non-Pay Expenditure	9,466,706
Total Expenditure	14,577,532
Operating (Deficit) / Surplus	-10,292