Committee of Public Accounts

Meeting 5\textsuperscript{th} July 2018

Opening Statement

Mr John Connaghan
Director General
Health Service
Chairperson and Members, thank you for the invitation to attend today’s meeting to discuss the HSE Annual Financial Statements for 2017.

I would like to introduce the Senior Management members with me today:

- Mr. Stephen Mulvany, Chief Financial Officer and Deputy Director General
- Mr. Liam Woods, National Director, Acute Hospital Services - Operations
- Ms. Mairead Dolan, Assistant Chief Financial Officer, Finance Division

We have submitted information and documentation to the committee in advance of the meeting and I will therefore confine my opening remarks to the following issues:

**Financial Outturn 2017**

A Revised Estimate for Health was approved and notified by Letter of Determination of 29th December 2017. The HSE received once off revenue funding of €208.3m to cover winter initiatives, state claims agency increased costs, shortfall of acute hospital private patient income and central pay awards.

The HSE’s Annual Financial Statements (AFS) for 2017 record a combined (Revenue and Capital I/E) deficit of €131.5m. Within this there is a capital surplus of €8.3m and a revenue deficit of €139.9m. The total 2017 revenue deficit, when deficits in s38 funded providers are taken account of, is €165.9m.
The most significant area of deficit in 2017 relates to the Acute Hospital Division (€139.7m). The majority of this deficit, i.e. €73m, is attributable to income shortfalls and associated bad debt costs, primarily related to hospital private maintenance charges. In addition there are cost overruns of €13.4m / 0.4% in relation to pay and €54m / 3% related to non-pay of which the majority, €44m, relates to clinical non pay. A significant driver of these cost overruns is the provision of additional activity in response to service demand, the complexity of that activity and the growing age and related needs of hospital inpatients. As evidenced within the Health Service Capacity Review, 2018 (DOH), Ireland reported the second highest occupancy rate of those countries reporting to the OECD. This indicates a hospital system that is operating under considerable stress and is significantly short of the necessary capacity.

Social care services also reported a deficit of €24.5m. A significant element of the deficit in this area relates to the costs of providing residential care to people with an intellectual disability, including the provision of emergency placements which continue to be a significant pressure in 2018. Individual placements can cost up to €0.5m. The costs of compliance with HIQA residential standards, in the intellectual disability sector, has also been a contributory factor in this deficit.
To put the HSE’s financial performance in context, if we look back over the 10 years from 2008 to 2017, there has been 0.68% or €838m in net supplementary estimates provided to the HSE in respect of areas directly related to service pressures and financial performance challenges. The balance of supplementary funding received over this period has been in respect of exchequer related or similar technical items outside of the HSE’s control (€1.935bn / 1.56%) or the PCRS (€0.791m or 0.64%), whose costs are largely driven by policy, legislation and related demographic and societal factors not amenable to normal financial management.

**Matters of Exception Reported on by the C&AG in respect of 2017 as in previous years**

In the Comptroller and Auditor Generals audit certificate which accompanies the Annual Financial Statement, the C&AG has drawn attention to concerns in relation to the monitoring and oversight arrangements in respect to grants to outside agencies, non competitive procurement issues and also noted that the HSE had not received sanction from the Minister for health for the brought forward capital I/E surplus from 2016. The HSE acknowledges these matters of concern and is progressing medium to long term plans required to bring about improvements as follows.
Non Compliant Procurement

The HSE incurs procureable expenditure in excess of €2.2bn annually. Given the scale and complexity of the HSE’s overall procurement activity, it has been highlighted and acknowledged at previous PAC meetings, that it will take a sustained effort over a number of years in order to ensure high levels of compliance and this is a key focus for the HSE. The HSE, through its Health Business Services (HBS) procurement function, continues to progress a transformational programme of reform of its procurement arrangements to improve compliance with public procurement regulations and to increase the usage of contracts and framework put in place by the HSE and the Office of Government Procurement.

The HBS procurement function works closely with the office of government procurement. There have been a number of successful tender outcomes particularly in the utilities category such as electricity, fuel oil, gas, telecommunications and vehicle’s. We also know that there is a considerable amount of work ahead in relation to cleaning, security and professional services. This collaborative effort is achieving value for money and contributing to an increase in overall procurement compliance and the development of the overall procurement reform program.

The HSE is implementing a number of initiatives which are organised around three key themes:
• Supporting infrastructure (includes training, improving data analytics etc.)
• Sourcing (putting in place additional contracts and frameworks)
• Compliance (supporting services to move to compliance with contracts and frameworks).

Further detail in relation to the steps being taken to address the issue of non-compliant procurement are published in the Statement of Internal Control (SIC) within the 2017 Annual Financial Statements.

**Monitoring and Oversight of Grants to Outside Agencies**

The HSE has consistently acknowledged the positive role the voluntary sector plays in the development and delivery of health and personal social services. The HSE is, also, acutely aware of the need for the appropriate level of oversight of the grants provided to outside agencies.

In 2017, just under €4.10bn of the HSE’s total expenditure related to grants to over 2,000 outside agencies. These agencies range from the large Voluntary Hospitals and Disability Organizations to small local community based agencies. The HSE’s Governance Framework is consistent with the management and accountability requirements for grants provided from Exchequer funding as set out in the DPER circular 13/2014.
Weaknesses in the monitoring and oversight of grants to outside agencies have previously been identified. The HSE continues to take the necessary actions to address these weaknesses. The national Compliance Unit, which was established in 2014, supports the development of improved grant oversight by our Community Healthcare Organisations (CHOs) and Hospital Groups who have the delegated responsibility for the management of the relationship with outside agencies at operational level. Improved oversight has raised the level of compliance by grant funded agencies. An example of the actions already taken is the external review of governance arrangements in respect of Section 38 providers which is underway.

The purpose of these reviews is to confirm that appropriate governance arrangements are in place and that they are aligned with those set out in the Annual Compliance Statements provided by Section 38 agencies to the HSE. The main compliance issues identified under the review process relate to procurement, HR legacy issues and a need, in some instances, to establish an internal audit function.

It is expected that the external reviews commissioned will be completed by October 2018. Agencies will provide status reports on the progress made in addressing issues identified in the reviews and such issues will be included in the monitoring meetings at operational level.
The HSE is, also, committed to implementing a 5 year rolling review programme which will prioritise Section 38 agencies not reviewed in the current programme and extended to also include the larger Section 39 agencies.

Further detail in relation to the steps being taken to address the issue of weaknesses in the monitoring and oversight of grants to outside agencies are published in the Statement of Internal Control (SIC) within the 2017 Annual Financial Statements.

**Healthcare Transformation**

As is the case in many developed health systems, we face the challenge of growing user expectations, unmet need and core infrastructural deficits. For many years we have been aware of the need for a shift in health service delivery in order to move from the more traditional focus of treatment and cure, to that of prevention and treatment, when required.

The current arrangements for service delivery in Ireland are characterised by an over-reliance on more costly, hospital-based care, with continuing opportunities to deliver care more appropriately in primary and community settings. There are challenges in responding effectively to the planned, unplanned and emergency needs of patients in hospitals.
Similar pressures are faced by services in primary and community services, including services for people with disabilities and people who need mental health support, with demand outstripping supply in many areas. In addition, there is a growing need to maintain or replace our current infrastructure and equipment.

The challenges facing health and social care services are recognised fully in the *Sláintecare Report*, which signals a new direction of travel in relation to eligibility, delivery, and funding of health and social care in Ireland into the future.

We are implementing a range of programmes to prepare the ground for longer-term transformation, in line with *Sláintecare*. There are tens of thousands of dedicated staff working in our health services, changing practices, improving care for patients, advocating for and driving service improvements day in, day out. Staff and management working locally are providing leadership and support for nationally supported initiatives with the aim of reforming our services and seeking to deliver higher value care. A number of transformational programmes are continuing in 2018, with a particular focus on four key themes:

**Improving population health and wellbeing** by keeping people well, reducing ill health and supporting people to live as independently as possible.
**Delivering care closer to home** with the intent of meeting the vast majority of the population’s healthcare needs in local settings, with institutional and hospital based care being reserved for only those individuals requiring complex, specialised, emergency care, and even then only for the shortest time possible.

**Developing specialist hospital care networks** by progressing numerous workstreams in our national clinical and integrated care programmes.

**Improving quality, safety and value** by building support for effective care that is delivered according to best evidence as to what is clinically effective in improving health outcomes, by reducing variation in how care is delivered and developing skills and capacity for quality improvement in healthcare delivery settings.

In addition, we are developing structures and reconfiguring teams in the HSE to strengthen our approach to population need assessment, demographic analysis, utilisation pattern and service design in order to develop more equitable and effective resource allocation models, particularly for primary and community services.
Ireland’s public health service was designed for a time when we had a different demographic profile and the expectations around clinical governance and standards have never been higher. Today our population is older. Modeling forecasts tell us that the people aged over 65 will increase by nearly 110,000 in the next five years. That is great news; however a large proportion of this older age group now lives with two or more chronic conditions, which make many of them more vulnerable and frail.

In this context therefore, the imminent publication of the Department of Health’s *Sláintecare Implementation Plan* provides a powerful opportunity to create much needed strategic certainty for the health and social care delivery system in Ireland. We are committed to working with Government and with the Department to implement the *Sláintecare* plan.

This concludes my opening statement.

*Thank You.*