Public Accounts Committee

HSE Briefing notes for Public Accounts Committee meeting 5th October 2023

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1. HSE Summary Financial Briefing Paper

1. 2022 Annual Financial Statement

The HSE received revenue and capital funding from the DoH in 2022 of €23.7bn. Included in this was €1.9bn which was provided on a once off basis in relation to the HSE's COVID-19 strategy. The HSE's 2022 audited and published Annual Financial Statements (AFS) reported a non-capital (revenue) income and expenditure deficit of €185.2m / 0.9%, which is brought forward as a first charge on our 2023 position.

This revenue deficit, was made up of the achievement of a 2022 in-year c.€10m / 0.05% surplus, combined with a €195m 1st charge (deficit) from 2021 (all COVID related).

To put that in context, over the 4 years from 2019 to 2022, the HSE achieved a cumulative revenue surplus of €76m / 0.1% taking account of all 1st surpluses and 1st charges, where the total expenditure was €82.3bn and the vast bulk of all supplementary funding was once-off and covered COVID related costs, post service plan decisions made outside of the HSE, or pensions and other demand led items, including reimbursement of the state claims agency.

The financial position outlined above is prepared on an accrual accounting basis i.e. it takes account of monies owed by the HSE, and owed to the HSE, at the end of the year, rather than being based on actual cash payments and receipts. This accrual accounting basis is in accordance with the accounting policies set by the Minister for Health under the relevant legislation.

2. Planning for 2023

In prior years a substantial surplus in core (non-COVID) funding due to the impact of the pandemic on both activity and progression of new developments reduced the overall deficit reported. However in 2022, as well as the continued uncertainty about the trajectory of COVID-19, international events such as the war in Ukraine, inflationary pressures, labour market forces and the ever-changing demands on our health system, created an economic, social, and health context that was very complex and difficult to plan for. Therefore in 2022 and into 2023, the HSE continued to operate in an environment challenged by on-going funding and expenditure pressures.

The National Service Plan (NSP) 2023 was adopted by the HSE Board, approved by the Minister for Health, and was published on the 29th of March 2023. The NSP calls out several financial risks and issues of up to 10.2% (or €2.2bn) that may arise in 2023. The NSP also explicitly states that the DOH and HSE are fully aligned on the need for any mitigation measures related to addressing financial issues or risks NOT to impact negatively on planned service capacity, planned service activity or planned service access.

It is important to note that a significant element of the up to €2.2bn issues and risks flagged in NSP 2023 was driven by recurring costs that had arisen prior to 2023, for which once-off funding was secured via the 2022 Supplementary Funding process rather than recurring funding. As indicated in the Financial Outlook 2023 section which follows, the experience has been that large elements of that risk have crystallised.

3. 2023 YTD June Financial Position

The HSE's June financial position for 2023 shows net expenditure for the first six months of €11.455bn. This gives rise to an Income & Expenditure deficit of €656.2m which represents 6.1% of the total available budget.

Of this, €55.7m is driven by the impact of COVID-19, with the remaining €600.5m relating to core activity. This core variance includes a net deficit of €505.2m in Acute Operations, offset by surplus of (€88.2m) in Other Operations / Services.

4. Preliminary Financial Outlook to end 2023 (Revenue).

The HSE and DOH are reasonably aligned on the overall estimated year end 2023 position based on Q2 (YTD June) figures i.e., DOH figures indicate a revenue deficit of c.€1.52bn when core (non-COVID) and COVID costs are factored in, with the HSE indicating c.€1.57bn.

Both sets of figures exclude the €185m 1st charge coming forward from AFS 2022 as referenced above, and they also exclude the c.€100m estimated year end deficit on specialist community disability services.

In cash terms, noting that cash lags behind accruals-based expenditure, the estimated year end deficit is c.€1.1bn.

While we are nearing the end of September it is important to note that the estimates above are primarily based on just 6 months data and are therefore subject to a significant degree of estimation and related uncertainty with every 0.1% margin of error representing c.€23m.

In terms of actions to control costs and limit deficits, as flagged in the NSP 2023, the HSE and DOH are collaborating on an expenditure management programme. Current measures are primarily focused **on pay costs** and include:

- Additional controls on senior management grades,
- A targeted pause on further management / admin growth where existing planned limits have been exceeded,
- An initial 10% targeted reduction in agency costs and
- A programme of work to optimise costs in our public long term care units.

In addition, on the non-pay side we are progressing:

- A targeted ongoing reduction of 30% in consultancy costs (Q4 V Q1, 10% Q3 V Q1))
- A programme of work to assess and optimise costs in relation to high-cost external residential placements across our specialist disability and mental health services.
- Enhanced public procurement compliance monitoring (annual exercise is now quarterly)
- Targeted increase in procurement “Spend Under Management”.
- Continued efforts to support access to new drugs and medicines by containing and where feasible reducing costs (Reference pricing, Bio-similar switching, generic penetration etc.)

5. Approach to Financial Planning for 2024

A key priority for 2024 is to reduce the level of financial risk being managed by the HSE so that services can be managed on a more sustainable footing, and we can return to a more normal service and financial management environment following the significant impacts of the COVID pandemic years. Our pay and staffing costs, which typically represent c.25% of our total deficit, will be the most significant area of focus in this context. This will require the continued and enhanced implementation of the approach set out in the Financial Control Framework 2023. The primary objective set out in that framework is improving access to quality services by delivering on the planned capacity, planned activity and planned access times set out in the annual service plan while operating within the available budget to the greatest extent possible.

This will remain a key financial management priority for 2024. However, the scale, nature and, as outlined above, in some cases, prior year origin of the current level of unfunded costs, and the reality of the overall constraints with which services operate, means that, in addition to making any necessary ongoing improvements to the control environment, there is a need to secure significant additional recurring funding.

In seeking such funding, we effectively need to give the highest priority to the funding necessary to maintain existing service levels (ELS) and then consider any potential there may be to invest in the further development of services (NSD).

2. Losses related to Covid-19 Briefing Paper

1.0 Vaccines' Obsolescence

The HSE has recorded Covid-19 Vaccine expenditure in its 2022 Annual Financial Statements (AFS) of circa **€204.6m** of which **€94.4m** is in respect of write offs and provisions for write off arising from expired vaccines in 2022 (€33.7m), or from vaccines that are expected to have no further utility due to a change in health guidance as detailed below (€60.7m).

1.1 Vaccine Stock Write –offs and Provision for Expiry in AFS 2022 €94.4M (€33.7m + €60.7m = €94.4m)

The HSE is required to assess the carrying value of its inventories at the year- end to consider whether any inventories are impaired, i.e., the carrying cost is not fully recoverable (FRS102 S13.19). This is also aligned to the HSEs accounting policies. "Inventories are stated at the lower of cost or replacement value…. Adjustments for obsolescence are charged in the current year against revenue income and expenditure, Note 1 AFS 2022".

The AFS for 2022 includes an overall write down in respect of COVID-19 vaccines of €94.4m.

These write-offs /provision for expiry are based on stocks that are out of date as at the end of December and those that are due to be out of date or no longer considered to have utility in the programme during 2023. See Table 1

Table 1 Analysis of €94.4m	Doses 'ms	€'ms
Write off - Expired Stocks	1.7	33.7
Provision - Orginal Formulation	2.4	47.9
Provision - Adapted Formulation	0.5	12.8
Total Write off/Provs AFS 2022	**4.6**	**94.4**

1.2 Expired Covid-19 Vaccine Stock Write-off: €33.7m

Expired stock relates to stocks which have passed the manufacturers expiry date by the 31st December 2022 and stocks that are no longer suitable for administration.

1.3 Provision for Future Stock that will expire: €60.7m (€47.9m + €12.8m = €60.7m)

1.3.1 Original Formulation Vaccine Stocks Provision €47.9m

There is a provision of €47.9m for original formulation vaccine stocks (held in reserve in 2022 as a necessary contingency in the event of an emergency that did not arise) that were due to expire in the first quarter of 2023 and would no longer considered to have utility in the programme (as the newer bivalent vaccines can be also used for primary dose vaccination).

The Chief Medical Officer (CMO) advised the HSE on 2nd November 2022 that "original formulation vaccines would have very limited utility following the National Immunisation Advisory Committees' (NIAC) recommendation that bi-valent vaccines should be preferentially administered as boosters".

These original formulation vaccines that were provided for in AFS 2022 expired within the first 5 months of 2023.

1.3.2 Adapted Vaccine Stocks Provision €12.8m

This provision also includes an amount of €12.8m for adapted vaccines that were nearing expiration at the time the accounts were being finalised. These were originally held as a contingency in the event of an epidemiological deterioration in winter 2022 that did not arise. These adapted vaccines were all due to expire within the first 5 months of 2023.

These specific COVID-19 vaccines were procured as Ireland's share of the Joint EU Procurement arrangements, operated by the Commission on behalf of 27 Member States, having regard to the need to secure timely access to a portfolio of the safest and most effective vaccine technology types , so that Member States would be positioned to respond to any deterioration in the disease trajectory that would necessitate an emergency mass population vaccination response (incl. possible future emergencies).

1.4 Vaccine Status 2023

Sufficient COVID-19 and flu vaccines have been purchased to cover the eligible groups at the expected uptake this autumn/winter. Ireland has an option to purchase additional COVID-19 vaccines if they are required.

It is likely that the HSE will be required to write off further vaccine stocks by the end of 2023 based on the fact that newer vaccines are now available and preferentially recommended for use by NIAC for the current Autumn/Winter vaccine campaign.

2.0 Storage costs of obsolescent PPE- AFS 2022

There were no further write offs or provisions in respect of PPE in 2022. However, in previous years mainly, 2020 and 2021 the HSE wrote off the costs of personal protective suits and hand-gels which were not fit for purpose or had expired and could not therefore be used as previously noted in the relevant financial statements.

The Comptroller and Auditor General has noted that the HSE continues to incur storage costs in respect of these obsolescent stock items and the full year cost recorded in the AFS 2022 is in the order of €1.7m.

The HSE has considered several options to dispose of these stocks including:

- A Market sounding for Innovative Solutions for the Management of Unused/End of life PPE for the HSE Ref: 22252 was issued on e-tenders on 07/07/23 with closing date of 04/08/2023.
- Three companies responded to Market soundings with various different proposals and costs and only one company providing end to end management and disposal of all PPE at a proposed significant costs of €9.4 million, this proposal is being reviewed at present to ensure its aligned to all relevant security, regulatory and environmental considerations.
- The issue in respect of hand gels is complex given that hand gels contain chemicals and alcohol and disposal of same is more challenging. Procurement engaged with the supplier on contract for HSE clinical waste and provided samples and volumes of the hand gel in storage. These have been sent by the contracted supplier to the incinerator in Europe which require testing of the hand gel to establish flash point (alcohol content) to ensure they are safe for Solid Fuel Recovery by incineration as it is a sustainable waste to energy solution. There are additional challenges experienced by other countries who have similar issues in regards to excess hand gels and access to licensed testing and incineration is limited.
- The HSE expects to have the result of said testing by early November and can review at that juncture.

At present all the above considerations will result in additional expenditure and a final resolution is not yet agreed.

2. High Earners - 2022 Briefing Paper

1. Purpose

1.1 This purpose of this briefing note is to provide information on the main issues in relation to High Earners in the HSE to members of the Public Accounts Committee (PAC).

2. Background

2.1 As reported in Note 7 to the HSE Financial Statements for 2021 and 2022 a number of HSE employees earned significantly in excess of salary scale averages during the period. This was confirmed by recent HSE internal audit reports.

2.2 The internal audit report *High Earners Review - Consultants (30th June 2022)* highlighted 68 cases where individuals earned in excess of €300k during 2021. It also identified shortcomings in the control environment around consultant pay compliance. In response to these findings, the HSE developed an Action Plan to improve the control environment around consultant pay and to identify the main drivers behind high earnings in certain sites and services.

2.3 The follow-up *Review of FY22 Position and Action Plan from High Earners Review – HSE Employed Consultant Doctors (14th June 2023)* identified 96 cases of earnings in excess of €300k during 2022. It also noted slippage against target timelines in some areas of the Action Plan.

3. Context

3.1 Considerable additional investment has been directed towards increasing the health and social care workforce in recent years. This includes specific initiatives aimed at increasing the number of medical consultants in frontline services. However, recruitment has been constrained by an unprecedented global environment which is experiencing significant shortfalls in the supply of healthcare workers.

3.2 It is important to acknowledge this wider resourcing context, as one of the primary drivers behind high earnings in the HSE remains the shortage of consultant staff. This is exacerbated by particular difficulties in recruiting to certain specialties (e.g. Radiology, Psychiatry) and certain sites (e.g. some Model 3 hospitals) and geographic areas (e.g. CAMHS in the South West).

3.3 It is also important to recognise that a range of compliant payments have the potential to increase remuneration significantly above basic pay as part of standard contractual terms and conditions. These include payments in respect of clinical director and on-call allowances, compensatory rest days, structured overtime and funded NTPF and HSE waiting list initiatives.

3.4 For example, a consultant on a basic salary of €219k, receiving a clinical director allowance of €51k and C-factor payments of €30k has already reached the €300k threshold. This is before any additional earnings that may be due for compensatory rest, structured overtime or waiting list initiatives.

3.5 The new Public Only Consultant Contract and the unwinding of FEMPI measures will also increase basic salary scales and associated allowances. For these reasons it may be necessary to review the earnings threshold going forward, as a €300k limit would likely bring a large number of individuals under scrutiny where there may be no internal control or service-related concerns.

3.6 Notwithstanding the above, it is clear that the increase in both the level of earnings and the number of individuals earning above their salary scale norms require that efforts are intensified to manage the situation and ensure that services are placed on a more sustainable operational and financial footing.

4 High Earners: Overview

4.1 An overview of the number of individuals whose earnings exceeded €300k in 2022 is shown, by pay band, at Table 1. The numbers for 2021 are included for comparison.

Table 1: High Earners by Pay Band

Pay Band	2021	2022
€900,000 - €1,000,000	-	1
€800,000 - €900,000	-	-
€700,000 - €800,000	1	1
€600,000 - €700,000	1	-
€500,000 - €600,000	4	6
€400,000 - €500,000	7	11
€300,000 - €400,000	55	77
Total	**68**	**96**

4.2 The key issues to highlight in respect of high earnings for 2022 include the following:

- Increase in the number of high earners to 96 (2021:68)
- Increase in the value of high earnings to €36m (2021: €25m)
- Increase in the value of highest earner to €974k (2021: €758k)
- 8 individuals earned in excess of €500k in 2022 (2021:6))
- 77 individuals (80%) of the 96 cases earned between €300k - 400k

4.3 An overview of the number of individuals whose earnings exceeded €300k in 2022 is shown, by specialty, at Table 2. Figures for 2021 are included for comparison.

Table 2: High Earners by Specialty

Specialty	2021	2022
Radiology	24	25
Psychiatry	10	18
Surgery	8	17
Emergency Medicine	7	7
Clinical Medicine	5	11
Histopathology	4	5
Obstetrics & Gynaecology	3	1
Peadiatrics	3	3
Anaesthesiology	2	5
Public Health	1	1
Microbiology	1	1
Biochemistry	0	1
Addiction Services	0	1
Total	**68**	**96**

4.4 Key issues to highlight in respect of 2022 and year-on-year trend include:

- Radiology is the dominant specialty in terms of high earners across both years
- Radiology and Psychiatry account for 50% of the number of high earners in 2022
- Increasing trend evident in the numbers reported for Surgery and Clinical Medicine
- 73 cases occur within Acute Hospitals; 20 within Community; 3 in National Services.

5. Highest Earners: >€500k

5.1 HSE management has engaged with the services on each of the 96 cases of high earnings in 2022. Particular attention has been focussed on those whose earnings exceeded €500k during the period. The objective is to investigate the circumstances that give rise to these exceptional cases and to put in place, as a priority, specific action plans to address the underlying causes.

5.2 There are 8 individuals whose total earnings exceeded €500k in 2022. This represents approximately 0.35% of the consultant workforce employed directly by the HSE.

5.3 Earnings in excess of €500k in 2022 are ranked in order, with notes on the main drivers of additional earnings, at Table 3.

Table 3: Earnings above €500k in 2022

Ranking	Earnings	Specialty	Main Drivers of Additional Earnings
1	€973,539	Emergency Medicine	Compensatory rest day payments for onerous on-call duties (rota and call-outs supported primarily by 1 permanent wte)
2	€713,388	Psychiatry	Additional payments for cross-cover to other service area (other area has 2 consultant posts - 1 vacant; 1 sick-leave)
3	€588,507	Psychiatry	Relates to a settlement on retirement reflecting rest day arrears from prior years
4	€578,704	Radiology	Cross-cover, structured overtime and additional backlog reporting (3 consultant posts vacant out of an approved complement of 6)
5	€545,009	Radiology	Cross-cover, structured overtime and additional backlog reporting (3 consultant posts vacant out of an approved complement of 6)
6	€542,393	Pathology	Additional sessions to address service demands; NTPF evening clinics (6.5 consultants currently in post - business case to increase to 15)
7	€507,749	Emergency Medicine	Overtime to cover vacancy levels; medical advisor allowance (3.5 consultants currently in post with approval to increase to 10)
8	€507,388	Radiology	Cross-cover, structured overtime; additional reporting to other sites (3 consultant posts vacant out of an approved complement of 15)

5.4 Table 3 shows that deficits in consultant staff remain a key driver generating exceptional payments. 7 of the 8 highest earnings relate to the provision of cover to support essential services due to the level of vacancies or shortfalls in the consultant complement. The remaining case reflects a payment on retirement in respect of rest day arrears from prior years. All payments occur within Radiology, Psychiatry, Emergency Medicine or Pathology. These specialties experienced significant pressure during the pandemic period and are particularly vulnerable to resourcing challenges.

6 Highest Earners: Actions

6.1 HSE management has instigated a range of actions in response to earnings in excess of €500k in 2022. These measures are outlined below and include targeted local action plans, reviews of governance and clinical work practices and intensified recruitment activity to fill critical vacancies.

6.2 Emergency Medicine

6.2.1 The following actions have been initiated to address the issues within Emergency Medicine:

- Review meetings held between HSE / Hospital Group / Hospital management teams
- Formal review initiated into root causes generating such high level of payments
- Review to include governance structures, clinical leadership and work practices
- Recruitment efforts intensified to recruit to approved consultant complement

6.3 Pathology

6.3.1 The following actions have been initiated to address the issues within the Pathology service:

- Review of the specific issues by HSE and Hospital Group senior management
- Vacant approved consultant posts have been submitted to PAS for advertising
- Business Case submitted requesting increase in approved complement to 15
- A formal clinical review of this service is currently in process

6.4 Radiology

6.4.1 Radiology is experiencing challenges in a number of sites. The following actions are in process:

- Review of the specific issues by HSE and Hospital Group senior management
- Further recruitment campaign for Radiologists has been initiated
- Clinical review of radiology services currently under active consideration

6.5 Psychiatry

6.5.1 Consultant staffing remains critical in some areas. The following actions have been initiated:

- Review of the specific issues by HSE and CHO senior management
- Review of the circumstances and structure of the local arrangement
- Continued effort to work intensively with agencies to fill vacancies
- Use of a number of consultants to provide remote and on-call cover

7. High Earners: €400k-€500k

7.1 While particular attention is focussed on the highest earners, 11 individuals received total earnings between €400k and €500k during 2022. This represents 0.48% of the directly employed consultant workforce. HSE management has engaged with the services on these cases also.

8. Action Plan

8.1 In addition to priority actions that have been initiated in response to the exceptional cases identified above, the HSE continues to implement the outstanding elements of the existing Action Plan.

8.2 The HSE developed an Action Plan in response to the Internal Audit report *High Earners Review - Consultants (30th June 2022)*. It set out a series of actions designed to improve the control environment around consultants' pay and provided an indicative timeline for delivery.

8.3 Following significant changes in personnel it was necessary to revisit the original timelines included in the plan. The project governance was re-set and an Action Plan with revised timelines was submitted to the HSE Audit & Risk Committee in November 2022.

8.4 The Action Plan seeks to establish links with and inform programmes and initiatives that can influence the underlying issues that generate high payments. However, one of its primary objectives is to address shortcomings identified in the control environment that exists around such payments.

8.5 For example, one of the most significant findings in the initial internal audit report was the lack of a consistent governance framework around recording, approving and reporting local arrangements put in place to maintain services in crisis situations or in response to critical vacancy levels.

8.6 Focus is continuing to limit any slippage against timelines targeted in the Action Plan.

8.7 The following is a summary of the progress achieved to date in implementing the Action Plan:

- Guidance issued to system clarifying all aspects of consultant pay compliance
- High Earners Working Group established and regular monthly meetings held
- National Operations Senior Team providing programme oversight to process
- Regular updates on the issue of high earners to HSE Audit and Risk Committee
- Registers of Local Arrangements in place across individual hospitals and CHOs
- Details on payments and service context behind individual cases obtained

- Compliance integrated into HG and CHO performance review processes
- Links established with key strategic programmes / initiatives in HSE, including: Recruitment, Reform, Resourcing; National Doctors Training and Planning; etc.

8.8 While progress has been made in key areas, it is recognised that more proactive measures are required to identify emerging trends and facilitate a more effective in-year management response. Additional actions are in progress in the areas of reporting, monitoring and intervention as follows:

- Quarterly reports being developed to support review at local, regional and national level
- Review process being improved/strengthened to ensure enhanced scrutiny at each level
- Clinical reviews of governance, service models and clinical work practices as warranted
- Development of short and medium term actions by HGs and CHOs to regularise outliers
- National support to recruit where necessary to address critical gaps in consultant staff

9 Conclusion

9.1 The HSE is committed to address the issue of high and exceptional earnings within the organisation. It will continue to review each case in the context of the safety and quality of the care provided, the health and wellbeing of its employees and the operational and financial sustainability of the service.

9.2 HSE management will continue to implement the Action Plan in full. This will address compliance requirements in respect of consultants' pay, enhance reporting and monitoring processes and establish a stronger, more transparent control environment where local arrangements are required to support services.

9.3 However, the solutions necessary to address the underlying resourcing, recruitment and retention issues, that are significant drivers behind exceptional payments, are more strategic in nature due to difficulty in filling specific consultant posts. Targeted, action-based resourcing models, such as those identified in the *HR Resourcing Strategy*, employed in the recent international recruitment campaign and considered within the forthcoming report on the *Model 3 Hospital Project*, are likely to offer the most effective means of ensuring operational stability and financial sustainability in the longer term.

HSE
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