R2315 (ii) PAC33

An Roinn Sláinte
Department of Health
Secretary General

Ms Sarah O'Farrell
Committee Secretariat
Committee of Public Accounts

By email: PAC@oireachtas.ie

Ref: S1495 PAC33

15 January 2024

Dear Ms O'Farrell,

I refer to your correspondence of 27 November 2023, where the Committee sought the following information:

1. A note including a list of all changes made to the capital plan for the National Children's Hospital over the past three years.
2. A note on the implementation of the 11 recommendations in the PwC report of April 2019.
3. A note providing a rationale for CHI's recording of pension liabilities only as they become payable, identified as an issue by the C&AG and whether this is done at the direction of the Minister for Health.

Responses to each of the matters raised can be found in Annexes 1 through 3 to this correspondence.

Yours sincerely,

Robert Watt

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Secretary General

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Annex 1

1. *A note including a list of all changes made to the capital plan for the National Children's Hospital over the past three years.*

The New Children's Hospital (NCH) project is a government priority.

Annual capital allocations are set out in the National Development Plan 2021-2030 (NDP) on a Departmental basis for the period to 2025 and on an aggregate basis out to 2030. Following the Estimates process each year, the Government, along with the Department of Public Expenditure, NDP Delivery and Reform approve the Health Capital budget annually. It is on the basis of this annual funding envelope that the HSE Capital Plan is developed, including capital funding for the NCH.

Under the Health Act 2004, the HSE is required to prepare and submit for approval an annual Capital Plan. In compiling the Capital Plan, first order priority is given to:

- Existing contractual commitments, i.e. the completion and equipping of all projects in construction. The NCH is one such project.
- Other contractual commitments including, Public Private Partnership unitary charges, design commitments, equipment replacement programme, and ambulance replacement programme requirements.

Second order priority is given to infrastructural risk projects including minor capital works.

Any remaining available funding is allocated to the priority list of projects in descending order, following the prioritisation exercise undertaken by a Project Evaluation Group, which includes representatives from all Divisions in the HSE.

Each year the capital budget is actively managed to ensure efficient usage of the NDP core allocation. The Capital Plan is a dynamic document and, when faced with challenges, can be adapted to ensure effective usage of NDP core health capital allocation.

The NCH has been a contractually committed project in the Capital Plan for a number of years, including the period referenced in point 1, (2021-2023). In December 2018, Government approved a capital budget of €1.433bn for the project.

The National Paediatric Hospital Development Board (NPHDB) has statutory responsibility for planning, designing, building, and equipping the new children's hospital. The HSE, as the Sanctioning Authority for the NCH project, and principal capital funder for the programme, manages and will continue to manage NPHDB funding within the overall health capital envelope.

The annual expenditure on the NCH for 2021 and 2022 is outlined below. During this period realised expenditure was informed by several externalities including the impact of the pandemic, invasion of Ukraine and contractor performance on site.

Year	NCH Expenditure (€m)
2021	295
2022	340
2023	175*

*Figures for 2023 are subject to revision following a reconciliation exercise due to be completed early in 2024

Annual Profiled and Realised Budget Drawdown (2013-2023)

Year	Profiled	Drawdown (€m)	Drawdown Variance (€m)	% Variance
2013	N/A	1.70	N/A	N/A
2014	N/A	6.93	N/A	N/A
2015	N/A	20.77	N/A	N/A
2016	40	30.64	(9.36)	(23.40)%
2017	68	67.75	(0.25)	(0.36)%
2018	115	107.85	(7.15)	(6.22)%
2019	250	201.42	(48.58)	(19.43)%
2020	315	168.11	(146.89)	(46.63)%
2021	198	299.046	101.046	52.77%
2022	352	340.88	(11.12)	(3.16)%
2023*	324.95	174.37	(150.58)	(46%)%

*Figures for 2023 are subject to revision following a reconciliation exercise due to be completed early in 2024.

Expenditure on the NCH for 2023 is ongoing. A reconciled total figure for 2023 expenditure will be available following year-end.

Over the years 2021—2023, the prioritisation of capital funding for the NCH for the annual capital plan has been within the Government budget sanction set in 2018. This is in line with the process for any other contractually committed project under construction.

Annually there is a finite allocation of NDP core allocation and prioritisation of project is necessary, as set out above.

On 12 December 2023, Government approved an interim increase to the capital budget sanction for the New Children's Hospital project of €40m, bringing the total approved capital budget to €1.473bn. The increase will ensure that the National Paediatric Hospital Development Board (NPHDB) can continue with works and advance the project towards substantial completion. This increase to the overall capital budget sanction does not represent a change to the annual capital plan, as there was appropriate allocation within the 2023 annual capital plan to fund the project for the year.

Annex 2

2. *A note on the implementation of the 11 recommendations in the PwC report of April 2019.*

In November 2021, the Government noted the proposed implementation plan for the recommendations of the 2019 NCH Independent review of escalation in costs (the 'PwC Report'), the actions taken to date, and the further actions proposed.

The PwC report made 11 recommendations, 9 of which were directly related to the NCH project and the remaining 2 related to the management of capital projects in general. All 11 recommendations have now been addressed, some of which will be ongoing for the life of the project, as detailed below

Recommendation 1: *The project control environment should be overhauled to bring it up to the level of maturity and sophistication required for a project of the scale, complexity, and importance of the NPH.*

Fully implemented with structures and processes put in place in order to give effect to this recommendation.

Recommendation 2: *Comprehensive plans should be developed to mitigate the residual risks identified.*

NPHDB and CHI have developed an integrated risk register for common interdependent risks. Risk registers are managed and reviewed on continuous basis. Broader programme risks are continuously managed in an integrated way in the context of the new governance structure for the project and the programme by NPHDB and CHI working with the HSE. Risk is a standing agenda item at NPHDB Board meetings. NPHDB and CHI have joint committees on design and equipping in place. In relation to service opening risks, learnings from the opening of Connolly and Tallaght care centres will be applied to the main hospital.

In recognition of the fact that risk management is a dynamic activity, risk mitigation will be ongoing for the life of the project with integrated risk registers managed on an ongoing basis.

Recommendation 3: *A project assurance plan, including formal external review, should be developed, and implemented for the remainder of the NPH Project. This should go beyond existing internal audit arrangements and define the review and challenge regime to which the programme as a whole should be subject ~~to~~.*

The roles of the CHP&P Board and the CHP&P Steering Group should be reviewed in the context of this revised assurance model and their terms of reference updated to facilitate the revised role and challenge function.

In November 2021, Government approved revised project governance structures and requisite project assurance functions, to provide the appropriate assurance role, challenge function and external expertise required for the remainder of the project have been implemented.

The HSE Lead Director has developed and implemented a Programme Assurance Plan in partnership with NPHDB and CHI. The Lead Director provides reports on oversight and co-ordination of the overall programme (capital, service integration, workforce, and ICT) to the new National Oversight Group, which is chaired by the Secretary General of the Department of Health.

Recommendations 4 & 5: *The commercial capability and capacity of the NPH Executive should be strengthened so that it is more self-sufficient and less reliant on external advisors. Splitting of the former Project Director role in two distinct Roles: Chief Officer and Project Director.*

Commissioning capability of the NPH Executive should be significantly increased in the short term to support the planning of the next phase and establish the programme for transition between the construction and opening of the new hospital.

Implemented with the commercial capability and capacity of the NCH Executive been strengthened and the commissioning capability of the NCH Executive also significantly increased in line with recommendations. This includes the appointment of a Chief Officer and Project Director, and a review of commissioning capability to ensure that there is an integrated approach to commissioning, with closer working of the NPHDB and CHI Boards and executives on commissioning.

Reccomedation 6: *Consideration should be given to opportunities for the closer working of the NPHDB and the CHI Board. This should include the potential for some shared appointments to promote integration and to address skills gaps.*

The working relationship between the CHI and the NPHDB is acknowledged by both bodies as close and collaborative. An implementation plan is now underway, setting out the steps for the commissioning and handover of the facilities. It includes processes for effecting deeper integration between the CHI and NPHDB Executives.

Recommendation 7: *The NPHDB should request confirmation of a number of key decisions to enable effective planning of the next phase of the programme. These include the commercial and procurement approach for the medical equipment, ICT and Electronic Health Records to avoid unnecessary delays and consequential costs.*

Fully implemented: The NPHDB are progressing the equipping through the traditional procurement method within the capital budget.

In July 2022, Cabinet gave its approval for CHI to sign contract with EPIC for delivery of EHR system for NCH. Contracts were subsequently signed in August 2022. Implementation of CHI EHR has commenced.

Recommendation 8: *The scope and responsibilities of the advisory firms that constitute the Design Team should be reviewed to reflect their future roles in the performance monitoring of Contractors throughout the remaining construction programme.*

Significant work has been completed to implement this including the securing of a signed commitment from the principal Design Teams members that they will work together collectively in an integrated way and with the implementation of performance-based agreements with key performance indicators (KPIs) (around design team leadership, resources, delivery to programme and cost compliance).

Recommendation 9: *In view of the potential consequential programme risks, a scrutiny process that includes all levels of the governance structure should be put in place.*

Revised governance structures implemented. There is an ongoing strong focus throughout the governance structures of all aspects of the project budget. With the assistance of expert claims and legal services a thorough examination/challenge is being undertaken of any contractor claims, to interrogate the validity of any submitted claims and to mitigate any cost liability with robust analysis of construction critical path.

There is understanding by the relevant governance structures of the details of the GMP, and potential impacts on programme and any risk of consequential claims in attempting to reduce GMP. Continued work to identify possible sources of savings, outside of the GMP process, e.g. efficiencies through arrangements between CHI/NPHDB resources/ commissioning approach, transfer of existing equipment, post opening phased fit out of certain rooms/theatres.

Recommendations 10 and 11 relate to public sector infrastructure projects and are a matter for comment by Department of Public Expenditure, NDP Delivery and Reform. The Department of Health will ensure compliance with the amended Public Spending Code and new Infrastructure Guidelines and the central challenge and assurance function in place, namely the Major Projects Advisory Group.

Annex 3

3. *A note providing a rationale for CHI's recording of pension liabilities only as they become payable, identified as an issue by the C&AG and whether this is done at the direction of the Minister for Health.*

The CHI group was established under the Children's Health Act 2018 giving effect to the integration of three former hospital entities at Our Lady's Children's Hospital Crumlin, Children's University Hospital (Temple Street) and paediatric services provided at Tallaght University Hospital.

Under the legislation, the new hospital subsumed the pre-existing superannuation schemes with accrued benefits preserved for all eligible staff members employed by the former public voluntary hospitals. Accordingly, CHI operates two staff pension schemes comprising the Voluntary Hospitals Superannuation Scheme (VHSS) for staff employed before 2013, and the Single Public Service Pension Scheme (SPSPS) introduced for all newly employed pensionable staff (or those returning to employment) in the Public Service since 2013.

CHI administers the VHSS and SPSPS as a registered employer body under co-ordination from the Health Service Executive, with policy direction provided by the Department of Health and the Department of Public Expenditure, NDP Delivery and Reform. The two schemes provide a Defined Benefit (DB) pension with VHSS pensions based upon members final salary whereas a career-average calculation applies for SPSPS members. Under these schemes members are required to make contributory deductions from salary at pre-defined rates over their period of service, in return for which, the State then commits to discharge the defined pension entitlement at retirement through funding of the employer body from the Exchequer. Consequently, both CHI superannuation schemes are unfunded DB pension plans for the purposes of their regulation under pension legislation and annual financial reporting.

CHI is a statutory public hospital that contracts with the HSE to provide health services on behalf of the State under a Section 38 service agreement. The HSE agrees under this contract to provide the hospital with a level of annual grant (determination) sufficient to meet the hospital's annual expenditure, including net pension costs. This allocation of State funding from the HSE to Section 38 hospitals for pensions is effectively ring-fenced and used to pay for the difference between pension and lump sum payments and employee pension contributions on a current period cost or "Pay-As-You-Go" (PAYG) basis.

The PAYG rationale recognises the funding of public service pension payments after taking members superannuation contributions into account using a receipts and payments accounting treatment. Pension payments for PAYG schemes are expensed in the Statement of Revenue Income and Expenditure when paid, and employee pension contributions are credited as income when received. The practice is consistent with the Department of Health Vote funding of HSE Section 38 hospitals as are negotiated annually within the Book of Estimates process and approved by the Oireachtas.

Upon establishment, the CHI board adopted Irish and UK Generally Accepted Accounting Principles under FRS 102 (the accounting standard issued by the Financial Reporting Council) for preparing the hospital's annual financial statements. As required by the 2018 Act, the approval of the specification and form of CHI statutory accounts was provided by the Minister for Health, with the consent of the Minister for Public Expenditure and Reform. The specification directed by the Minister for Health requires the hospital to adopt a derogation in accounting policy to recognise DB pension costs on the PAYG principle, consistent with official pension accounting policy for publicly funded health sector agencies. On this basis, the liability for future pension benefits accrued in the year, as FRS 102 would require to be provided, is not recognised in the financial statements.