

18 Health Service Executive funding and financial reporting

18.1 Exchequer grant funding for the Health Service Executive (HSE) is channelled through Vote 38 Health annually. Payments from the Health Vote to the HSE in 2022 totalled €23.3 billion, comprising both capital and non-capital funding elements. Voted grant funding accounts for the bulk of the HSE's receipts each year. Only around 4% of the HSE's overall annual funding comes from other 'own' income e.g. receipts arising from charges to patients for services.

Funding: determining the HSE's resources

18.2 The Minister for Health (the Minister) is required by law to issue a formal 'notice of determination' to the HSE in respect of each year of account. The capital and non-capital (recurrent) funding determination amounts are subject to different approval processes.

- **Capital funding determination:** The Minister must seek and receive the approval of the Minister for Public Expenditure, National Development Plan Delivery and Reform (the Minister for Public Expenditure) before making a determination of capital funding available to the HSE for the year.
- **Recurrent funding determination:** Section 30A(1) of the Health Act 2004 (the Health Act) states that the Minister "*shall determine the maximum amount of net non-capital expenditure that may be incurred by the Executive for a financial year.*"¹ The Act further states that the Minister "*may amend a section 30A(1) determination by varying the maximum amount of net non-capital expenditure that the Executive may incur for the financial year or part of the financial year to which the determination relates.*"² Once amended, that amount "*shall apply and have effect as so amended.*"

18.3 In 2022, the recurrent funding determination was for €22.5 billion.

Putting the HSE in funds

18.4 The funding transferred from the Health Vote to the HSE, by way of a grant from the Department of Health (the Department), is subject to the appropriations process and voted on by the Oireachtas.

18.5 However, for the HSE, the amount in the letter of determination is the relevant amount i.e. the income for the year that the HSE validly expects that the Department will make available to it.

Revisions of determinations

18.6 The Health Act provides for the Minister to adjust the determination amounts if considered necessary. A number of notices of determination may be issued, as successive funding changes are approved. Generally, this revision process has allowed the Department to fully align the determination amounts and the amounts of funding issued to the HSE from the Vote each year.

¹ 'Executive' means the Health Service Executive established under section 6 of the Health Act 2004.

² Section 30A(1) of the Health Act 2004 as inserted by section 7 of the Health Service Executive (Financial Matters) Act 2014. Section 30A(1) subsequently amended by section 23 of the Health (Miscellaneous Provisions) Act 2022. This act came into operation on 1 March 2023.

- 18.7** The initial notice of determination for 2022 issued to the HSE in November 2021, with a number of revised determinations issuing up to May 2023. The revised recurrent determination in December 2022 increased the recurrent funding for 2022 by €1.78 billion.
- 18.8** Subsequent to December 2022, two further letters of determination made revisions to the capital funding determinations and did not change the recurrent determination. The final notice of determination for capital funding issued on 17 May 2023 to include €104 million of a carry forward from 2021 not included in previous letters, identified during the audit of the 2022 HSE financial statements (see Figure 18.1).¹ This change required the approval of the Minister for Public Expenditure as it was a change to the capital determination.

Figure 18.1 Funding determination notices from the Minister for Health to the HSE, 2022 financial year

Date of letter	Recurrent (including holdbacks) ^a	Recurrent (excluding holdbacks)	Capital allocation
	€000	€000	€000
2 November 2021	20,683	20,519	1,045
15 June 2022	20,682	20,522	1,045
23 December 2022	22,458	22,362	1,160
22 February 2023	22,458	22,362	1,145
17 May 2023 ^{b,c}	N/A ^d	N/A	1,249

Source: Department of Health

- Notes:
- a Holdbacks of €164 million were retained by the Department to fund specific initiatives set out in the November 2021 and June 2022 letters. The revised allocation in the December 2022 and February 2023 letters included €96 million of the funding previously retained by the Department.
 - b Revised letter issued to include carry forward capital funding from 2021 of €104 million identified during the audit of the HSE's 2022 financial statements.
 - c The change in capital allocation required the consent of the Minister for Public Expenditure.
 - d The May 2023 letter noted that there was no change in the net recurrent allocation of €22,458 million for the year.

Financial reporting: accounting for HSE funding

HSE financial statements

- 18.9** The determination amounts (both capital and recurrent) are recognised by the HSE in its accrual-based annual financial statements as Exchequer grant income. Under the accruals system, the HSE correctly recognises its grant income in the year it is earned, irrespective of when the funds are paid over by the Department.
- 18.10** The accruals basis of accounting also recognises HSE expenditure when it has been incurred i.e. the underlying transaction has taken place and there is an obligation to discharge the liability. The timing of the cash outflows in respect of the obligations can be over a broader period than that of the year of account meaning that the HSE is required to recognise obligations incurred but yet to be paid at the year end.

¹ The HSE's 2022 financial statements can be found [here](#).

- 18.11** The expenditure incurred and charged to the HSE's statement of revenue income and expenditure for 2022 was €23.4 billion. After taking account of own resource income and the previous year's deficit, the operating deficit reported for the year was €185 million.

HSE recognition of grant funding debtor

- 18.12** In 2021, there was a net difference of €25 million between the letter of determination amounts recognised by the HSE as income and the amount of funding issued from the Vote. In line with standard accrual accounting principles, the HSE recognised a debtor for that amount.
- 18.13** The net difference between the determination amounts for 2022 and the funding drawn was more significant, at €438 million. Consequently, a grant funding debtor of €464 million was recognised in the HSE's statement of financial position as at 31 December 2022.

Health vote appropriation account

- 18.14** The Department reports in accordance with the estimates process in an annual appropriation account in the format and in compliance with accounting standards directed by the Minister for Public Expenditure. Because government departments operate a cash-based system, grant funding is paid out and accounted for as it falls due. Amounts not yet due are not taken into account.¹
- 18.15** In line with the cash-based accounting standards for appropriation accounts, the statement of financial position of the Vote does not recognise the existence of any liability to the HSE in respect of grant funding at the end of 2022. However, a note to the appropriation account discloses the HSE's recognition of a debtor of €464 million.

HSE's accumulated deficit

- 18.16** The HSE has carried a deficit since it was established in 2005. The opening deficit of €838 million arose due to authorised expenditure incurred by the former health boards for which the cash grants had not been provided from Vote 38 Health when the HSE was established. So while the money was spent by the health boards prior to 2005, it forms part of the deficit rolled forward each year by the HSE.
- 18.17** Since 2005, a number of matters have impacted this deficit
- HSE subsuming agencies that were also carrying accumulated deficits
 - technical accounting adjustments, including a holiday pay accrual, and
 - deficits incurred in a number of years.

The HSE recorded a significant surplus of €200 million in 2020 which, if retained, would have decreased the accumulated deficit. However, the Minister directed the HSE to surrender those funds.

- 18.18** At the end of 2022, the HSE has an accumulated deficit of €1.24 billion for expenditure already incurred, which eventually will need funding to meet the liability.

¹ *Public Financial Procedures* require that grant funding to a State body in a financial year needs to be approved by the Oireachtas in the first instance. This is reflected in the accounting policy, which does not allow accrual of grant funding in the statement of financial position of the vote.

Health Budget Oversight Group

- 18.19** The Health Budget Oversight Group (HBOG) was established in 2019 as part of a plan to improve oversight arrangements for health expenditure. The group is chaired by the Department of Public Expenditure, National Development Plan Delivery and Reform (DPENDPDR) and comprises senior officials from DPENDPDR, the Department of Health and the HSE. Its main purpose is to monitor and control health spending and staffing; and to act as an early warning mechanism for any deviations. The group meets monthly.
- 18.20** Other oversight arrangements include the submission by the Department of monthly financial performance reports for greater oversight of expenditure and staffing trends; and quarterly expenditure reports to update the Government on the overall health expenditure position. As the Department accounts on a cash basis and the HSE accounts on an accruals basis, the accruals-based expenditure reports are accompanied by cash profiles.
- 18.21** A DPENDPDR review of HBOG in January 2023 identified several positive aspects regarding the HBOG engagement in 2022.¹ However, it also found that the provision of comprehensive full-year expenditure forecasts was very limited and that no expenditure management measures were proposed to the group in response to the emergence of mid-year core pressures. The review identified a number of actions, including a programme of work for 2023 and the identification of improved ways for more effective oversight.
- 18.22** The examination team found that the HBOG minutes do not record any discussion of the proposed letter of determination in December 2022, or of the impact of the determination amount to be included in the letter prior to its issue. DPENDPDR stated that the letter of determination is a statutory matter between the Department of Health and the HSE, not for HBOG, and that the primary focus of HBOG is on in-year expenditure management.
- 18.23** DPENDPDR also stated that when it became aware of the difference between the amount in the letter of determination and the voted amount in March 2023, it raised its concerns, on a number of occasions, at HBOG and as part of subsequent bilateral engagements with the Department of Health.

Parliamentary Budget Office report

- 18.24** The HSE is required to formally respond to the Minister's letter of determination each year with a detailed national service plan. This sets out the HSE's service delivery priorities and activities for the forthcoming year, taking account of the determination amount(s).
- 18.25** In 2018, the Parliamentary Budget Office (PBO) published a briefing paper on the relationship between the HSE's national service plan and the Health Vote.² The paper concluded *inter alia* that
- The framework of accountability for expenditure under the HSE to the Dáil is highly complex and technical and that further clarification would enhance the Dáil's oversight role.
 - The key requirement for improving the accountability framework is the ease with which the different performance, budgetary and accounting records prepared by the HSE and the Department of Health can be compared and/or combined.

¹ Review: Health Budget Oversight Group – January 2023.

² The HSE National Service Plan and its Relationship with the Health Vote (Briefing paper 14 of 2018).

- The reporting of performance and financial information on different bases — the key difference being between accruals and cash-based accounting — makes the results of changes in one part of the framework difficult to quantify and evaluate.
- To increase the effectiveness of the Dáil's oversight of the Vote, a reconciliation of the income and expenditure allocation of the national service plan with the indicative appendices to the *Revised Estimates for Public Services* should be presented to the Dáil as part of its scrutiny of the *Revised Estimates* for the Vote.
- Monthly and quarterly management data and performance reports are an indispensable tool for policy makers, and should be produced regularly.

18.26 The paper also noted that, while the level of funding to be provided to the HSE — as notified in the letter of determination — is not separately set out in the *Revised Estimates*, the alignment of the programmes in the Vote has been a recommendation for reform since at least the *Considine Report* in 2008.¹ The PBO paper noted that in the absence of such alignment, reporting that reconciles the voted current expenditure with the service areas of the national service plan would improve the accountability framework for health expenditure.

18.27 In response to enquiries on the actions taken in response to the PBO's findings, the Department stated that

- The requirement for the health system to report expenditure and budgetary matters in a more transparent and accessible manner is well recognised, but this has been impeded by legacy HSE financial reporting systems, and by the overall complexity within the health system.
- Although the first phase of the HSE's new Integrated Financial Management System (IFMS) went live in July 2023, it will take a number of years before the system is fully rolled out throughout the HSE.
- The intention was to restructure the Health Vote for 2024 along performance reporting lines but this had to be deferred to 2025 to accommodate the impact of the new health regions to be introduced from 2025.
- The *Revised Estimates* for the Health Vote now include additional detailed indicative performance KPIs and funding allocations for individual service areas.

18.28 Both the Department and the HSE pointed out that there are a number of significant expenditure lines which are reflected in discrete subheads in the Department's Vote; and on which the HSE provides data to the Department. The Department stated that it is engaging with the HSE to consider how to achieve greater clarity in linking the HSE's national service plan to the *Revised Estimates*.

18.29 The HSE also stated that the IFMS will, over time, positively contribute to the reporting process.

Views of the Accounting Officers

Department of Health

18.30 The Department has ongoing engagement with both the HSE and DPENDPDR on financial reporting by the HSE, to ensure that voted monies are accounted for correctly and afforded the proper level of scrutiny. The Department will continue to work to enhance these processes.

¹ *Study of certain accounting issues relating to the Health Service Executive (HSE)*, September 2008.

HSE

18.31 The HSE works closely with the Department on an agreed reporting cycle, outside of the HBOG structure, to provide timely financial information based on current performance and cash requirements. Over the period 2021 to 2022, the HSE adhered to this reporting arrangement the majority of the time; and where there were reporting delays, they were for specific issues and appropriately communicated. Also, throughout 2022, the HSE provided regular re-forecasts and there was extensive engagement through the expected level of service and national service plan processes.

Department of Public Expenditure, National Development Plan Delivery and Reform

18.32 The primary framework governing the budgeting and expenditure management process, which applies to all public expenditure, encompasses the revised estimates, the supplementary estimates and the appropriation act, all of which are voted on by the Oireachtas. The HSE's annual financial statements are a matter for the HSE Board and the Department of Health's appropriation account is the responsibility of the Department's Accounting Officer.

18.33 There are established processes, including HBOG, that allow for robust engagement between DPENDPDR, the Department of Health and the HSE to monitor and control health expenditure. These processes focus on monitoring and controlling the very significant expenditure and staffing in the health sector, and are dependent on the accurate, timely and transparent reporting of the Department of Health.

Conclusions

18.34 Under the Health Act 2004 (as amended), the Minister for Health (the Minister) determines the resources available to the HSE. The Minister is required to obtain the consent of the Minister for Public Expenditure in determining the amount of capital funding to be made available to the HSE each year. However, the Minister is not required by law to obtain the consent of the Minister for Public Expenditure, or any other entity or process, in determining the HSE's non-capital (recurrent) funding, even though this is many times greater than the capital funding amount.

18.35 These legislative requirements dealing with the determination of the HSE's resources operate in conjunction with the appropriations and estimates process as the funding for the HSE is channelled through Vote 38 Health. Once voted upon by the Oireachtas, the Department of Health (the Department) can transfer the funds to the HSE, usually by way of grant payments throughout the year.

18.36 The Department uses the cash-based system currently in place for government departments and accounts for the transactions in the year, in the format and in compliance with accounting standards directed by the Minister for Public Expenditure. Only amounts paid over by year end are brought to account in this system.

18.37 Up to 2021, the grants paid to the HSE from the Health Vote were generally fully aligned with the determination set by the Minister for Health.

18.38 The HSE accounts for its income and expenditure in the year under an accrual-based system. Income allocated or earned and expenditure incurred in the year are accounted for under this system irrespective of when funds are received or paid out.

- 18.39** The HSE's financial statements for 2022 recognise the total recurrent amount determined by the Minister of almost €22.5 billion as part of its income for the year. By year end 2022, the actual cash issued from the Health Vote to the HSE totalled just over €22 billion — €438 million less than the amount included in the December letter of determination but broadly in line with the Oireachtas approved estimates.
- 18.40** Consequently, the net €438 million income not paid over to the HSE by year end 2022 is included as a debtor in the HSE's 2022 financial statements. The total debtor recognised by the HSE is €464 million which includes €25 million due in respect of 2021.
- 18.41** The statement of financial position of the Health Vote does not include this liability, in line with legal provisions in regard to the annual appropriation by the Oireachtas of voted funding.
- 18.42** The expenditure incurred and charged to the HSE's financial statements was €23.4 billion. After taking account of own resource income and the previous year's deficit, the operating deficit for the year was €185 million.
- 18.43** At the end of 2022, the HSE's accumulated deficit totalled €1.24 billion — €838 million of which it inherited on its establishment for authorised expenditure incurred by the former health boards. Eventually, the HSE will require funding to meet the liability as the expenditure has already been incurred.
- 18.44** Despite the level of engagement between DPENDPDR, the Department and the HSE, through the HBOG meetings in particular, DPENDPDR did not become aware until March 2023 that the allocation for 2022 set out in the letter of determination to the HSE exceeded the amount approved by the Oireachtas.
- 18.45** Better alignment between the HSE's national service plan and the Health Vote has been a recommendation for reform since the *Considine Report* in 2008. The PBO also recommended improvements and better alignment of the budgeting and reporting systems in 2018.
- 18.46** The HSE's legacy financial reporting systems, combined with the overall complexity of the health system, has heretofore impacted the reporting of expenditure and budgetary matters in a more transparent and accessible manner. It is expected that the roll out of the HSE's new Integrated Financial Management System will improve the reporting process.
- 18.47** While the integrated system is being implemented, revision of the Vote structure is being planned for the 2025 estimate to achieve better alignment between the HSE's national service plan and the Health Vote.

