

Staff Paper 2014

Hospital Expenditure

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HOSPITAL EXPENDITURE

This note has two objectives in the analysis of hospital expenditure.

Firstly, it illustrates the trends in expenditure since 2011. The main conclusions are:

- Hospital expenditure is dominated by pay costs, comprising 70% of gross expenditure.
- Expenditure in the hospital sector increased by €51m over the period 2011-2013, with pay reducing by €57m and non-pay expenditure increasing by €108m.

Secondly, the note highlights the inability of the hospitals to live within their allocation over the past few years:

- The C&AG reports a systemic budget problem with significant deviations from designated allocations, of around €200m, in each of the previous three years (2011-2013).
- No savings were achieved in the period 2011 to 2013 with expenditure increasing by €51m.
- The 2014 position is deteriorating rapidly with a €52m deficit recorded in the hospital sector in quarter 1.
- The annual deficit is estimated to be in the region of €250m.

Overview

- The acute sector comprises approx. one third of the HSE budget or €4.7 billion¹ in 2013 and half of health sector staff.
- There are 47 hospitals in the acute sector, with the top 10 accounting for 55% of expenditure.

Over the period 2011-2013, gross expenditure increased by €51m or 1.1%. This period has been categorised by an increased number of day cases and reductions in the average length of stay.

Table 1: Gross hospital expenditure, 2011-2013

€ millions	2011	2012	2013		Change 2011-2013	
Acute sector expenditure	4,689	4,718	4,740		+51	1.1%
Annual reduction		29	21			
Annual reduction (%)		0.7%	0.6%			

Source: HSE correspondence (26/05/2014)

- Net expenditure increased by €38m or 1% over the same period. This smaller increase is driven by a €13m or 2% growth in appropriations-in-aid due to increased patient charge income.

¹ €4.74bn of total gross expenditure of €13.66bn (I&E basis from HSE Performance Report December 2013)

Pay/non-pay expenditure

- Hospital sector expenditure is dominated by pay costs, comprising 70% of total expenditure.
- Over the period 2011-2013, pay expenditure fell by €57m or 1.7%. Non-pay expenditure increased by €108m or 8.1%.

Table 2: Pay and non-pay hospital expenditure trends, 2011-2013

€ millions	2011	2012	2013		Change	
Pay (70% of expenditure)	3,355	3,352	3,298		-57	-1.7%
Year-on-year change (€m)		-3	-54			
<i>Of which: Hospital agency pay</i>	<i>n/a</i>	<i>126</i>	<i>160</i>			
<i>Hospital agency pay (% of total pay bill)</i>		<i>3.8%</i>	<i>4.9%</i>			
Non-Pay (30% of expenditure)	1,334	1,366	1,442		+108	+8.1%
Year-on-year change (€m)		32	76			
WTEs	48,742	48,904	48,255		-487	-1%
Year-on-year change (€m)		+162	-649			

Source: HSE correspondence (26/05/2014), HSE Data Management Reports 2011-2013, Joint Employment Control Monitoring Group Reports March 2014

- The acute sector is currently staffed by 48,796² WTEs, an increase of 541 since the end of 2013. This represents 50.2% of total WTEs across the health service. At current levels, the number of staff is back at the 2011 figure.
- Agency costs are heavily concentrated in the acute sector, comprising approx. 5% of total hospital pay costs in 2013. It is an increasing percentage of pay costs and is serving to put additional pressure on the paybill.
- The hospital sector comprises about 60% of total agency expenditure.
- Non-pay expenditure has been on an upward trajectory since 2012.
- The hospital sector paybill has followed the same trajectory as the overall HSE paybill with the most significant savings achieved in 2010 and 2011. This reflects the introduction of central pay measures including FEMPI pay cuts and large numbers reductions.

2012 & 2013 Budget Management

- Expenditure has remained relatively constant over the past 3 years. **Table 3** below sets out the budget allocation for the acute sector compared to the outturn for each of the past three years. Significant overruns occurred in each year.

² Acute services figures taken from April 2014 Employment Control Monitoring Report.

- The Comptroller and Auditor General highlighted concerns regarding the management of hospital budgets in the 2012 report stating that “*The budgets allocated to hospitals in 2012 represented a reduction of 8% in the actual expenditure incurred in 2011. Given the overrun of 8.2% on the 2012 budgets, there was very little change in the overall expenditure*”³.

Table 3: Hospital sector net expenditure, 2011-2013

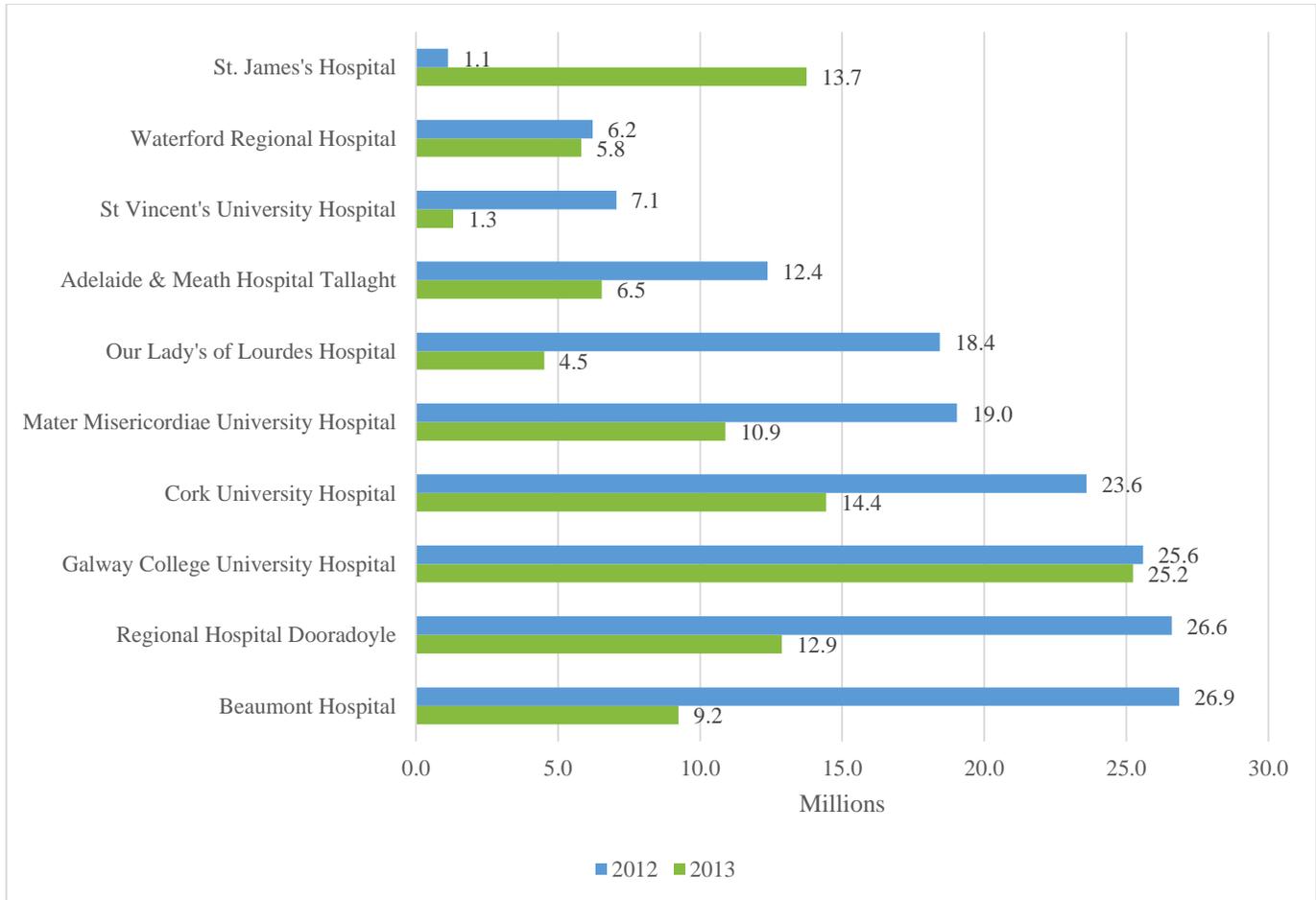
€ millions	2011	2012	2013
Allocation	3,700	3,563	3,729
Outturn	3,886	3,854	3,924
Overspend	186	291	195
	5.0%	8.2%	5.2%

Source: HSE Performance Reports 2011-2013, C&AG 2012 Report Chapter 21, HSE correspondence (26/05/2014)

- From 2013 onwards, the C&AG highlighted that a new budgeting process was implemented which combined information regarding the level of service and staffing for each individual hospital to derive an appropriate budget allocation. Furthermore, new service-level agreements were put in place to ensure hospitals lived within their annual allocation.
 - The C&AG stated that “*detailed plans outlining the level of services to be provided, the funding and staff available and the quality and access to services were published for individual hospitals in February 2013. The new budgeting process aims to ensure that no hospital plans for a budget overrun in 2013*”. However, a 5.2% budget overrun was recorded despite a significant increase in the 2013 hospital allocation (to a level higher than 2011).
- **Figure 1** illustrates the budget overruns in 2012 and 2013 for the top 10 largest spending hospitals.

³ Chapter 21 Budget Management in the Health Service Executive: <http://www.audgen.gov.ie/documents/annualreports/2012/report/en/Chapter21.pdf>

Figure 1: Top 10 largest spending hospitals, budget overruns 2012 and 2013



Source: HSE Performance reports, 2012 and 2013

2014 Position

- The annual allocation to the hospital sector is €3.7 billion or 35% of the total HSE net expenditure budget for 2014. This represents a €200m or 5% reduction on 2013 outturn. A large portion, approximately two-thirds or €140m based on the HRA Stage 3 Implementation Plan, of this saving is due to come from the implementation of re-rostering and other mechanisms under the Haddington Road Agreement.
- **Table 4** sets out the monthly expenditure across the hospital sector and the 2014 budget allocations. €79m in savings has been profiled for December.
- In January, an average of €17m in savings per month were required to live within the designated allocation. However, an additional €18m was spent in the first quarter than the same period last year. This means that an average of €25m in savings is now required in each of the final 9 months of the year to live within the designated allocation.
- If this trend were to continue the hospitals could be exposed to an underlying deficit of €250m on an annual basis.

Table 4: Hospital sector monthly 2013 outturn v. 2014 profile

€000s	Jan	Feb	Mar	April	May	June	July	Aug	Sept	Oct	Nov	Dec	Total
2013 Outturn	331	310	327	325	333	327	325	327	320	325	323	363	3,935
2014 Profile	315	302	317	312	317	313	317	317	310	317	311	284	3,731
Variance	-15	-8	-10	-14	-16	-14	-8	-10	-10	-8	-12	-79	-204
2014 Outturn	336	316	334										
Variance from profile	+21	+14	+17										
Variance from 2013 outturn	+5	+6	+7										

Source: HSE Monthly Profile (submitted to DPER on 04/03/14), HSE Data Management Reports

- The I&E end quarter 1 position for the hospital sector shows a deviation of approx. €52m or 6% from HSE profile submitted to DPER in March. Expenditure for 2014 is €18m higher than expenditure over the same period in 2013. The deficit has been attributed to a number of factors including shortfalls in the achievement of HRA savings, increased agency costs, underperformance with regard to income generation, increases clinical activity and the effect of incoming deficits.
- **Table 5** illustrates the quarter 1 performance of the top 10 largest spending hospitals, all of which are running over profile. €33m of the total €53m overrun for Q1 is attributable to these 10 hospitals.

Table 5: Top 10 hospitals financial position, 2014 Q1

Hospitals (€ millions)	Annual Allocation	Budget YTD	Q1 Outturn	Overrun	Percentage overrun
St. James's Hospital	303	73	75	3	3.6%
Galway College University Hospital	262	64	68	3	5.2%
Cork University Hospital	254	63	66	3	4.9%
Beaumont Hospital	233	58	61	3	4.7%
Mater Misericordiae University Hospital	208	54	58	4	7.2%
St Vincent's University Hospital	192	48	51	3	6.1%
Adelaide & Meath Hospital Tallaght	169	42	44	2	5.2%
University Hospital Limerick	151	37	43	6	16.0%
Waterford Regional Hospital	130	32	36	4	12.6%
Our Lady's of Lourdes Hospital	126	31	33	2	5.5%
Total	2,028	502	535	33	6.6%

Source: HSE March Data Management Report

Conclusion

- Expenditure increased by €51m over the period 2011 to 2013, with hospitals consistently failing to live within their designated allocations.
- At the May Joint Monitoring Committee on Finance, Performance and Employment, the HSE committed to provide a report on the range of options available to the HSE to manage hospital budgets within their allocation in 2014.