



# **Staff Paper 2015**

## **HEALTH AGENCY EXPENDITURE Q1 2015**

Irish Government Economic &  
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Donal Mullins

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*\* This paper has been prepared by the Labour Market and Enterprise Policy Division of the Department of Public Expenditure & Reform. The views presented in this paper are those of the author alone and do not represent the official views of the Department of Public Expenditure and Reform or the Minister for Public Expenditure and Reform. Analytical papers are prepared on an ongoing basis in the context of the expenditure management process and reflect the data available at a given point in time.*

## Abstract

The 2015 health pay bill strategy is predicated on an increase in basic pay of 3%, from €4.52bn to €4.65bn, which is to be primarily funded by a decrease in agency costs across the health sector by 42%, from €341m to €199m. To date in 2015, health sector staffing levels have increased broadly in line with the strategy and basic pay costs are forecast to come in just under the budget allocation. However, in this note it is highlighted that agency costs have failed to decrease in line with the agreed HSE Service Plan. Indeed, if the overrun above 2014 expenditure levels observed in quarter 1 were replicated in the remaining quarters of 2015, then the overrun on the 2015 profile would be 45% in the full year. Further to this, it is outlined in this note that agency cost overruns are present across different staffing categories and health care divisions. In light of this information, it is the opinion of this author that unless there is a noticeable reduction in agency costs for the rest of the year, there are serious concerns that health agency expenditure will significantly exceed the budgeted allocation for 2015.

### Summary of key findings

- For Q1 2015, actual health agency costs were €33m, or 66%, ahead of planned expenditure.
- Compared to Q1 2014, agency costs were €5.5m, or 7%, higher.
- If Q1 2015 agency costs were replicated throughout the year, this would represent an overrun of €165m, or 45%, above the budget allocation.
- For Q1 2015, Medical/Dental, Nursing and Care Assistants costs accounted for 86% of agency staff expenditure.
- For January and February 2015, agency spending in acute hospitals accounted for over 66% of overall agency costs.
- In Q1 2015, agency costs in the top 10 largest hospitals were €20.6m. This represents an overrun of €7.6m, or 58.5%, above the allocation.

## || ANALYSIS - HEALTH AGENCY EXPENDITURE Q1 2015

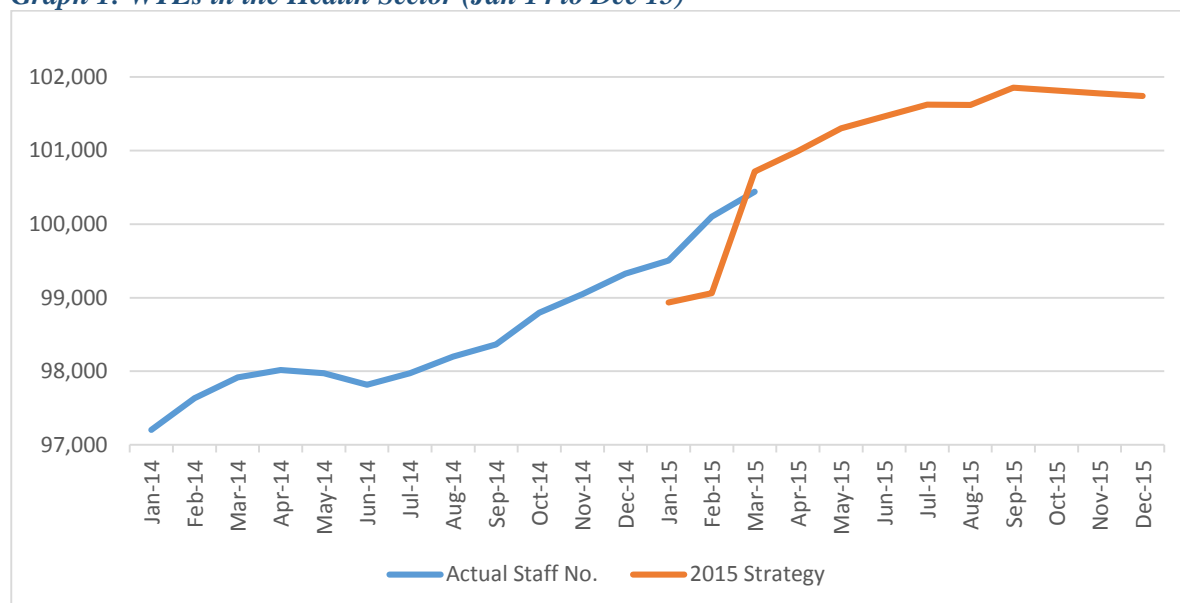
### Context

The health pay bill for 2015 is required to fall by €50m, or 1%, in 2015 from €6.82bn to €6.77bn. The 2015 health pay bill strategy is predicated on an increase in basic pay of 3%, from €4.52bn to €4.65bn, which is to be partly funded by a decrease in agency costs across the health sector by 42%, from €341m to €199m. As outlined in the 2015 HSE National Service Plan (page 7), ‘the Department of Health has now delegated greater autonomy and discretion for the HSE to manage staffing levels within the overall pay framework. This will greatly assist in reducing the reliance on agency staff which is very costly and is one of the HSE key priorities for 2015’. Thus far, the number of WTE staff and the basic pay bill of the health sector have increased in line with this HSE Service Plan, as highlighted below. However, it is important to understand if agency costs have fallen to account for this increase, as outlined in the HSE Service Plan. Thus, this note sets out the trends in health agency expenditure for Q1 2015.

*Table 1: Health Sector Pay Bill*

| € Millions       | 2014         | 2015 Profile |
|------------------|--------------|--------------|
| Basic            | 4,516        | 4,645        |
| Overtime         | 201          | 189          |
| Agency           | 341          | 199          |
| Other Allowances | 1,023        | 999          |
| <b>Sub-total</b> | <b>6,081</b> | <b>6,032</b> |
| Superannuation   | 741          | 741          |
| <b>TOTAL</b>     | <b>6,822</b> | <b>6,772</b> |

**Graph 1: WTEs in the Health Sector (Jan 14 to Dec 15)**



**Table 2: Overall HSE Staff Levels (Q1 2015)**

| Month    | 2015 Actual | 2015 Strategy | % Variance | 2014 Output | % Variance |
|----------|-------------|---------------|------------|-------------|------------|
| January  | 99,505      | 98,934        | 0.58%      | 97,205      | 2.37%      |
| February | 100,102     | 99,061        | 1.05%      | 97,635      | 2.53%      |
| March    | 100,439     | 100,716       | -0.28%     | 97,918      | 2.57%      |

Source: Employment Reports, 2015 HSE Pay and Staffing Strategy

- From table 2 above, it can be observed that the number of WTEs in the health sector increased from 97,205 in January 2014 to 100,439 by the end of March 2015. This represents an increase of 3,234 over this 15 month period.
- In Q1 2015, the number of WTE staff increased by 1,112 from 99,327 at the end of 2014 to 100,439, as graphically represented in graph 1 above.
- Also outlined in table 2 above, HSE staffing levels have increased broadly in line with the strategy in Q1 2015. If staff levels continue to rise on strategy, they should reach 101,854 in September before dropping off slightly in the last quarter of 2015.

- Previous analysis conducted by the Department of Public Expenditure and Reform noted that based on the current staffing levels of 100,439 WTEs remaining stable throughout the rest of 2015, basic pay would be €60m below profile in the full year. Under this scenario, the forecasted end of year position would be €4.59bn instead of €4.65bn. This estimate would need to be revised if HSE staff levels continue to rise throughout 2015.

## Overview – Health Agency Costs Q1 2015

While the number of WTE staff and the basic pay bill of the health sector have increased in line with this HSE Service Plan to date in 2015, in terms of Health agency costs, Q1 expenditure has failed to decrease in line with the budget allocation as agreed in the Plan and was higher than the corresponding figure in the same period of 2014. Indeed, if the percentage overrun observed on 2014 was replicated in the remaining quarters of 2015, then the overrun on the 2015 profile would be 45% in the full year. Thus, it is important for agency expenditure to be better managed throughout the remainder of 2015 in order to minimise the scale of the above profile overrun. This position is described in tables 3 below.

*Table 3: Health Agency Costs Trend (2014 - 2015)*

| € millions         | Q1          | Q2          | Q3          | Q4          |
|--------------------|-------------|-------------|-------------|-------------|
| <b>2015 Output</b> | <b>83.4</b> |             |             |             |
| <b>2015 Plan</b>   | <b>50.4</b> |             |             |             |
| Variance           | 33          |             |             |             |
| % Variance         | 66%         |             |             |             |
| <b>2014 Actual</b> | <b>78</b>   | <b>85.8</b> | <b>88.2</b> | <b>88.6</b> |
| Variance           | 5.4         |             |             |             |
| % Variance         | 7%          |             |             |             |

- From the table one can observe that there was an overrun of €33m, or 66%, on health agency costs in Q1 2015 above what was budgeted for.
- Agency costs were budgeted to decrease by €27.6m, or 35%, in Q1 2015 compared to agency spend in Q1 2014. While agency costs in Q1 2015 did decrease by 5.8% compared

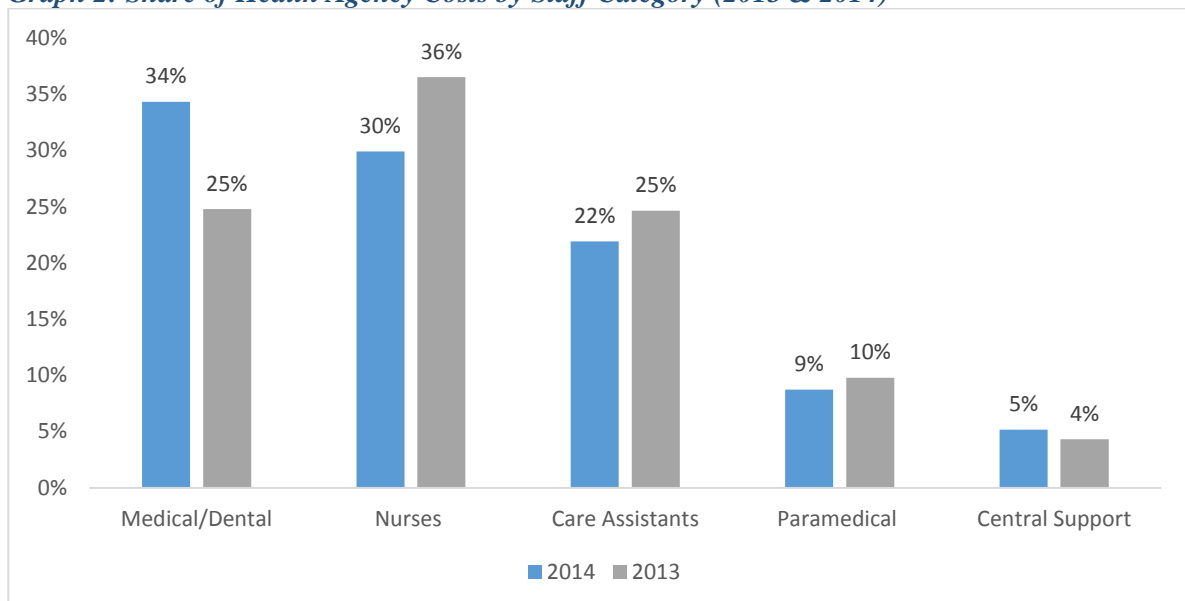
to Q4 2014, comparing agency expenditure in Q1 2015 to Q1 2014, costs were €5.4m, or 7%, higher.

- Assuming seasonality, if this overrun of 7% was replicated throughout the rest of 2015, then overall agency costs would be €364m in a full year. As full year health agency expenditure is budgeted to be €199m for 2015, if the overrun on 2014 of 7% was replicated throughout the remainder of the year, this would represent an increase of €165m, or 45%, above the budget allocation.

### Q1 2015 Health Agency Spend by Staff Category & Health Division

As noted, in Q1 2015 expenditure has failed to decrease in line with the budget allocation as agreed in the HSE Service Plan. In this section, the share of agency costs distributed by staff category and health division are considered. It is noted that the share of overall agency expenditure on the Medical and Dental staff group increased in 2014 compared to 2013 and has stabilised at 34% in 2015 to date. While absolute levels of spending on this staffing sector has increased at a higher rate, expenditure on other staffing sectors have also increased over the same period and indicate that above profile spending on agency expenditure is not isolated to Medical and Dental agency costs.

**Graph 2: Share of Health Agency Costs by Staff Category (2013 & 2014)**

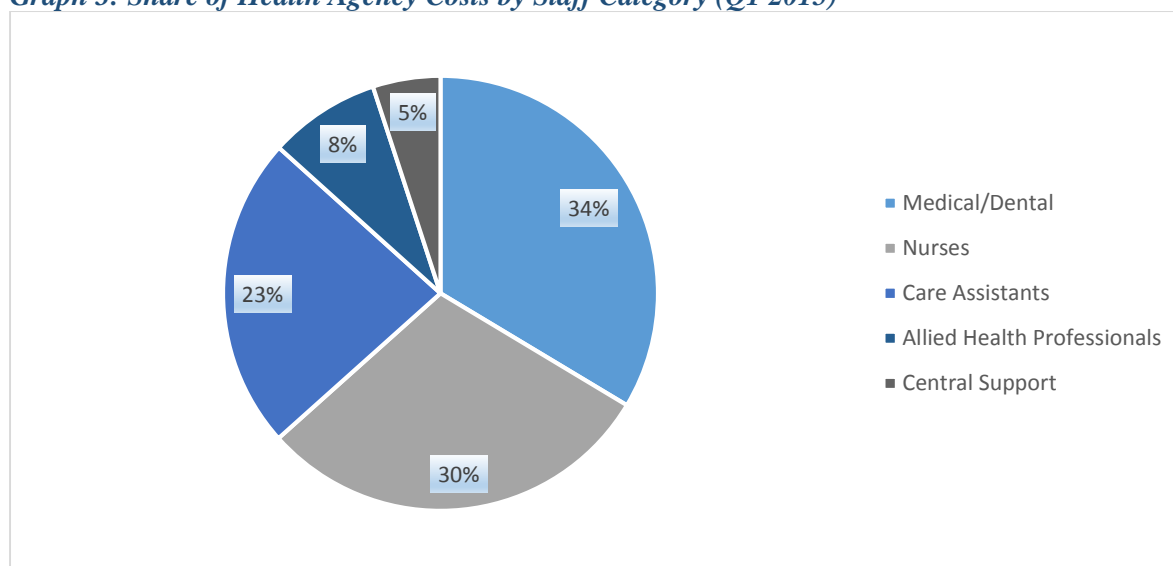


**Table 4: Health Agency Costs by Staffing Category (2013 & 2014)**

| € Millions                    | 2014         | 2013         | Variance    | % Variance |
|-------------------------------|--------------|--------------|-------------|------------|
| Medical/Dental                | 116.8        | 61.7         | 55.2        | 90%        |
| Nurses                        | 101.8        | 90.8         | 11.0        | 12%        |
| Care Assistants, Porters etc. | 74.6         | 61.3         | 13.3        | 22%        |
| Allied Health Professionals   | 29.7         | 24.4         | 5.4         | 22%        |
| Central Support               | 17.6         | 10.7         | 6.9         | 64%        |
| <b>Total</b>                  | <b>340.6</b> | <b>248.9</b> | <b>91.7</b> | <b>37%</b> |

- From Graph 2 above, one can note that the share of agency expenditure spent on Medical and Dental staff has increased compared to 2013, up 9% to 34% of the overall agency expenditure bill. Conversely, the share of expenditure spent on Nurses and Care Assistants has decreased in the same period, despite increasing in absolute terms.
- Indeed as set out in table 4, in absolute terms, agency expenditure increased across all staffing groups. Overall, agency expenditure increased by €91.7m, or 37%, in 2014. Most significantly, the increase in Medical and Dental staffing costs accounted for €55.2m, or 60%, of this increase.

**Graph 3: Share of Health Agency Costs by Staff Category (Q1 2015)**



**Table 5: Health Agency Costs by Staffing Category (Q1 2015)**

| € Millions                    | YTD 2015    | YTD 2014  | Variance   | %<br>Variance |
|-------------------------------|-------------|-----------|------------|---------------|
| Medical/Dental                | 28          | 25.2      | 2.8        | 11%           |
| Nurses                        | 24.8        | 24.4      | 0.4        | 2%            |
| Care Assistants, Porters etc. | 19.4        | 17.5      | 1.9        | 11%           |
| Allied Health Professionals   | 6.9         | 7.5       | -0.6       | -8%           |
| Central Support               | 4.2         | 3.4       | 0.8        | 23%           |
| <b>Total</b>                  | <b>83.4</b> | <b>78</b> | <b>5.4</b> | <b>7%</b>     |

Source: HSE Performance Reports

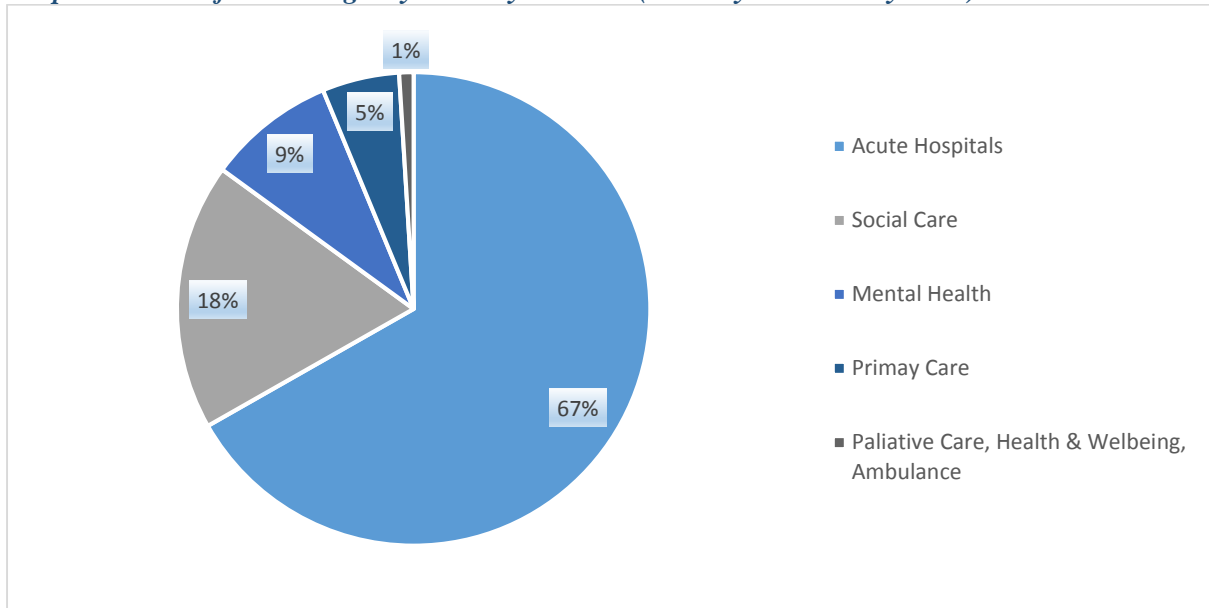
Table 5 above sets out the year to date agency expenditure across the different staffing categories compared to the corresponding period in 2014. From the table one can infer the following observations.

- Comparing Q1 2015 to the corresponding spend for 2014, agency expenditure has increased by €5.4m or just over 7%.
- In absolute terms, the highest increase has been associated with Medical and Dental staffing costs, which are €2.8m, or 11%, up on the same period in 2014. In Q1 2015, the number of WTE staff in this category have increased by 108.
- In percentage terms, the highest observed increase in spending is on central support staff, which is just over 23% higher than the corresponding months in 2014.
- For Q1 2015, agency spending on Medical and Dental staffing costs accounted for 34% of overall agency costs, as graphically demonstrated in Graph 2. The next highest agency costs by staff category were on Nurses and Care Assistants, accounting for 30% and 23% respectively. In Q1 2015, WTE staff in these categories increased by 528 and 167.

Breaking down how agency costs are divided by different health divisions, data is only available for the first two months of the year. Graph 4 below sets out the share of agency expenditure in 2015 to date across the different health divisions, while Table 6 compares the actual agency outturn in 2015 against the agreed profile spend across these divisions.



*Graph 4: Share of Health Agency Costs by Division (January & February 2015)*



- For the first two months of 2015, agency spending in Acute Hospitals accounted for over 66% of overall agency costs, as graphically demonstrated in Graph 4. The next highest agency spend by health division was on Social Care, which represented 18% of the overall total. WTE staff in these sectors increased by 840 and 129 in Q1 2015 respectively. Conversely, agency spending in the Palliative Care, Health and Wellbeing and Ambulance divisions accounted for less than 1% of overall agency costs.
- Comparing the agency spend in this period against what was planned for, one can note that costs were €16.7m, or 43%, above the agreed level of expenditure. Agency costs associated with Acute Hospitals account for €11.8m of this variation, 47% above the planned spend on this division. While the overrun on Primary Care was a lower €1m, this is 56% higher than the planned spend for this division.
- Agency spending on Palliative Care is marginally below what was planned for, as set out in table 6 below.
- Agency spend on Ambulance services in the first two months of the year was €0.1m. While this represents only a small percentage of overall agency spend, it should be noted that no agency expenditure was allocated to this division.

**Table 6: Health Agency Costs by Division (January & February 2015)**

| € Millions         | Actual 2015 | Planned 2015 | Variance    | % Variance |
|--------------------|-------------|--------------|-------------|------------|
| Acute Hospitals    | 36.8        | 25           | 11.8        | 47%        |
| Primary Care       | 2.9         | 1.9          | 1           | 56%        |
| Palliative Care    | 0.2         | 0.2          | -0.001      | 0%         |
| Social Care        | 10.1        | 7.6          | 2.5         | 33%        |
| Mental Health      | 4.8         | 3.6          | 1.2         | 34%        |
| Health & Wellbeing | 0.2         | 0.2          | 0.012       | 6%         |
| Ambulance          | 0.1         | 0            | 0.1         | 100%       |
| <b>Total</b>       | <b>55.1</b> | <b>38.4</b>  | <b>16.7</b> | <b>43%</b> |

Source: HSE Performance Reports

### Q1 2015 Health Agency Costs in the Top 10 Largest Hospitals

The top 10 largest hospitals account for €2.1bn, or 54%, of the total 2015 allocation for the hospital sector. Similar to the overall health sector, agency expenditure in these hospitals has failed to decrease in line with the budget allocation as agreed in the HSE Service Plan, as outlined in table 7 below. However, some hospitals have been better at managing agency expenditure within their allocated budget. Indeed, two of the larger of hospitals in the state have, thus far in 2015, managed to keep agency expenditure below the 2015 profile and this may indicate that agency costs can be minimised by better management structures.

According to the latest HSE Data Management Report (February 2015), WTEs in these hospitals increased by 324 in Q1 2015. This represents 39% of staff increases across the hospital sector. Despite this, agency costs in the acute sector have failed to decrease, as indicated in table 7 which compares actual agency expenditure in the ten largest hospital in the state against planned expenditure. From the table one can note the following:

- In Q1 2015, agency spend by these hospitals was €20.6m. This represents an overrun of €7.6m, or 58.5%, on Q1 allocation and accounted for 56% of all agency costs associated with the hospital sector.

- Agency costs associated with these hospitals accounted for 64% of agency cost overruns within the hospital sector.
- Agency spend by these hospitals represent 25% of the overall agency spend across the health service and 23% of the overall agency overrun.
- In eight of the hospitals, agency costs were above the allocated spend, with the highest overspend over the allocated budget recorded by St. James Hospital at €2.5m. No agency expenditure was allocated to this hospital or for Tallaght Hospital which incurred agency costs of €0.9m.
- Two of the hospitals, Cork University Hospital and the Mater University Hospital, had agency costs below their allotted amount.

*Table 7: Top 10 Hospitals Agency Expenditure Q1 2015*

| € Millions                               | Actual 2015 | Planned 2015 | Variance   | % Variance   |
|--|-------------|--------------|------------|--------------|
| St. James's Hospital                     | 2.5         | 0            | 2.5        | 100%         |
| Galway University Hospitals              | 1.3         | 0.8          | 0.5        | 59.4%        |
| Cork University Hospital                 | 1.6         | 1.6          | -0.001     | -0.02%       |
| Beaumont Hospital                        | 2.1         | 1.9          | 0.2        | 8.5%         |
| Mater Misericordiae University Hospital  | 0.9         | 1            | -0.1       | -11.7%       |
| St Vincent's University Hospital         | 1.8         | 1.2          | 0.6        | 45.3%        |
| Limerick University Hospital             | 3.3         | 2.1          | 1.2        | 60%          |
| Tallaght Hospital                        | 0.9         | 0            | 0.9        | 100%         |
| Waterford Regional Hospital              | 1.2         | 0.9          | 0.3        | 36.8%        |
| Our Lady's of Lourdes Hospital, Drogheda | 4.9         | 3.4          | 1.5        | 43.1%        |
| <b>Total</b>                             | <b>20.6</b> | <b>13</b>    | <b>7.6</b> | <b>58.5%</b> |

Source: HSE Healthcare Data Report

## Conclusion

While health sector staffing levels have increased broadly in line with the strategy and basic pay costs are forecast to come in just under the budget allocation, it has been shown in this note that observed health agency spend for Q1 2015 was €33m, or 66%, above planned HSE expenditure. Further to this, compared to Q1 2014, agency costs are €5.5m, or 7%, higher, despite being budgeted to fall by 42% in a full year. This highlights that agency costs have failed to decrease in line with the agreed HSE Service Plan. Indeed, if the percentage overrun observed on 2014 was replicated in the remaining quarters of 2015, then the overrun on the 2015 profile would be 45% in the full year. In light of this information, this note indicates that, based on the first three months of 2015, unless there is a noticeable reduction in agency costs for the rest of the year, there are serious concerns that health agency expenditure will significantly exceed the budgeted allocation for 2015.

This note also looked at expenditure broken down by staff category and health division. Of particular note was the observation that the share of overall agency expenditure on the Medical and Dental staff group increased in 2014 compared to 2013 and has stabilised at 34% in 2015 to date. While it was noted that absolute levels of spending on this staffing sector have increased at a higher rate than other sectors, the analysis outlines that above profile spending on agency expenditure is not isolated to Medical and Dental agency costs. Further to this, in Q1 2015, nursing and Care Assistants, Porters etc. staffing costs accounted for over 50% of agency expenditure. Thus, one should not take the misplaced view that the failure, in 2015 to date, to keep health agency costs within the allocated profile is solely derived from increased Medical and Dental staffing expenditure.

Finally, it was noted that some hospitals have been better at managing agency expenditure within their allocated budget. The observation that two of the larger of hospitals in the state keeping agency expenditure below the 2015 profile thus far in 2015 were outlined. An argument that this may indicate that agency costs can be minimised by better management structures was also put forward.