Box I: Health overruns in recent years: magnitude and main drivers

This box examines health overruns in recent years in terms of their magnitude relative to the allowed yearly increases and the main drivers of such overruns.

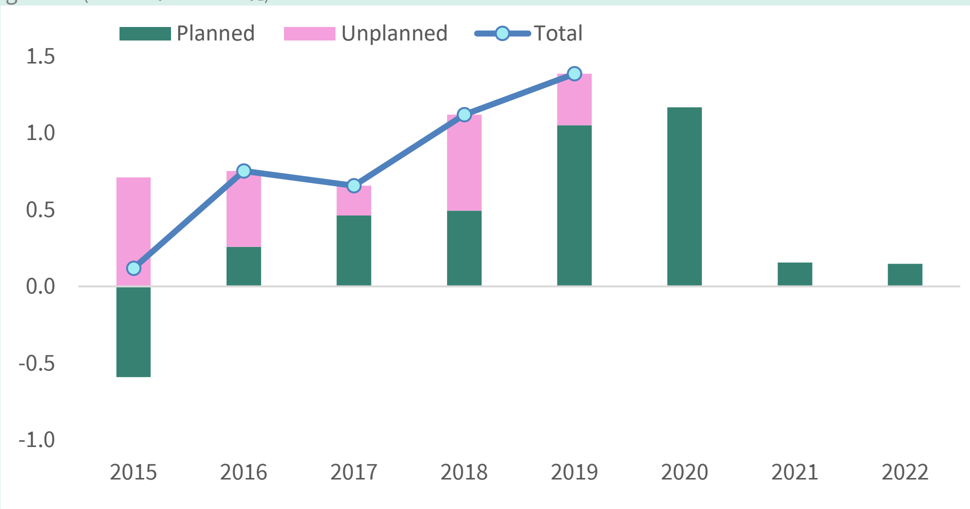
Unplanned health overruns have been large despite planned growth

Over the last few years, health overruns have been substantial. In the period 2014–2018, these have amounted to an average of €500 million per annum. This can have important implications for the public finances, especially when these expenditure overruns are covered by potentially transient revenue sources.

One way to look at the incidence of the overruns is to analyse their impact relative to the spending growth initially budgeted for. For example, the planned increase in health spending in 2017 and 2018 was, in both cases, close to €500 million (Figure I.1). But the magnitude of the overruns differed significantly: around €200 million in 2017, and €625 million in 2018. For 2019, the Government had budgeted for high year-on-year growth in health spending, amounting to €1.1 billion. This is lower than the actual growth in 2018, but it represents the largest planned increase since 2015. Despite this, an overrun for the year is expected. In particular, the Expenditure Report (Department of Finance, 2019d) included a supplementary estimate of €335 million for the Department of Health. For 2020, the planned increase is the largest since 2015, but it is still lower than the expected increase for 2019. After 2020, the planned increases are low and risk a repeat of significant overruns.

Figure I.1: Health overruns since 2016 have been large despite planned growth

€ billion: **planned** growth (forecast$_t$ – outturn$_{t-1}$) + **unplanned** growth (outturn$_t$ – forecast$_t$) = actual **total** growth (outturn$_t$ – outturn$_{t-1}$)



Sources: Department of Finance (Analytical Exchequer Statements and Fiscal Monitors); and Fiscal Council calculations.
Note: Data shown in Exchequer gross voted current spending terms. The 2019 overrun is an estimate based on the supplementary estimate of the Expenditure Report 2020 (Department of Finance, 2019d). The forecasts for 2020–2022 are based on the Expenditure Report 2020. The 2015 growth takes into account the transfer from the HSE to Tusla (the Children and Family Agency) that took place in 2014.

HSE overruns are largely driven by hospital spending

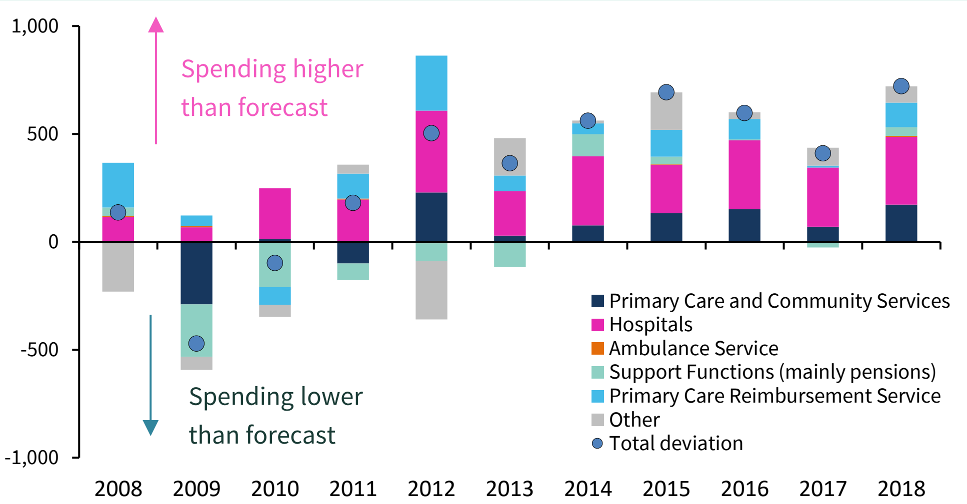
The most persistent driver of overspends in the HSE sector relates to hospital overspending, followed by overspends in Primary Care and Community Services and in the Primary Care Reimbursement Service (PCRS) (Figure I.2).[53]

[53] The PCRS is responsible for making payments to healthcare professionals (e.g., GPs, dentists or pharmacists) for the free or reduced costs of the services provided to the public.

In every year between 2008 and 2018 hospital spending has exceeded initially budgeted spending, averaging over €240 million per annum. However, most of these overruns should be analysed in a context were the planned annual increases were either negative (2009–2016) or almost zero (2017–2018), which may not be realistic (Figure I.3). As outlined in Howlin (2015), a failure to stay within initially forecast hospital spending arises from an underestimation of: (1) the demand for hospital services; (2) the efficiency of service delivery; (3) the impact of cost containment measures; and (4) the combination of these three factors. An important feature of hospital spending is that around 70 per cent of total expenditure relates to pay. This includes wage payments to hospital staff, which has recently exceeded initially planned budgets, especially due to the unplanned hiring of new staff by the end of the year.

Figure I.2: Overruns in the HSE have been largely driven by hospital spending

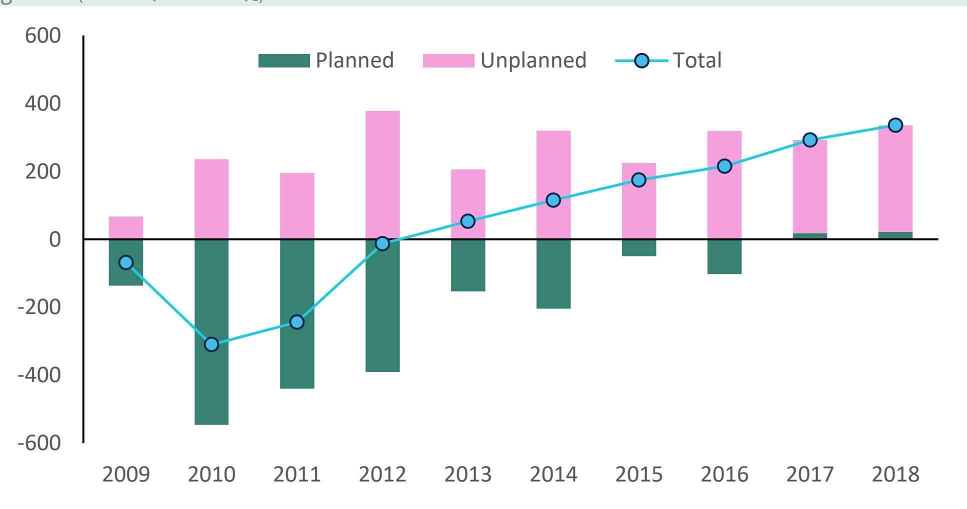
€ million (outturn minus forecast)



Sources: HSE Monthly Performance Reports; Howlin (2015); and internal Fiscal Council calculations.
Note: Forecasts taken from the end-January Performance Reports; outturns taken from end-December. In 2012, the performance of "primary care and community services" and "other" is impacted by a re-allocation between primary care for older people and the "Fair Deal" (within the "other" category) (see Howlin, 2015).

Figure I.3: Hospital spending increases have been achieved through overruns rather than planned spending

€ million: **planned** growth (forecast$_t$ – outturn$_{t-1}$) + **unplanned** growth (outturn$_t$ – forecast$_t$) = actual **total** growth (outturn$_t$ – outturn$_{t-1}$)



Sources: HSE Monthly Performance Reports; Howlin (2015); and internal Fiscal Council calculations.

Failures in health management have been repeatedly highlighted by a number of institutions, including the European Commission (2019b), which notes that "budget management is weak across all levels of the health system" and that "[…] comprehensive planning and funding models are either non-existent, poorly functioning or unconnected locally and regionally".

The persistent health overruns that have taken place over the last few years have been the result of weak planning and weak spending controls, which has led to a "soft budget constraint" problem. That is, the budget allocations are not seen as credible by the health managers, which can lead to unplanned increases in spending. If these overruns are long-lasting (for example, the unexpected recruitment of permanent stuff), but are funded with temporary revenues (for example, temporary corporation tax windfalls), the sustainability of the public finances can be put at risk (Box D, Fiscal Council 2019e).

Revenue, 2020

The Government's revenue forecasts reflect the impact of a no-deal Brexit, with the sharpest slowdown in revenue growth taking place in 2020. **General government revenue** is projected to moderate its growth to €2.3 billion (or 2.7 per cent) in 2020 (Table 3.2), which compares to an expected growth of €4.3 billion (or 5.3 per cent) in 2019. The revenue growth for 2020 in *Budget 2020* is lower than in an orderly Brexit scenario in *SPU 2019*, which projected this to be 3.4 per cent. The moderation in 2020 projected in *Budget 2020* is driven by assumed slowdowns in (1) taxes on production and imports (mostly VAT, excise and stamp duties); (2) current taxes on income and wealth (largely income tax); and (3) social contributions (predominantly PRSI).[54]

In terms of **Exchequer revenue**, the underlying projections for 2020 (and outer years) are only moderately lower than at SPU time. This is driven by lower tax revenue projections. This is despite the move from an orderly Brexit scenario in *SPU 2019* to a disorderly Brexit in *Budget 2020*. On a headline basis, the Exchequer revenue projections are higher than in April's SPU, but this is largely driven by the assumption that a no-deal Brexit will imply that goods traded with the UK will be subject to customs duty payments, which has an insignificant impact on the Exchequer balance. In particular, 80 per cent of these would be collected on behalf

[54] Appropriations-in-Aid have been revised up by roughly €500 million for 2020–2023 since *SPU 2019.* This is based primarily on increased projections of the SIF, with PRSI projections being higher than in *SPU 2019* for all the period 2020–2023.