Committee of Public Accounts, 22nd March 2012

Briefing by PJ Fitzpatrick, Chair of the Implementation Body, on the implementation of the *Public Service Agreement 2010-2014*

Chairman and Members,

Introduction

I welcome the opportunity to brief the Committee on the implementation of the *Public Service (Croke Park) Agreement 2010-2014*. I am joined by two of the six Chairs of the sectoral implementation groups that have been established to drive progress in each sector. I would like to introduce:

- David O'Callaghan, Chair of the Education Sector Implementation Group; and
- Pat Harvey, Chair of the Health Sector Implementation Group;

I am also joined by the Secretary to the Implementation Body, Colin Menton.

I would like to stress that I am here as the Independent Chair of the Body. I am not representing management or trade unions or their agendas. I will endeavour to give the Committee an honest, fair and impartial assessment of:

- The progress that has been achieved to date under the Agreement;
- The potential of the Agreement as I see it; and
- The level of compliance and co-operation with the Agreement across the public service.

I will, of course, deal as best I can with questions or any other issues concerning implementation of the Agreement you, Chair, and the Members wish to discuss. If I am unable to answer any specific question I will ensure that the information sought is promptly forwarded to the Committee.

Background to the Agreement

The Agreement was put in place in 2010 as part of the strategic response to the unprecedented economic crisis this country has faced since 2008. This involves a significant consolidation of the public finances to bridge the unsustainable fiscal deficit that emerged four years ago. The Agreement is playing its part in helping to support economic recovery by enabling the Government to significantly reduce the cost of the public service. I will expand on this later but, in short:

- The Gross Exchequer Pay Bill has reduced from a peak of €17.5bn in 2009 to €15.6bn in 2011, or €14.6bn when the effect of the Pension Related Deduction is taken into account – a fall of nearly €2.9bn;
- Staff numbers have been reduced by 23,000 to last December. Since then, a further 7,500 have departed
- At the same time, frontline services are, by and large, being maintained and in some cases expanded;
- Thousands of staff have been redeployed within and across sectors;
- Organisations, for example State Agencies, are being rationalised and services are being reconfigured and restructured with staff co-operation; and
- There has been no industrial action, in sharp contrast to what was happening before the Agreement.

Value of the Agreement

The value of the Agreement can often be underestimated. It is designed to support a substantial reduction in pay and non-pay costs on the one hand and the continued delivery, maintenance and reform of services against that backdrop.

The Agreement has delivered sustained industrial peace at a time of unparalleled difficulty and change. Industrial peace, in my view, can never be taken for granted.

Trade unions and staff associations across the public service have signed up to the Agreement and staff are co-operating with its provisions. The public service is undergoing significant change. This is being facilitated by the Agreement which has helped to create an environment within which difficult decisions can be taken and implemented.

At the same time, essential frontline services must continue to be provided – and to a high standard – in an environment where the demand for such services has never been greater. For example:

- The population has increased by 340,000 or 8% between 2006 and 2011;
- Numbers on the Live Register have increased by 285,000, or 280% in the last five years;
- There are some 500,000 more medical card holders now than in 2007;
- Since the end of the 2008/2009 academic year student numbers in Institutes of Technology and universities have risen by 14.9%, while staff numbers have fallen by 7.3%;
- The number of prisoners has been rising with prisoner numbers up 400 or 9.9% between 2009 and 2010 alone; and
- The number of day cases in hospitals has risen by 26% between 2007 and 2010 while attendances at outpatient clinics rose 16%.

The only way to meet this increased demand as resources are significantly reduced is by radically changing how the public service works. This would be very difficult to achieve in the face of widespread staff resistance to change in a highly unionised environment. You need the buy-in of staff for the significant redeployment; re-structuring, rationalisation, reconfiguration and reforms we are talking about. The commitments contained in the Agreement and the mechanisms it provides for binding resolution of industrial relations problems are facilitating the reform that is needed to transform the public service into a leaner, more efficient, more productive and more effective outfit.

Furthermore, an ambitious future reform agenda has been set out by the Government in the Public Service Reform Plan it launched last November. The Agreement is and will be a key enabler for the implementation of this plan over the coming months and years.

What the Agreement is – and is not

I would like, Chair, to take a moment to address another important issue around what is, in my view, a widespread misunderstanding about what the Agreement is – and what it is not.

Firstly, it is not the role of the Agreement, or of the Implementation Body, to make decisions on the reforms that need to be made or the structures that should deliver them, or on the size and scope of the public service. That is the role of Government and management. But the Agreement can enable decisions that have been made by Government on those matters to be implemented with the co-operation of staff and their representatives in a climate of industrial peace. I am optimistic that, over its four years, the Agreement will meet this challenge.

Since taking on the chairing role I have been very encouraged and impressed by the support and commitment of my management and union colleagues on the Body. Their genuine desire to make the Agreement work successfully has been evident at all times.

Secondly, I feel it is important to emphasise that the Agreement is not just a cost saving plan. Cost savings come when the Government or public service management decides and implements change to services and work practices; when they introduce new technology; when they decide on staff number reductions and when they decide the number of Agencies that ought to be abolished/merged or rationalized. The Agreement provides a framework – and a toolkit for managers – within which all of these issues can be managed.

Implementation Structures

I understand the Committee would like me to outline the structures and processes we have put in place to support implementation of the Agreement.

Under the Agreement, reform is happening at three levels:

- At the level of individual public service organisations – hospitals, local authorities, Government Departments and state agencies.
- At the sectoral level; and
- At cross-Department/Agency level – through greater inter-agency working, shared services, redeployment of staff and so on.

Important reforms are also being progressed on a public service wide basis, for example, the single new pension scheme for public servants; the standardisation of annual leave and the reform of sick leave which is being progressed at the moment.

The Implementation Body was established in July 2010 to drive and monitor implementation of the Agreement and to report to Government annually on progress including the sustainable savings achieved.

As the Agreement is one between public service employer and employees' representatives, the Body comprises representatives from public service management and the Public Services Committee of ICTU. I was asked to chair it.

The Body's terms of reference are:

- To drive the implementation of the Agreement and its sectoral components;
- To monitor and review progress on the implementation of the reform agenda for each sector;
- To cost and verify savings achieved from the implementation of the Agreement and its sectoral components;

- To deal with the resolution of implementation issues as they arise;
- To provide a forum for the interpretation of implementation difficulties arising from the relevant sectoral agreements;
- To appoint, where necessary, suitable persons to promote the process of change or to provide mediation or arbitration in the relevant sector on a case by case or standing basis; and
- To report annually on progress to Government.

To further support and drive implementation on the ground, we have put in place groups in 8 sectors – Health, Education, Local Government, Prisons, the Civil Service, State Agencies, Gardaí and Defence.

The Chairs of the sectoral groups submit monthly reports to the Implementation Body. I also meet with them monthly. Our meetings provide an opportunity to brief one another on progress and anticipate issues arising. They also allow us to share views and information so as to avoid reinventing the wheel where possible, about what has worked well and what has not and to disseminate best practice.

Planning and Reporting

The responsibility for implementing the Agreement rests with senior management in each sector and within each public service organisation. They are required to prepare annual Action Plans which set out the change and reform agenda to be progressed with specific time-bound commitments.

These plans must reflect Government Decisions, for example, in terms of the new Public Service Reform Plan, the Programme for Government, the Budget and other relevant decisions made by Government or by Ministers.

When submitted, the Action Plans are reviewed by the Body. We engage directly with top management in each sector on their Action Plans; the progress being made on

implementing them and the barriers to implementation. We have, at all times, challenged the ambition and urgency of plans where necessary and will continue to do so.

In accordance with Paragraph 1.16 of the Agreement, the Body is required to undertake an Annual Review for the Minister and the Government which quantifies the sustainable savings achieved and the progress being made in each sector on implementing the change and reform agenda. The Annual Review is conducted in April and May each year and an Annual Progress Report is submitted to Government and published in June.

The Body also requires a mid-year or interim update on progress in each sector.

Sectors are required to provide us with a detailed account of the progress made under each of their Actions. We have also put in place a 'traffic-light' system for progress reporting, requiring sectors to mark the status of each commitment:

- In **Green** if the Action has already been achieved, is underway and on time for delivery;
- In **Orange** if delivery is substantially underway but not on target; or
- In **Red** if there has been no tangible progress to date.

This enables us to get a very quick sense of overall progress and also highlights where there are problems or delays.

It is important also to make the point that, in order for us to function effectively as an oversight body, we are very reliant on sectors to feed us quality and timely information on progress or otherwise and on the savings being achieved. We can only work with what we are given. The co-operation we have received to date has been good and that must continue.

We are conscious also of the administrative burden that the planning and reporting process places on sectors and on individual public service organisations, particularly in an environment of reducing resources. We are concerned to ensure that our work does

not divert scarce resources unnecessarily from the actual reform work that needs to be done. It is about striking the right balance.

Transparency

The Body is concerned to ensure that there is maximum transparency in our work. We put in place a website, www.implementationbody.gov.ie, which contains a wide range of information on the Agreement.

We publish on the website the Action Plans from each sector and the progress reports. We also post the minutes of our meetings and key pieces of correspondence from the Body on matters of interpretation referred to it. We also requested individual Departments and Agencies to publish their own action plans and progress reports on their own websites.

The Agreement allows for the engagement of external financial advisors to undertake independent verification of reported savings. This involves a review of the methodology, quantification and estimation used by managements to identify savings that have been achieved and savings that will be achieved as a result of agreements reached and initiatives taken.

As the Committee will appreciate it is not possible, on time and cost grounds, to externally evaluate everything. The approach the Body has taken has been to put forward a number of significant projects each year for external evaluation. In selecting the projects, our concern is to try to include a spread of sectors – and, in particular, to cover the largest sectors, such as Health and Education – but also to try to include different types of initiatives – whether it is work practice change, redeployment, restructuring, reconfiguration or the introduction of new technology. It is not intended to be a forensic audit in the conventional sense but is, nevertheless, a useful quality assurance check on what is being reported. Managements are aware that progress reported may be subject to such external evaluation.

Last year MKO Partners Ltd, were engaged, following a tendering process, to carry out 3 validations in respect of the redeployment of secondary teachers in the Education Sector, the medical laboratory modernisation agreement in the Health Sector and restructuring and reconfiguration of services in Fingal County Council. Their Report, which was published in conjunction with the Body's Annual Progress Report last June, found that:

- All three of the sample projects evaluated demonstrated a capability to facilitate verifiable savings;
- The Public Service Agreement played a significant role in facilitating the implementation of the savings initiatives in each case; and
- The indicative savings reported by managements in the case of the three projects were reasonable estimates of the savings that will arise if successfully implemented.

Dispute Resolution Arrangements

While there is generally a good level of co-operation and compliance with the Agreement, issues and disagreements do inevitably arise. I would be misleading you if I suggested that it is all plain sailing.

Where this happens, the Agreement emphasises the importance of seeking to resolve disagreements promptly. We have urged that every effort should first be made to deal with issues at the local level. The Agreement also makes clear that trade unions and employees should co-operate with the implementation of change pending the outcome of the industrial relations process.

The dispute resolution provisions of the Agreement are, in my view, very good and contain tight timelines. There is a six week period for consultation and negotiation which we have emphasized should be meaningful. Where not resolved within the six week period the issue in dispute should be referred to the Labour Relations Commission and, if necessary, to the Labour Court, or through the Conciliation and Arbitration scheme where applicable, which are required to issue a binding recommendation within 4 weeks.

Because the outcome is binding on all parties, disputes do not drag on as they have in the past. The time bound and binding nature of the disputes resolution procedure is a major change from previous agreements.

Reports by the Implementation Body

I would like to turn now to the First Annual Report published by the Implementation Body last June.

In its review, the Body found, based on an assessment carried out by the Department of Finance, that sustainable savings in the Exchequer pay bill of €289m had been achieved in the first year of the Agreement. The saving was driven primarily by a 5,349 reduction in staff numbers but also other factors such as reductions in overtime costs (down 5.2%) and pay bill savings accruing from changed work practices, **extended working days,** rationalisation and so on.

In addition, we found evidence that public service bodies were succeeding in generating significant non-pay cost savings through better use of resources – reorganizing work and achieving greater internal efficiencies. These non-pay savings are detailed in the Report which we have included in the briefing pack sent to the Committee. **The value of the reported non-pay savings detailed in the Report (which are not exhaustive) was some €308m.**

The Report also provided some examples of initiatives taken by public bodies which led to **costs of €85.7m being avoided** which would otherwise have been incurred.

Overall, we found that "solid and measurable progress" had been made. We concluded that in the period under review:

- Staff numbers had fallen substantially, more quickly than previously estimated, and services had been maintained and in many cases expanded and productivity had increased.

- The cost of delivering public services had fallen in a sustainable way, primarily through reducing headcount across the public service, enabling the State to meet its external economic and fiscal commitments;
- Large numbers of staff had been redeployed, including across functional boundaries, which helped meet two challenges - avoiding gaps in service as numbers reduced and changing the way public services are delivered to citizens and business; and
- The reconfiguration of services had commenced.

Last November, we produced an interim update which provided further evidence of ongoing progress during the period April to September 2011 on reducing the cost and size of the public service and on reforms aimed at building a leaner, more integrated and streamlined public service. A copy of this is also in the pack sent to the Committee.

Progress Achieved

There has been much understandable debate and different views about reducing staff numbers. In both the private and public sectors when costs have to be reduced quickly and when the major expenditure is pay there are only two options – cut pay, reduce numbers or do both. Both have been done in the public sector, as Members will be aware.

The framework of the Agreement is facilitating the extraction of very significant pay bill savings. The impact of the pay and staff number reductions is that the total net cost of the public service pay bill will be reduced by some €3.5 billion, or 20%, between 2008 and 2015.

As I mentioned earlier, by last December there were 23,000 fewer staff working in the public service than at the peak three years earlier in December 2008. In addition, some 7,500 staff retired in January and February this year. Under the Agreement, those that

remain are taking on the work done of those who have departed and, in many cases, work that had been done by more senior grades.

It is important to emphasise, as others have done in recent weeks, that the staff who departed before 29th February did not do so as part of some 'early retirement scheme' under the Agreement. This was the final playing out of the pay cuts legislation of 2009, in terms of its application to pensions. Where the Agreement is critical is in ensuring that the work of those departing gets done and that services are maintained and that staff can be transferred, redeployed etc. to ensure service gaps are promptly filled.

There has much understandable comment about the impact of recent retirements on public service pension costs. It is important to make the point that these costs arise in any event as people fall due to retire. This is not a direct result of the Agreement. In fact, the Agreement is underpinning the introduction of a single new pension scheme for all new entrants to the public service, the effect of which will be to reduce long-term pension costs. We did foot-note the increased cost of pensions over the period in our Annual Report last year and will do so again this year. Our focus has been, and will remain, on the savings being delivered through the flexibilities and co-operation provided by the framework of the Agreement and the efforts of management, unions and the staff on the ground.

Generally speaking, in the private sector, staff numbers are reduced when business or activity falls. The opposite is happening in the public sector where the demand for services has increased dramatically in recent years, as I outlined earlier. The fact that this increased demand is being met by far fewer staff is, in my view, the strongest indicator of increased productivity and efficiency in the public service.

Time will not allow me, Chair, to go into great detail on specific examples of progress under the Agreement. Our First Annual Report last June, our mid-year interim update report published last November, and the Briefing Paper which we have prepared for the Committee provide many examples of delivery on such issues as:

- Measures to integrate the public service, for example, in the areas of pensions and annual leave;
- Redeployment, both within and across sectors, to ensure that staff are placed where they are needed most;
- Changes to work practices and arrangements;
- Rationalisation and streamlining of organisational structures;
- Restructuring and reconfiguration of services;
- Introduction of new technology and greater use of online services to deliver savings and service improvements; and
- Business process improvements, including more cross-stream reporting, joint approaches to inspections and greater use of shared service and joint procurement approaches.

Immediate Challenges Ahead

I believe the Agreement is an important asset as we continue to rebuild the economy. It will remain so, provided it continues to deliver and is allowed to deliver.

In our Report last June, we acknowledged the progress that had been made in the first year. However, we also called for more urgency and ambition. We highlighted our concern at the lack of significant progress on some key cross-sectoral challenges, in particular the delivery of shared or consolidated services in administrative areas such as application processing, ICT and human resource, pay and pension administration, and in the sharing of information across Government bodies to reduce the burden on citizens and business.

We also identified a number of areas which we felt needed to be prioritised over the next reporting period. For example, we concluded that, in view of the strong benefits for citizens, business and public bodies, more needed to be done to fully exploit the potential of online services.

We also highlighted the need to move quickly to implement changes to rosters, staffing levels, work practices and skills mix across all sectors, and particularly in police and health services, in order to ensure that essential frontline services are protected as staff numbers fall.

Next month we will be initiating the second Annual Review of the Agreement, which will culminate in the publication of our Second Annual Report in June. In the review, we will be looking for tangible evidence of delivery on all of these issues and on the change and reform agenda generally across all sectors.

I welcome the Committee's interest in these matters and, in particular, your decision that from September, each Accounting Officer will be required to give an update on the implementation of the Agreement in their areas. The work of the Committee and the Body has the potential to be mutually supporting in that regard.

It is clear that the economic and fiscal environment continues to evolve and that the parameters we are working within are ever-changing. It is important, therefore, that the reform agenda is dynamic and responds to changing circumstances.

I would like to assure the Committee that the Implementation Body will continue to seek that the Action Plans put forward by public service management are sufficiently ambitious, both in their scope and their timeframes for delivery, and that they exploit the full potential of the Agreement as a lever for efficiencies and reform.

I must acknowledge the establishment of a dedicated Department, the Department of Public Expenditure & Reform, as a key development that is already providing, and will continue to provide, an important impetus for change, led from the centre. The recruitment of external managers with private sector experience in that Department, including the Director of the new Reform Delivery Unit and a Head of Shared Services, and, of course, the publication of the new Public Service Reform plan are all significant developments which will greatly assist the reform process. The new Director of the Unit

and indeed the new Secretary General are both now members of our Body which ensures alignment between actions targeted under the Agreement and the new Reform Agenda.

Concluding Remarks

In conclusion, Chair, my impartial assessment is that the framework provided by the Agreement is one that works and is one that has, so far, delivered results. I think it is significant that the Government's ongoing adherence to implementation of the Agreement has also been endorsed by the Troika and the OECD. The challenges for the parties are twofold: to accelerate the pace of implementation and to ensure that the Agreement delivers on its full potential.

Once again, I would like to thank the Committee for this opportunity to brief you on our work. I hope that I have been able to show you:

- That the Implementation Body takes its role and responsibility very seriously;
- That we have put in place effective oversight structures, planning and reporting arrangements, and evaluation mechanisms to support our work; and
- That we try to ensure that all of this happens in as transparent a way as possible.

I will be happy to brief the Committee again on the outcome of the forthcoming review of the Agreement following completion of our next Report scheduled for June.

Thank you, Chair and Members, for your time and for your interest in our work.