Report to the Department of Finance arising from the review of Public Service Management Savings Initiatives

June 2011

MKO

Chartered Accountants

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1. Glossary

Agreement	The Public Service Agreement 2010 – 2014; also commonly known as the "Croke Park Agreement".
Authorised Allocation	The number of teachers approved by the DES to be employed in a school based on student numbers, student/teacher ratios and other relevant considerations.
Base Costs	Applicable 2010 relevant pay related costs pre implementation of the HSE Savings Initiative.
Consultants	MKO Partners Limited acting as independent consultants, appointed by the DOF pursuant to their contract dated 16 May 2011.
Costs Avoided	Forecast public expenditure avoided as a result of a Savings Initiative.
DES	Department of Education and Skills.
DOF	Department of Finance.
FCC	Fingal County Council.
Fieldwork	On-site review of documentation and on-site meetings.
Findings	Findings relating to the Terms of Reference as summarised in Section 3 of the Report. The Findings are located in subsections 5.1.2, 5.2.2 and 5.3.2 of the Report.
HSE	Health Service Executive.
Implementation Body	The body established by the Government to drive and monitor the implementation of the Agreement and to verify progress or otherwise on its implementation including the sustainability of savings and reforms.
Indicative Savings	A quantification of the indicative savings arising (or that will arise) under a specific Savings Initiative, having regard to assumptions and associated risks including those set out in this Report.
LRC	Labour Relations Commission.
Methodology	The methodology employed by the Consultants to review each of the three Savings Initiatives (as summarised in Section 4).
Moratorium	The moratorium on recruitment within the public sector communicated by the DOF in March 2009.
Redeployment Scheme	A summary description of the DES's Savings Initiative for the redeployment of surplus post-primary teachers.

Report	This report to the DOF arising from the Consultant's Review.
Review	MKO Partners Limited's review conducted in accordance with the Terms of Reference.
Review Team	A team responsible for conducting the Review of one of the three Savings Initiatives.
PSA	Public Service Agreement 2010 – 2014.
PSA Term	The period of the PSA 2010 – 2014.
PSM	Public Service Management – the management of applicable public sector bodies.
Savings Initiative	A project or series of activities, led by applicable PSM, to reduce expenditure in the relevant public service body and presented to the Consultants for the purposes of the Review.
Savings Projects	The projects or series of activities forming part of FCC's Savings Initiative.
Secretariat	The office responsible for the secretarial, clerical, and administrative affairs of the Implementation Body.
Sectoral Action Plans	Documents produced by applicable PSM listing activities taken, or to be taken, to achieve the objectives of the PSA.
Sectoral Agreements	Agreements between seven public sectors identified in the PSA. Five agreements are located in chapters 2 to 6 of the PSA. Two are published separately; being Defence and An Garda Siochana. These Sectoral Agreements are specific commitments arising from the principles of the PSA, which are stated in chapter 1 of the PSA.
Surplus Situation	The summary description for circumstances where a school has in its employment one or more teachers in excess of its Authorised Allocation.
Sustainable Savings	Initial annualised Indicative Savings which are capable of being sustained for the duration of the PSA Term.
Terms of Reference	The Consultant's Terms of Reference summarised in Section 3 of this Report.
TOR	Terms of Reference.
VEC	Vocational Education Committee.
Verifiable Savings	Savings which are capable of financial quantification and of evidential substantiation.

2. Background & operating environment

2.1. The Public Service Agreement 2010 – 2014 (“PSA”)

The Public Service Agreement (“PSA” or “Agreement”), also commonly referred to as the “Croke Park Agreement”, is a “commitment by public servants and their managers to work together to change the way in which the Public Service does its business so that both its cost and the number of people working in the Public Service can fall significantly, while continuing to meet the need for services and improve the experience of service users.”[1]

The PSA provides a framework for Public Service Management (“PSM”) and staff to work together to deliver an on-going reduction in the cost of delivery of public services, while maintaining or improving the quality of services delivered to the public, in return for commitments on pay and security of employment for public servants.

Agreements between PSM and public sector trade unions have been made in seven public sectors. As set out in chapter 1 of the PSA, these Sectoral Agreements are specific commitments arising from the PSA’s principles. Five Sectoral Agreements are set out in chapters 2 to 6 of the PSA. Sectoral Agreements for Defence and An Garda Siochana are published separately.

Relevant PSM have also set out activities undertaken or to be undertaken to achieve the objectives of applicable Sectoral Agreements in Sectoral Action Plans.

2.2. The Implementation Body

The PSA provided for the establishment of an Implementation Body to oversee progress on the implementation of the agreed transformation measures across the Public Service. Mr. P.J. Fitzpatrick was appointed in July 2010 as independent chairman of the Implementation Body along with three nominees from PSM and three nominees from the Public Services Committee of the Irish Congress of Trade Unions.

The Implementation Body was established by the PSA and has been charged with driving the implementation of the Agreement across all sectors and ensuring that early, robust and verifiable changes are secured.

[1] Source: http://implementationbody.gov.ie/

The PSA includes provisions for a process of the independent review of the amount and sustainability of savings generated through the implementation of the Agreement. In accordance with the PSA, the first such review will be before 30 June 2011.[2]

2.3. The Secretariat to the Implementation Body

The Department of Finance ("DOF") provides a secretariat function to the Implementation Body (the "Secretariat"). The Secretariat is located within the Public Sector Modernisation and Development Division of the DOF.

In April 2011, the DOF tendered to engage independent consultants to act as a support function to the Implementation Body in its role of reviewing the performance of delivering the transformation agenda in the public service.

The DOF has engaged MKO Partners Limited, Chartered Accountants (the "Consultants") to review three Savings Initiatives selected by the Implementation Body and to report upon their Review in accordance with the Terms of Reference ("TOR") summarised in this Report.

[2] PSA, paragraph 1.16

3. Terms of Reference

The DOF, as Secretariat to the Implementation Body, has engaged the Consultants to review three of PSM's Savings Initiatives, having regard to the methodology, estimation and quantification employed by PSM in identifying the savings arising (or that will arise) and thereby providing an independent review function for the Implementation Body.

This Report is prepared using information which was provided by the applicable PSM of the three Savings Initiatives selected for review by the Implementation Body. This information included, inter alia, data collected via documentation provided and on-site meetings. This information was not subject to audit by the Consultants.[3] The Consultant's appointment is pursuant to its contract with the DOF dated 16 May 2011. The specific TOR of this review (the "Review") were agreed and are summarised below. Arising from this Review, this report (the "Report") to the DOF was prepared by the Consultants.

Three Savings Initiatives were selected by the Implementation Body for review by the Consultants. In this regard, the Consultants were instructed to evaluate and to report upon:

- each Savings Initiative's ability to facilitate Verifiable Savings;
- the role of the PSA in facilitating the implementation of each Savings Initiative; and
- the quantification of Indicative Savings arising (or that will arise) from each Savings Initiative including the Indicative Saving's sustainability.

For the purposes of this Report (and as set out in the Glossary):

- Verifiable Savings is defined as savings capable of financial quantification and of evidential substantiation;
- Indicative Savings is defined as a quantification of the indicative savings arising (or that will arise) under a specific Savings Initiative, having regard to assumptions and associated risks including those set out in this Report; and
- Sustainable Savings is defined as initial annualised Indicative Savings which are capable of being sustained for the duration of the PSA Term.

[3] An audit is a separate legal process, with different terms of reference and objectives.

The Review and Report arising was undertaken and completed during the period from 16 May to 2 June 2011.

4. Methodology

This section sets out the methodology employed by the Consultants to review each of the three Savings Initiatives ("Methodology"). The Consultants assigned a dedicated Review Team to review each Savings Initiative ("Review Team").

4.1. Introduction

Each Review was conducted using a combination of on-site review of documentation and on-site meetings ("Fieldwork") and desk based review and correspondence.

Consultants liaised with PSM at their offices where the relevant documents are maintained. By agreement with applicable PSM, copies of documents were made where deemed necessary. PSM also corresponded with the Consultants by email and telephone.

During Fieldwork, on-going meetings and correspondence with relevant parties to the Savings Initiatives took place. During these meetings, the Consultants reviewed documentation and, where required, sought explanations. During the Fieldwork and desk based review, the Consultants assessed responses, explanations and evidential support, where available. To the extent deemed necessary, responses were incorporated into the Report.

Findings relating to the TOR ("Findings") are based on the Consultant's judgement, expertise, experience and analysis of work undertaken having regard to factors including the economic environment. The Findings should be considered in the context of the data provided by PSM in addition to the duration and scope of the TOR.

4.2. Work done

The Consultant's Methodology is summarised below under five main headings:

4.2.1. Background & operating environment

- The background and economic environment within which all Savings Initiatives are being undertaken and reported upon was briefly reviewed. This was undertaken via, inter alia, interviews with relevant parties and appraisal of applicable documentation and legislation.

- The operating environment within which each of the three specific Savings Initiatives was being undertaken and reported upon was also briefly reviewed via, inter alia, on-site planning meetings, appraisal of relevant documentation (including the PSA, relevant Sectoral Agreements and relevant Sectoral Action Plans) and legislation.

4.2.2. Savings Initiative documentation

- The documentation provided by the applicable PSM in support of their Savings Initiative was reviewed. Where required queries were raised with, and subsequently addressed by, PSM.
- PSM's calculation of savings arising (or that will arise) was reviewed. This included an assessment of the objective of the calculation methodology used. Where the initial objective of the quantification methods used differed to that in the TOR for this Report, the Consultants requested a reworking of the quantification for the purposes of meeting the TOR. For example, where the calculation was used as an indicative tool for the purposes of planning, a reworked quantification was prepared in order to quantify Indicative Savings arising (or that will arise).
- A synopsis, based upon the information provided by, and discussions with, the applicable PSM of each Savings Initiative and of each Indicative Savings arising, was prepared. These synopses are included in Section 5 of this Report.

4.2.3. Evaluation of each Savings Initiative's ability to facilitate Verifiable Savings

- PSM's documentation of the position prior to the implementation of the Savings Initiative was reviewed.
- The methodology for achieving the savings objective was reviewed. This included:
    i. Timing of the proposed Savings Initiative;
    ii. Documentation of the methodology;
    iii. The measurement system used by PSM in calculating savings arising (or that will arise);
    iv. Certain assumptions underpinning the methodology; and

v. PSM's assessment of externalities or risks that may affect the planned outcome.

- Based upon the information provided and work done, each Savings Initiative's ability to facilitate Verifiable Savings was evaluated and reported upon.

4.2.4. The role of the PSA in facilitating the implementation of each Savings Initiative

- The role of the PSA in facilitating each Savings Initiative was reviewed. This included an assessment of the timing of the Agreement and implementation of the Savings Initiative.
- Based upon the information provided and work done, the role, if any, of the PSA in facilitating each Savings Initiative was reported upon.

4.2.5. The quantification of Indicative Savings arising (or that will arise)

- PSM's methodology to quantify Indicative Savings arising (or that will arise) was reviewed and recalculated. As noted, where the original objective of the quantification method used was noted to differ from that in the TOR for this Report, the Consultants requested a reworking of the quantification for the purposes of meeting the TOR. This reworking included, inter alia, changes to:

    i. the method of calculating the Indicative Savings arising (or that will arise);

    ii. the sustainability of the Indicative Savings arising; and

    iii. assumptions underpinning the Indicative Saving's quantification.

- PSM's quantification of Indicative Savings for the remaining PSA Term was reviewed. The annualised Indicative Savings were quantified by comparing the pre implementation relevant costs of the Savings Initiative to the post implementation relevant costs the Savings Initiative.
- Based upon the information provided and work done, the Consultants reported upon the reasonableness of the quantification of Indicative Savings arising (or that will arise) if the Savings Initiative is successfully implemented as planned.

5. Savings Initiative Reviews

5.1. The Department of Education and Skills ("DES")

5.1.1. Synopsis of Savings Initiative

This synopsis is based upon the information provided by, and discussions with, DES PSM.

Savings Initiative Name	The redeployment of surplus post-primary teacher(s) (the "Redeployment Scheme" or "Savings Initiative").
Savings Initiative Objective	To reduce public expenditure on post-primary teacher salaries.
Savings Initiative Activity	To redeploy post-primary teacher(s) when a school has in its employment one or more teachers in excess of its Authorised Allocation. The Authorised Allocation is the number of teachers approved by the DES to be employed in a school based on student numbers, student/teacher ratios and other relevant considerations.

5.1.1.1 Background & operating environment of the Savings Initiative

- There are currently circa 170 post-primary teachers in a Surplus Situation in post-primary schools. A Surplus Situation arises when a school has in its employment one or more teachers in excess of its Authorised Allocation.
- Prior to the PSA, post-primary teachers could only be redeployed in situations of school closure. Teachers in a Surplus Situation were utilised in their current schools to offer more subject choice and/or lower student/teacher ratios.
- The PSA provides for the redeployment of surplus post-primary teachers for reasons not linked to a school closure.
- Consequently, the Teacher Allocations section of the DES has commenced a Redeployment Scheme to redeploy surplus post-primary teachers. This scheme is under the responsibility of a Director of Redeployment in the DES.

5.1.1.2 Timing of Savings Initiative

- The Education Sectoral Agreement (chapter 3 of the PSA) states that the full implementation of the process to redeploy surplus post-primary teachers should commence from the start of the 2011/12 school year.
- The Savings Initiative required the agreement of the main post-primary teaching trade unions.
- In anticipation of agreement being reached with the relevant teaching trade unions, the process to implement the Redeployment Scheme commenced in January 2011 when schools in a Surplus Situation were notified of the Redeployment Scheme by the DES.
- This notice allowed those schools in a Surplus Situation to commence the planning process for the implementation of the Redeployment Scheme.
- Agreement with the relevant trade unions was reached in March 2011 thereby facilitating the formal commencement of the implementation of the Savings Initiative for the school year 2011/2012.
- No savings have therefore been realised to date; however, PSM have advised that the Savings Initiative is on schedule.

5.1.1.3 Savings Initiative documentation

- The Consultants were provided with, and reviewed, documentation including:

  i. A Savings Initiative summary prepared by DES PSM for the purposes of the Review.

  ii. Appendix II to the DES Circular Number 0025/2011 entitled: "The Redeployment Scheme for teachers surplus to requirements other than in situations of school closure".

  iii. Documentation specific to the redeployment of teachers including an application form entitled "The Short Term Additional Teaching Support for essential Curriculum Needs (Curricular Concession) – Application Form 2011/12" and a document called "Approved Allocation of Teaching Posts 2011/12 School year" – issued in January 2011.

5.1.1.4 Summary of the Savings Initiative's ability to facilitate Verifiable Savings

- As noted in the Glossary, for the purposes of this Report, Verifiable Savings are defined as savings capable of financial quantification and of evidential substantiation.
- All post-primary schools are required to identify and notify the Director of Redeployment of all applicable vacancies in their schools.
- The Director of Redeployment then collates a panel of teachers who are eligible for redeployment.
- The Director of Redeployment then assigns a teacher to a school having regard to, inter alia, the curricular needs of the school and that surplus teacher's qualifications and previous teaching experience.
- There are two phases to this Redeployment Scheme:
    i. A voluntary phase. This phase relates to the period when surplus teachers may voluntarily put their names forward for redeployment.
    ii. A compulsory phase. This phase involves the compulsory redeployment of teachers to other schools. This phase commences when the voluntary phase has not resulted in the elimination of a school's Surplus Situation. It thereby addresses circumstances where it does not prove possible to redeploy teachers who have voluntarily put their names forward for redeployment.
- When a teacher is successfully redeployed, a saving in public expenditure arises as the cost of hiring a new teacher, or offering a new fixed term contract to an existing fixed term contract teacher, is avoided.

5.1.1.5 The role of the PSA in facilitating the Savings Initiative

- The PSA chapter 1 provides for both the "Reduction in Public Service Numbers" and the "Redeployment in the integrated Public Service".
- The Education Sectoral Agreement (chapter 3 of the PSA) details a range of measures designed to facilitate the most effective and efficient use of resources and to maximise the quality of educational delivery.

- Paragraph 3.2 of the PSA provides for: “Full implementation of new procedures providing for redeployment of surplus teachers, to commence from June 2010 and to be fully implemented for the start of the 2011/12 school year.”
- As previously noted, prior to the PSA, post-primary teachers could only be redeployed in situations of school closure.
- The PSM advised that the Redeployment Scheme is a direct consequence of the PSA.

5.1.1.6 The quantification of Indicative Savings that will arise

- The Indicative Savings that will arise from the Savings Initiative is quantified as the number of vacancies that are forecast to be filled by redeployments of teachers multiplied by the estimated pay related cost to the DES of a new teacher; i.e. 170 (being the estimated number of current surplus teachers) multiplied by €53,719 (being the estimated pay related cost to the DES of a new teacher) thereby giving an Indicative Saving of €9.13m annually.
- The Indicative Savings quantification for 2011, the Redeployment Scheme’s first period of operation, is forecast to be €3.04m; i.e. savings for the September to December period of the 2011/2012 school year.
- The estimated pay related cost of a new teacher was agreed at €60,000 for planning purposes under the PSA. Newly appointed post-primary teachers subsequently experienced a 10% pay reduction from January 2011. An annual pay related savings per teacher of €53,719 (including employer’s PRSI) is therefore being estimated for the quantification of Indicative Savings.
- The Indicative Saving is forecast to be sustained for the remaining PSA Term.

5.1.1.7 Assumptions underpinning the Savings Initiative’s methodology and quantification

The Savings Initiative assumptions include:

- That the names, locations and teaching subjects of teachers that can be redeployed are identifiable and that all teachers can be redeployed by September 2011.

- That the number of applicable vacancies arising is significantly in excess of the number of teachers in a Surplus Situation.
- That when a teacher is successfully redeployed, a saving in public expenditure is the pay related cost of hiring a new teacher.
- As noted, the estimated pay related saving of €53,719 per teacher used in the quantification is based on the pay related cost per teacher agreed under the PSA, less 10% to reflect pay cuts in the intervening period. In the course of the Review it was noted that, while the agreement under the PSA based the pay related costs on the average of the 25 point pay scale for qualified post-primary teachers, other factors could affect estimates of pay related cost savings. These factors include that:
    - new teachers that would have been hired if the Redeployment Scheme were not in place may have been at the lower end of the incremental schedule of pay (thereby lowering pay related costs and resulting savings);
    - where redeployment would result in the termination of a fixed term contract (by reason only of the expiry of the fixed term contract) the estimation of the related cost savings will vary depending upon the pay related costs of the outgoing fixed term contract teacher; and
    - new teachers that would have been hired if the Redeployment Scheme were not in place will have pension entitlements (thereby increasing pay related costs and resulting savings).

    It was noted that the above factors may increase or decrease pay related savings. In the context of assessing the effect of these factors upon pay related assumptions, it was also noted that the figure of €60,000 (as adjusted) was specifically agreed under the PSA. Accordingly, €60,000, as adjusted to €53,719, has been used for the purposes of this Review.
- That the PSA will be adhered to for the remainder of the PSA Term.
- The forecast annual Indicative Savings of €9.13m that will arise from 2012 onwards is reduced by 67% in 2011 (to €3.04m) to reflect the fact that the Savings Initiative becomes operational in payroll terms from September 2011.

5.1.2. Findings

The Findings set out below relate to the Review's TOR (Section 3). They are arising from the application of the Review's Methodology (Section 4) to the Savings Initiative as set out in the Synopsis of Savings Initiative (Section 5.1.1). The Report should be read in its entirety in order to form a full and balanced view of the Findings.

i. DES Savings Initiative's ability to facilitate Verifiable Savings.

Based upon the information provided and work done, the DES Savings Initiative to redeploy surplus post-primary teachers is capable of facilitating Verifiable Savings. These Verifiable Savings are in the form of a reduction in public expenditure on post-primary pay related costs.

ii. The role of the PSA in facilitating the DES Savings Initiative.

Based upon the information provided and work done, the PSA:

- had a significant role in creating an industrial relations environment that facilitated the set-up of the DES Savings Initiative; and
- has a significant role in facilitating the on-going implementation of the DES Savings Initiative.

iii. The quantification of Indicative Savings arising (or that will arise) from the DES Savings Initiative including the Indicative Savings' sustainability.

As noted in the Synopsis of Savings Initiative, Indicative Savings of €3.04m in 2011 (the Savings Initiative's first period of operation) and €9.13m annually thereafter, are forecasted.

Based upon information provided and work done, this is a reasonable estimate of the 2011 savings and of the Sustainable Savings that will arise if the Savings Initiative is successfully implemented as planned.

This quantification of Indicative Savings is based on relevant assumptions and risks including those set out in the Synopsis of Savings Initiative (Section 5.1.1).

Events and circumstances frequently do not occur as expected. Consequently there may be differences between expected and actual results and those differences may be material.

5.2. Health Service Executive ("HSE")

5.2.1. Synopsis of Savings Initiative

This synopsis is based upon the information provided by, and discussions with, HSE PSM.

Savings Initiative Name	Laboratory Modernisation Programme ("Savings Initiative").
Savings Initiative Objective	To reduce public expenditure on pay related costs relating to out of hours testing by medical laboratory scientific staff.
Savings Initiative Activity	Changing medical laboratory scientific staff work practices relating to performance of, and remuneration for, clinical laboratory tests.

5.2.1.1 Background & operating environment of the Savings Initiative

- Clinical tests generated by hospitals and General Practitioners and sent to medical laboratories are required to be performed and reported on in a timely manner.
- There is a requirement for a 24-hour medical laboratory testing service.
- Prior to the PSA, medical laboratory scientific staff were paid on a sessional rate and/or fee per test basis when working outside their normal working hours i.e. out of hours. This form of remuneration was put in place in 1981, a time when there was a lower volume and lower demand for processing of tests outside normal working hours (which were then defined as 9am – 5pm Monday to Friday).
- As a result of the increasingly large volumes of testing outside of normal working hours, prior to the implementation of the PSA, PSM initiated a review of the effectiveness of the "pay per test" model of remuneration versus an hourly or salary basis of remuneration.
- The PSA (paragraph 2.9.15) and subsequently the HSE Action Plan, provide for the reconfiguration of the design and delivery of public services, including services provided by medical laboratory scientific staff.

- During the process of internal reviews on expenditure reductions in the HSE conducted as part of the transformation agenda prior to the PSA, PSM and relevant trade unions recognised the need for the reform of medical laboratory operations.

5.2.1.2 Timing of Savings Initiative

- As noted, prior to the commencement of the PSA, the HSE recognised that the costs associated with out of hours work practices needed to be addressed.
- Negotiations between PSM and relevant trade unions took place relating to the introduction of the extended working day, (i.e. increasing the normal working hours to 8am to 8pm) and revised remuneration structure. These discussions took place under the auspices of the Labour Relations Commission ("LRC") before agreement was reached. The remaining outstanding issues were referred to the Labour Court under the terms of the PSA.
- The Labour Court issued its recommendations on the remaining issues in February 2011. The recommendations were accepted by both PSM and the relevant trade unions.
- Extended working day arrangements commenced in February 2011.
- Agreement was also reached on the methodology for a revised remuneration structure in February 2011. Changes to the remuneration structure for out of hours testing commenced in March 2011.
- Payments for out of hours testing are generally made at least one month in arrears. Consequently, the savings are expected to take effect from March 2011 and the PSM advised that additional evidence of forecasted savings arising will emerge over the coming months.
- PSM advised that the progress of the Savings Initiative to date is in line with the timetable scheduled in the PSA.

5.2.1.3 Savings Initiative documentation

- The Consultants were provided with, and reviewed, documentation including:
  - A detailed model for processing inputs and estimating outputs relating to the revised work practices and remuneration structure. Supporting schedules were requested by the Consultants and provided, where necessary.
  - Two sample templates - one at national and one at hospital level - to measure the actual impact of the changed work practices and remuneration structures.
  - Data collected by HSE PSM in relation to 2008 and 2010 laboratory medical scientific staff costs.
  - A copy of relevant circulars and correspondence in relation to the PSA as well as the detail of, and implementation arrangements in respect of, the revised work practices and remuneration structure.
  - A guidance document issued to HSE management on the implementation of revised work practices in laboratories.

5.2.1.4 Summary of the Savings Initiative's ability to facilitate Verifiable Savings

- As noted in the Glossary, for the purposes of this Report, Verifiable Savings are defined as savings capable of financial quantification and of evidential substantiation.
- As noted, the Savings Initiative's ability to facilitate Verifiable Savings has been based upon a revision of medical laboratory scientific staff work practices and remuneration structure.
- A description of the effect of the revised work practices and remuneration structure in addition to commentary upon the timing of savings arising is set out below:

<u>Pre Implementation</u>

- Laboratories used rostered staff on salaries during the normal working hours 9am to 5pm, Monday to Friday.

- Laboratory medical scientific staff were paid a sessional rate and/or a fee per test for all out of hours testing (5pm to 9am Monday to Friday and at weekends/Bank Holidays).

Post Implementation

- The revised work practices involve reconfiguring normal working hours and increasing the duration of the normal working day to ensure greater salaried coverage over a 24-hour period.
- Consequently, laboratories use rostered staff during an extended normal working day of 8am to 8pm while keeping the same amount of core weekly hours worked by medical laboratory scientific staff.
- The revised remuneration structure also involves medical laboratory scientific staff moving from a fee per test basis for out of hours work performed to a rate based upon time.
- Consequently, for work undertaken during the out of hours period, laboratory medical scientific staff are paid a flat hourly rate regardless of the number of tests processed during the time period they are on site. Where there is a low volume of tests during out of hours, an "off site" on-call arrangement may be put in place whereby staff are called in, as required, to process tests and are remunerated only for hours worked (or part thereof).

Timing

- The extended working day was introduced with effect from February 2011 and is expected to increase efficiency in laboratories. The Indicative Savings from the implementation of the Savings Initiative should commence from March 2011 subsequent to the implementation of the remuneration structure in respect of the out of hours testing by medical laboratory scientific staff.

Savings

- Savings arise when the post implementation pay related cost of the hourly remuneration of applicable medical laboratory scientific staff is less than the fee that was due previously based on the number of tests performed in that hour.
- Savings also arise when tests which were charged on an out of hours basis (weekdays between 8am and 9am and between 5pm and 8pm) pre implementation are now covered by base salary for the extended working day.
- Compensation for actual loss of earnings by relevant medical laboratory scientific staff arising from the implementation of the revised structures will be payable. The amount payable has been determined by the LRC/Labour Court as being 1.5 times the actual loss of earnings for medical laboratory scientific staff during the first year of implementation of the new arrangements, with 50% to be paid at least 12 months after the revised arrangements become operational and the remaining 50% due 6 months thereafter. Consequently, actual public service expenditure savings in net cash terms are forecast to commence once it has been discharged.

5.2.1.5 The role of the PSA in facilitating the Savings Initiative

- The PSA explicitly provides for the "reconfiguration of the design and delivery of public services".
- The PSA recognised and acknowledged the advanced level of engagement of the relevant stakeholders "to deliver major change to the medical laboratory services and associated work practices" (paragraph 2.9.15 PSA).
- During the course of planning and negotiating the Savings Initiative, PSM developed a predictive model for estimating savings arising. This model was used to forecast a range of savings depending on assumptions used.
- Following the ratification of the PSA in June 2010, negotiations commenced with the relevant trade unions in August 2010 regarding the changes required to work practices and remuneration structures.
- Following the intervention of the Health Sector Implementation Body to address specific process issues, negotiations under paragraph 1.23 and 1.24 of the PSA

commenced in December 2010. These negotiations were under the auspices of the LRC and concluded in January 2011.

- Agreement between the parties was reached on the introduction of extended working arrangements for medical laboratory scientific staff commencing with the introduction of the extended working day on an initial basis from February 2011 (i.e. same core hours but with the facility for staff to be rostered from 8am to 8pm, Monday to Friday).
- The Labour Court issued its recommendations on the remaining issues during February 2011. The recommendations were accepted by both the PSM and the relevant trade unions.
- As a result of the PSA, the changes were accepted and compensation for accepting change was reduced.
- PSM advised that, prior to the PSA, revising work practices and remuneration structures would have been more difficult to negotiate and implement. In addition, savings achieved would have required payment of compensation of greater than 1.5 times the actual loss of earnings by relevant medical laboratory scientific staff during the first year of the implementation of the Savings Initiative.
- HSE PSM advised that the PSA added significant momentum to the issue and facilitated agreement on the change in the work practices and remuneration structure.

5.2.1.6 The quantification of Indicative Savings that will arise

- As noted, during the course of planning and negotiating the Savings Initiative, PSM developed a predictive model for estimating savings arising. This model forecast remuneration costs based upon, inter alia, estimates of the proposed revised work practices and revised remuneration structures.
- For the purposes of this Review, PSM forecast Indicative Savings of €5.2m for each 12 month period subsequent to the implementation of the Savings Initiative.
- The Indicative Savings arising from the Savings Initiative are quantified by PSM using their predictive model to compare estimates of relevant pre implementation pay

related costs for 2010 (“Base Costs”) with estimates of relevant pay related costs for the 12 months post implementation.

- Pre implementation pay related costs – Base Costs
    - The Base Costs were estimated by PSM using a combination of actual and estimated 2010 pay related costs of medical laboratory scientific staff in 29 of 43 hospitals with scientific medical laboratory operations as follows:
        - the actual cost of medical laboratory scientific staff for six hospitals. The six hospitals included a hospital from each of the three size categories, being large, medium and small; and
        - an estimate of the cost of medical laboratory scientific staff for a further 23 hospitals. This estimate was derived by taking the relevant costs for 2008 for those hospitals and applying an 8% reduction to reflect assumed cuts in public service pay between 2008 and 2010. PSM advised that this estimate was required as relevant actual costs were unavailable in relation to these hospitals when PSM were quantifying Indicative Savings.
- Post implementation pay related costs
    - PSM estimated relevant post implementation pay related costs as follows:
        - for the six hospitals: by multiplying the number of forecast hours to be worked by medical laboratory scientific staff by the appropriate hourly rate for normal working hours and out of hours time worked.

          The post implementation pay costs for the six hospitals represented a saving when compared to the pre implementation pay costs. An average saving arising for each of three hospital size categories was also calculated.
        - for the 23 hospitals: PSM estimated post implementation pay related costs by applying the average percentage saving achieved within the three hospital size categories to the 2010 estimated costs of each of the 23 hospitals, within their applicable size category.

          The average percentage saving applied for each applicable hospital size category was calculated with reference to the six hospitals.

- Quantification of savings arising
    - o PSM quantified Indicative Savings that will arise as being the difference between pre implementation pay related costs and post implementation pay related costs as follows:
        - For the six hospitals: PSM quantified Indicative Savings of €1.7m for each 12 month period subsequent to the implementation of the PSA. This represents a reduction of 32% from 2010 actual pay related costs of €5.3m in these hospitals.
        - For the 23 hospitals: PSM forecast Indicative Savings that will arise of €3.5m for each 12 month period subsequent to the implementation of the PSA.
    - o On this basis, PSM quantified Indicative Savings that will arise from the Savings Initiative, once compensation payable for loss of earnings is discharged, as €5.2m for the 29 hospitals for each 12 month period subsequent to the implementation of the Savings Initiative.

5.2.1.7 Assumptions underpinning the Savings Initiative's methodology and quantification

PSM's forecast of Indicative Savings is a quantification of the savings that will arise under the Savings Initiatives, having regard to assumptions and associated risks. Assumptions and related commentary include:

- That the Indicative Savings are stated in terms of new Costs Avoided. For the purposes of this Report, Costs Avoided is forecast public expenditure avoided as a result of a Savings Initiative.
- That estimated post implementation pay related costs is a reasonable estimate of such costs for any 12 month period for the duration of the remaining PSA Term.
- That all applicable hospitals will have medical laboratory scientific staff on duty at all times regardless of the expected number of tests.
- That the PSA will be adhered to for the remainder of the PSA Term.

- That public service expenditure saving in net cash terms will only commence once compensation payable has been discharged.
- That the level of laboratory tests for 2011 will not be less than the level of laboratory tests during 2010.
- In the course of the Review, the following issues were noted in relation to the HSE quantification of Indicative Savings:
    - While the Savings Initiative has resulted in Indicative Savings being quantified for 29 of 43 hospitals with medical laboratory operations, in the absence of adequate Base Cost information for the remaining hospitals conclusions cannot be drawn upon the savings that may arise in these hospitals. It is noted that information on savings in these hospitals will be available in the course of 2011.
    - The six hospitals where actual costs were used for the purposes of quantifying Indicative Savings have not been made on a representative basis. Consequently, the extrapolation of the average percentage saving achieved is only for indicative purposes.

5.2.2. Findings

The Findings set out below relate to the Review's TOR (Section 3). They are arising from the application of the Review's Methodology (Section 4) to the Savings Initiative as set out in the Synopsis of Savings Initiative (Section 5.2.1). The Report should be read in its entirety in order to form a full and balanced view of the Findings.

i. HSE Savings Initiative's ability to facilitate Verifiable Savings

Based upon the information provided and work done, the HSE Savings Initiative to reduce pay related costs relating to out of hours testing by medical laboratory scientific staff is capable of facilitating Verifiable Savings. These Verifiable Savings are in the form of a reduction of pay related public expenditure.

ii. Role of the PSA in facilitating the HSE Savings Initiative

Based upon the information provided and work done, the PSA:

- had a significant role in creating an industrial relations environment that facilitated the set-up of the HSE Savings Initiative; and
- has a significant role in facilitating the on-going implementation of the HSE Savings Initiative.

iii. The quantification of Indicative Savings arising (or that will arise) from each Savings Initiative including the Indicative Savings' sustainability

As noted in the Synopsis of Savings Initiative, it is forecast that once compensation payable for loss of earnings is discharged, Indicative Savings of €5.2m for the 29 hospitals will arise for each 12 month period subsequent to the implementation of the Savings Initiative.

Based upon information provided and work done, this is a reasonable estimate of the Sustainable Savings that will arise if the Savings Initiative is successfully implemented as planned in the 29 hospitals.

This quantification of Indicative Savings is based on relevant assumptions and risks including those set out in the Synopsis of Savings Initiative (Section 5.2.1).

Events and circumstances frequently do not occur as expected. Consequently there may be differences between expected and actual results and those differences may be material.

5.3. Fingal County Council ("FCC")

5.3.1. Synopsis of Savings Initiative

This synopsis is based upon the information provided by, and discussions with, FCC PSM.

Savings Initiative Name	Programme of Organisational Reforms ("Savings Initiative").
Savings Initiative Objective	To reduce public expenditure in FCC by effecting cost reductions and operational efficiencies.
Savings Initiative Activity	A programme of organisational reforms taken with a view to achieving cost reductions and operational efficiencies by reducing overall pay and non-pay expenditure. The programme comprises c. 25 individual cost savings projects ("Savings Projects").

5.3.1.1 Background & operating environment of the Savings Initiative

- FCC advised that, in late 2008, it faced an environment where its revenue was falling, costs were rising and where it could not rely on central funds to fund shortfalls that may have arisen.
- The collapse in Ireland's level of economic activity rendered FCC of the view that revenue from levies and rates - and consequently staff numbers and capital investment - would all suffer reductions. FCC decided to implement actions to address these challenges over the short and long-term.
- The planning stages of the organisational reform programme lasted nine months, during which opportunities for achieving cost reductions and operational efficiencies were identified and Savings Projects designed. The organisational reform programme was then incorporated as a central pillar of the FCC's "Corporate Plan 2010 – 2014".
- The Savings Initiative consists of c. 25 Savings Projects with the overall objective of reducing costs, reconfiguring operations and improving service levels.

- Each of the individual Savings Projects has distinct objectives and methodologies, however, they can be broadly classified into three groups:

  1. Reduced Payroll Expenditure Projects

     - Savings Projects include, inter alia, non-replacement of vacancies, reducing overtime and reducing travel and subsistence allowances.

  2. Operational Efficiency Projects

     - Savings Projects include, inter alia, sourcing more competitive rates from suppliers, and reconfiguring units to generate efficiencies.

  3. Cost Avoidance Projects

     - Savings Projects include outsourcing of activities which would otherwise require investment to perform internally.

- PSM advised that the Savings Projects undertaken to date are in line with the Local Government Sectoral Agreement (as set out in chapter 5 of the PSA) and the Local Authority Sector Action Plan.

- As part of their Savings Projects reporting, FCC calculated savings arising by comparing actual expenditure with budgeted expenditure for 2009 and for 2010. This reporting was for internal purposes and covered periods commencing prior to the PSA. It was noted that FCC had calculated savings of €16.6m on this basis. The quantification of FCC's Indicative Savings under the terms of reference for this report (for example, Indicative Savings relate to a shorter period) is summarised in Section 5.3.1.6.

5.3.1.2 Timing of Savings Initiative

- Planning for the Savings Initiative commenced in mid-2008; implementation commenced in early 2009. As a result, many of the Savings Projects were designed or commenced prior to the PSA and prior to the preparation of the Local Authority Sector Action Plan.

- Notwithstanding its commencement pre-PSA, FCC's management advised that the Savings Initiative was initiated in anticipation of an agreement on public sector reform.

- In this context, FCC's quantification of Indicative Savings included only those Savings Projects that have savings that arise (or that will arise) during the PSA Term.
- The Savings Initiative is on-going and it is planned that additional Savings Projects will be implemented during 2011.

5.3.1.3 Savings Initiative documentation

- The Consultants were provided with, and reviewed, documentation including:
    - The FCC "Progress Report on Implementation of the PSA", which detailed:
        - The individual Savings Projects undertaken;
        - The cost savings achieved by each Savings Project;
        - The methodology by which savings were achieved; and
        - Calculations of cumulative cost savings made by the Savings Initiative up to April 2011.
    - Financial data drawn from the financial management system called Agresso;
    - Internal reports prepared by FCC's Audit & Efficiency Unit;
    - Copies of internally prepared schedules and workings of savings estimates;
    - Annual financial statements and budgets; and
    - Recent corporate procurement and development plans.

5.3.1.4 Summary of the Savings Initiative's ability to facilitate Verifiable Savings

- As noted in the Glossary, for the purposes of this Report, Verifiable Savings are defined as savings capable of financial quantification and of evidential substantiation.
- As outlined above, the Savings Initiative's ability to facilitate savings was effected through a programme of individual Savings Projects which were designed to implement costs savings, organisational reforms and more efficient means of service provision. A summary description of individual Savings Projects forming part of the Savings Initiative is set out below.

1. <u>Reduced Payroll Expenditure Projects</u>

- The non-filling of 86 vacancies that existed at the date of the moratorium on public sector recruitment in March 2009 (“Moratorium”).
- The non-filling of an additional vacancies arising since the Moratorium.
- The non-filling of retirement vacancies.
- The non-filling of vacancies arising due to maternity leave, career breaks, and incentivised career breaks.
- The cessation of recruitment of summer temporary staff.
- Elimination of overtime expenditure for certain staff working in waste management.
- Re-configuration of recycling centre operations to reduce payroll costs.
- Streamlining of lifeguard services.
- Reduction in subsistence and travel allowances.
- Reduced overtime expenditure on direct labour and main laying in water services.
- Elimination of weekend drainage inspections in favour of electronic monitoring.
- Reconfiguration of out of hour’s emergency roster in water services.
- Restructuring of water and drainage operations.
- Restructuring of frost gritting and snow clearing unit.
- Restructuring of overtime remuneration for road maintenance operations.
- Consolidation of water operations to a single location.

2. <u>Operational Efficiency Projects</u>

- Centralisation of fleet management and plant hire activities.
- Establishment of a centralised advertising procurement unit.
- A project to seek tenders for energy supply on a combined basis.
- Reduction in security and communications expenditure through the implementation of a new process for procurement.

- Reduction in professional and consultancy fees through the implementation of a new process for procurement.
- Re-configuration of refuse collection routes.

3. Cost Avoidance Projects

- Outsourcing of the "Non Principal Private Residence" charge collection through a central bureau operated by the Local Government Management Services Board.

- In addition to the financial quantification of Indicative Savings summarised in Section 5.3.1.6, the impact of the Savings Initiative was assessed by FCC though review of changes in FCC's organisational structure. Organisational changes noted included:
  - Prior to the Savings Initiative, FCC had c. 1,600 full time equivalent staff. This number had reduced to c. 1,450 by December 2010. FCC advised full time equivalent staff has since reduced further;
  - Prior to the Savings Initiative, the FCC management team comprised of 10 staff. This has since fallen to seven; and
  - Prior to the Savings Initiative, FCC had operational departments covering Water Services, Transport, Environment, Parks, etc. As part of the Savings Initiative, a single "Operations Division" has been created, addressing duplication and reducing headcount, while seeking to maintain service levels.
- As part of the Savings Initiative, a new division has been created, called Planning and Strategic Infrastructure consisting of a multi-disciplinary team incorporating Engineering, Technical and Administrative staff reporting to a single director. FCC advised this is a significant organisational and cultural change.

5.3.1.5 The role of the PSA in facilitating the Savings Initiative

- As noted above, a number of Savings Projects commenced prior to the agreement of the PSA.
- During the Review process, FCC management advised that the PSA significantly contributed to the implementation and sustainability of the Savings Initiative through:
  - Generating awareness and acceptance at all staff levels of the need for reform; and
  - Providing a mechanism and momentum to drive the implementation of changes.
- FCC advised that the extension of the Moratorium on recruitment and promotion (as noted in paragraph 1.5 of the PSA) has facilitated the continued reduction in staff numbers. FCC also advised that the agreement of the Local Authority Sectoral Action Plan generated acceptance and momentum for the implementation of the Savings Projects.
- In this context, the Review included several Savings Projects which commenced prior to the agreement of the PSA, but with savings arising during the PSA Term and where implementation is supported by the Agreement.

5.3.1.6 The quantification of Indicative Savings arising (or that will arise)

- For the purposes of this Report, FCC quantified the Indicative Savings arising as follows:
  1. <u>Reduced Payroll Expenditure Projects</u>:
     - Comparing actual costs for Q1 2010 with actual costs for Q1 2011.
  2. <u>Operational Efficiency Gains Projects</u>:
     - Comparing actual costs for Q1 2010 with actual costs for Q1 2011.
  3. <u>Cost Avoidance Projects:</u>
     - Estimating likely expenditure had the project not been implemented. This process included, inter alia, an assessment of actual comparable expenditure data from comparable Local Authorities.

- FCC's quantification of Indicative Savings arising when comparing Q1 2010 with Q1 2011 is €0.9m for the quarter. On this basis, it is forecast that Indicative Savings of €3.7m (as rounded) will arise for 2011.

- As noted, factors driving these Indicative Savings include, inter alia, reduced overtime payments, reduced travel and subsistence allowances, elimination of contracting of temporary staff and the non-filling of vacancies.

- As noted, efficiency gains resulted in reduced expenditure in areas including: fleet management, energy, advertising, communications and professional services.

- FCC envisages additional incremental savings in 2012. While existing savings are forecast to be sustained for the duration of the PSA Term, the additional incremental savings envisaged are not expected to be of the same scale as in 2011 as many significant reforms will have already taken place.

- FCC indicated that future services and expenditure is dependent on maintaining income levels. Scope for future Savings Initiatives will be reviewed again if revenue levels continue to decline. FCC considers that it is likely that revenue streams will continue to decline and accordingly further cost savings will have to be achieved.

5.3.1.7 Assumptions underpinning the Savings Initiative's methodology and quantification

- FCC's quantification of Indicative Savings is an assessment of the savings arising (or that will arise) under their Savings Initiative, having regard to the assumptions and associated risks. Assumptions applied to each Savings Project include:

  1. <u>Reduced Payroll Expenditure Projects</u>

     - That where actual staff pay related costs were not available or easily extracted, an average pay related cost was assumed. The average pay related cost was based on grades and experience where staff were not recruited or based on actual staff costs where staff were redeployed; and

     - The reduced payroll expenditure includes employer's PRSI.

2. <u>Operational Efficiency Projects</u>

    - That the Savings Projects include projects commenced prior to the implementation of the PSA for which the PSA plays a significant role in their continuing implementation.

3. <u>Costs Avoided</u>

    - That the staff recruitment Cost Avoidance calculations are assessed taking into account, inter alia, information sourced from similar sized Local Authorities.

- The quantification of Indicative Savings includes only those Savings Projects with savings arising (or that will arise) during the PSA Term.
- General Assumptions include:
  - That suppliers will continue charging reduced rates for supply of goods and services on an on going basis;
  - That any LRC settlements arising will not materially change circumstances;
  - That the consequences of any perceived loss in service quality would not lead to the provisions of the Savings Initiative being reversed in any material manner; and
  - That the PSA will be adhered to for the remainder of the PSA Term.

5.3.2. Findings

The Findings set out below relate to the Review's TOR (Section 3). They are arising from the application of the Review's Methodology (Section 4) to the Savings Initiative as set out in the Synopsis of Savings Initiative (Section 5.3.1). The Report should be read in its entirety in order to form a full and balanced view of the Findings.

i. FCC Savings Initiative's ability to facilitate Verifiable Savings.

Based upon the information provided and work done, the FCC Savings Initiative to implement a programme of organisational reforms is capable of facilitating Verifiable Savings. These Verifiable Savings are in the form of a reduction in public expenditure.

ii. The role of the PSA in facilitating the FCC Savings Initiative

Based upon the information provided and work done, the PSA:

- had a significant role in creating an industrial relations environment that facilitated the initial implementation of the FCC Savings Initiative; and
- has a significant role in facilitating the on-going implementation of the FCC Savings Initiative.

iii. The quantification of Indicative Savings arising (or that will arise) from the FCC Savings Initiative including the Indicative Savings' sustainability:

As noted in the Synopsis of Savings Initiative, a comparison of actual costs for Q1 2011 with actual costs for Q1 2010 resulted in a quantification of Indicative Savings of €0.9m arising for Q1 2011. On this basis, it is forecast that FCC Indicative Savings of €3.7m will arise for 2011.

Based upon information provided and work done, €0.9m is a reasonable estimate of the savings arising for Q1 2011 and €3.7m is a reasonable estimate of the Sustainable Savings that will arise if the Savings Initiative is successfully implemented as planned.

This quantification of Indicative Savings is based on relevant assumptions and risks including those set out in the Synopsis of Savings Initiative (Section 5.3.1).

Events and circumstances frequently do not occur as expected. Consequently there may be differences between expected and actual results and those differences may be material.