

**IMPLEMENTATION  
BODY**

22 October 2012


Mr. Ted McEnery  
Clerk to the Committee  
Committee of Public Accounts  
Leinster House  
Dublin 2

Dear Mr. McEnery,

Further to his letter of 19 October last, the Chair of the Implementation Body has asked me to forward the attached letter from Grant Thornton Accountants to Mr. Robert Watt, Secretary General of the Department of Public Expenditure & Reform, for the information of committee members.

In addition, the Chair mentioned at his meeting that he would forward a copy of the following article: *"Contribution to Panel Session on the Croke Park Agreement: Performance to Date and Future"* by Bill Roche, Professor of Industrial Relations and Human Resources, School of Business, University College Dublin. I now attach this document for the information of committee members. Please note that this document is in draft form and is currently being revised for publication.

Yours sincerely

  
Colin Menton  
Secretary



# Grant Thornton

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16 October 2012

Dear Mr Watt

## **RE: INDEPENDENT VERIFICATION OF SAVINGS OF SELECTED PROJECTS UNDER THE PUBLIC SERVICE AGREEMENT**

I refer to recent media coverage in connection with the report we delivered in May 2012 in connection with the above. As you are aware we issued a press release yesterday afternoon to confirm and clarify our position in relation to the report. You will appreciate that the report was commissioned by The Department of Public Expenditure & Reform, who are our client, and normally we absent ourselves from public comment to avoid the potential to create confusion in relation to matters reported.

I wish to clarify a number of matters which have clearly been misinterpreted and misunderstood in relation to aspects of the report by Grant Thornton, published by the Implementation Body.

We note that uncertainty has arisen in connection with non-pay savings referable to a project undertaken by the Department of Agriculture, Food and the Marine. We consider, it is important to issue clarification on this matter. When commencing our work in relation to each project we invited submissions from the project leaders in connection with the assumptions, methodology and workings supporting the savings which were submitted to the Department. The Department of Agriculture, Food and the Marine provided us with significant documentation which included the methodology of calculations of overheads referable to the guidelines issued in connection with the calculations i.e. Revised RIA Guidelines.

As stated in our report, the fact that the Department of Agriculture, Food and the Marine did not use this methodology but calculated the savings at a lesser amount was a positive statement as it gives a more accurate reflection of the cost savings. Although it is important to note that an acceptable methodology was available for the Department of Agriculture, Food and the Marine to use which would have led to the declaration of savings greater than those actually declared. We felt it was important to highlight this information in the report.

Each project discussed in the report was treated separately and each project leader submitted their appropriate assumptions, methodology and workings in support of their

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declared savings. We conducted our assessment on the merits of each case as the projects were significantly different. Our conclusions on each project are stated clearly in the body of the report and in the executive summary section.

It is also important to note that the report does not state that other Departments or projects calculated their savings using the 40% methodology. We make no reference to other government bodies / agencies as our report focussed on a selected sample of projects. None of the three other projects made reference to the 40% approach and each calculated their savings using different methodologies. An inference to this fact in the reported media is a significant misrepresentation of the information factually contained in the report.

I trust the above clarifies matters.

Yours sincerely

**Brendan P. Foster**  
Grant Thornton

**Contribution to Panel Session on the Croke Park Agreement:  
Performance to Date and Future**

**Bill Roche**

**Professor of Industrial Relations and Human Resources**

**School of Business**

**University College Dublin**

**Presentation to 'The Future of HR in the Public Sector', Public Affairs Ireland  
Annual HR Conference, Westin Hotel Dublin 27<sup>th</sup> September 2012.**



I regularly speak to international groups about developments in Ireland and one question appears to intrigue them most: how come, they ask, is Ireland so apparently orderly, given the scale of its economic collapse and the deep austerity programme in operation?

I tell them that the reasons are different in the case of the private and public sectors. In the private sector, most people have not suffered cuts in nominal pay but there has been a significant gain in wage competitiveness. In the case of the public sector I stress how the Croke Park Agreement has provided a framework for managing fiscal consolidation and public service retrenchment, and so avoiding the industrial conflict, general strikes and chaos often observed in other bailout countries and indeed in non-bailout countries like Italy, Spain, France and the UK. Croke Park arouses considerable interest, especially when I explain that it has been in place in the wake of progressive pay cuts averaging 14 per cent and has provided a platform for handling a reduction in public service numbers of around 12 per cent, while the demand for public services has grown. The common response to news of Croke Park is 'we could do with that type of framework here' in place of the distributional conflict that more commonly prevails.

I think many international observers would be aghast at the often hysterical and highly ideological tirades launched against Croke Park by sections of the media and the 'commentariat'. Otherwise respected columnists show little evident concern to provide a balanced appraisal of the agreement, or of developments in the public services. Management consultants speak with the certainty of oracles in their outright dismissal of Croke Park.

This line of commentary, of course, often reflects hostility to public servants and to the very concept of public service provision from within the public domain. Public servants are portrayed as cosseted and grossly over-paid, and oblivious to developments in the wider commercial world. They and their unions are parodied as the ultimate self-protecting vested interests, with little concern for the public interest or for fairness in handling austerity. Industrial peace is seen to have been bought at too great a price by the supine deference of the Government, concerned, at all costs, not to disturb vested interests in the public service.

I wish to do two things in this short contribution. First, I attempt a balanced assessment of the state of the public service and second offer some comments on the future of the reform process.

### **A World Apart?**

When we look at data to profile the Irish public service, the picture that emerges belies much of the hostile recent commentary. Of course public servants enjoy employment security and this is a significant feature of their terms and conditions. But Ireland's public service is not large or 'bloated' by the standards of other European countries, as the OECD stated clearly in its detailed 2008 Report on Ireland, and as is clear from recent data. In 2008 the public service accounted for about 15 per cent of the workforce, about the same as the OECD average and considerably less than a number of the small European states that politicians recently claim should provide our benchmarks.

The pay of public servants represented 12.4 per cent of GDP in 2009, compared with an average for the OECD of 11.2 per cent. The public service paybill, of course, represents a higher share of GNP in the Irish case and that share has grown since, despite a large reduction in the paybill, because national output has collapsed.

[see Figures attached at end]

Critics claim that Irish public servants occupy a 'world apart', first because they are highly paid relative to their counterparts in Europe, and second because they enjoy a gross pay premium over their counterparts in the Irish private sector.

But do they really occupy a world apart, or is this claim overblown? The picture of Irish public salaries relative to those of European public servants is a variegated one. Top-level public servants in Ireland – some of whom were the real beneficiaries of the Strategic Management Initiative - are indeed well paid compared with their European counterparts, but middle grades of the public service have salaries that are broadly comparable to their European counterparts, and lower grades have salaries below those prevailing elsewhere.

In the health services medical specialists are highly paid relative to their European counterparts – no surprise there – but even before the pension levy and pay cuts, the pay of nurses appears not to have been greatly out of line, and was just above the UK nurses. Irish teachers were well paid before the cuts, but that advantage would in all probability have been paired back



significantly after the cuts. A number of public service groups in Ireland enjoyed shorter hours than their counterparts in Europe.

So, in comparative terms, the best-paid Irish public servants are those occupying the most senior grades. Many other groups are well paid and enjoy good conditions, and the community has a commensurate right to expect them to work to high standards.

While such comparisons are instructive and seem of great moment to some members of the Government and politicians, Europe does not have an integrated labour market for most public service jobs, and what matters for the quality of the supply of public service employees in Ireland is how public service salary levels align with those in the private sector. This brings me to the view that public service workers in Ireland enjoy a very sizeable pay premium over their private sector counterparts. This is seen as an outcome of profligate pay increases under benchmarking and social partnership.

How well founded is this claim? I wish to suggest that it is open to serious question. For one thing the econometric work on which this claim is based covers the period from 2003-2007. The combined effects of pay cuts in the public service and the predominant pattern of pay freezes and increases in the commercial sector from 2009 will obviously have reduced any pay premium that prevailed earlier. But there is a deeper problem with these comparisons. As some have pointed out – their voices often drowned out in the chorus of disapproval - a reliable pay premium can only be estimated when jobs of like



weight are compared across the public and private sectors. But this is never done in econometric research which has to settle for comparing job titles that may seem equivalent. The resulting comparisons are for sure indicative but they are certainly not definitive and do not bear the weight they carry for critics of the Irish public service. For example, these kinds of comparisons would not pass muster in standard job evaluation or pay research exercises in commercial companies. So they should not be viewed as water-tight or definitive in assessing public service pay.

Staying with public-private comparisons, critics of the public service like to portray public servants as shielded from the kinds of work pressures that are part and parcel of working life in commercial organizations, and as lacking in the kind of drive and commitment necessary to survive in the business world. Again empirical evidence runs contrary to this picture. An ESRI survey in 2009 revealed significantly higher levels of work pressure and stress among public service workers, and the same survey revealed broadly similar levels of work commitment.<sup>1</sup> These results might be questioned, but they are based on empirical data rather than perception, prejudice or anecdote.

Finally, there has been much criticism of the introduction of dual salary structures in the public service and, for sure, these salary arrangements pose significant problems. But the introduction of lower salary scales for new entrants is not unique to the public service: in 2010 about 23 per cent of firms in the commercial sector, employing about 17 per cent of the commercial

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<sup>1</sup> See P. O'Connell, H. Russell, D. Watson and D. Byrne, *The Changing Workplace: A Survey of Employees' Views and Experiences*, Dublin: National Centre for Partnership and performance, 2009.

workforce did likewise during the recession.<sup>2</sup> The numbers are likely to be higher now.

### **‘Croke Park 2’ and Vision-Guided HR Reform**

Let me turn to the future of public service reform, possibly underscored by a Croke Park 2 agreement. It is clear from earlier remarks that I believe that a Croke Park 2 agreement would provide the best means for addressing ongoing public service reform, fiscal consolidation and economic recovery.

It seems to me both self-evident and in line with international best practice, as promulgated by agencies like the OECD and ILO, to engage with those who work in public service agencies and with their unions in the reform process. Where countries have done otherwise and pursued exclusionary reform pathways, the results have not been noticeably more successful. Some critics of Croke Park like to speak of public service reform as akin to ‘taking a bone from a dog’. To the degree that this metaphor has any validity, I would have thought that the trick was to get possession of the bone without being savaged in the process, or without killing the dog! In that respect how reform is conducted is of major importance. The models we should follow here are the small North European countries which have during recent decades substantially reconfigured their public services through social dialogue and the search for agreement. These countries, especially Denmark, Norway and Sweden, enjoy both high living standards and high quality public services, delivered by decently paid and respected public servants.

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<sup>2</sup> See W. K. Roche, P. Teague, A. Coughlan and M. Fahy eds., *Human Resources in the Recession: Managing and Representing People at Work in Ireland*, Dublin: Government Publications, 2011, p.52.



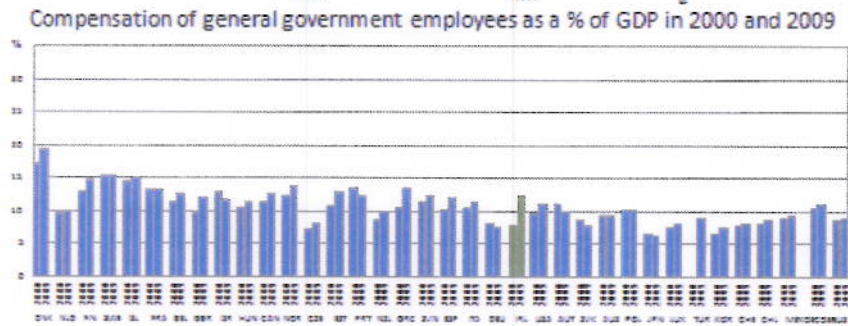
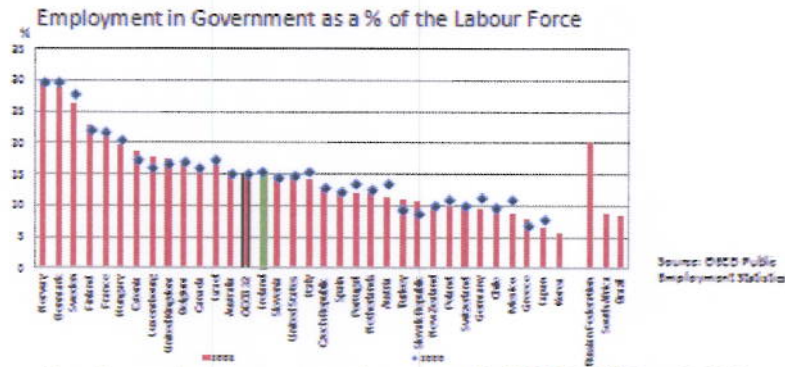
But here we also need to recognize how very poor has been the record of public service HR reform in the past. It is valid to observe that Croke Park has delivered more reform than recorded in the history of the Irish public service. But this in part reflects the immensely poor record prior to the crisis. The Strategic Management Initiative has to be recognized as a dismal failure. Ill conceived and poorly co-ordinated HR reforms achieved little. The PMDS system was ineffective. Performance-related pay for senior grades was poorly managed. Labour markets were fragmented within different areas of the public service and new contracts and terms of appointment were bolted onto the prevailing career system with no co-ordination or guiding blueprint at any level. Workplace partnership seemed often more a hindrance than a means of achieving reform. Benchmarking was obscure and opaque and so vulnerable to being undermined. Public service managers showed little appetite for managing change effectively and public service unions showed considerable ability to drag change proposals to a slow crawl. HR managers had little skill, credibility or strategic capability.

So in building the kind of innovative and high quality public service suited to a dynamic modern economy we need to begin again. It is altogether understandable that the focus of reform under Croke Park 1 has been on payroll and other savings and this is likely to remain the case under any Croke Park 2 agreement. If there is to be a Croke Park 2 process, everything is likely to be on the table: pay levels, increments, allowances, working hours and working practices.

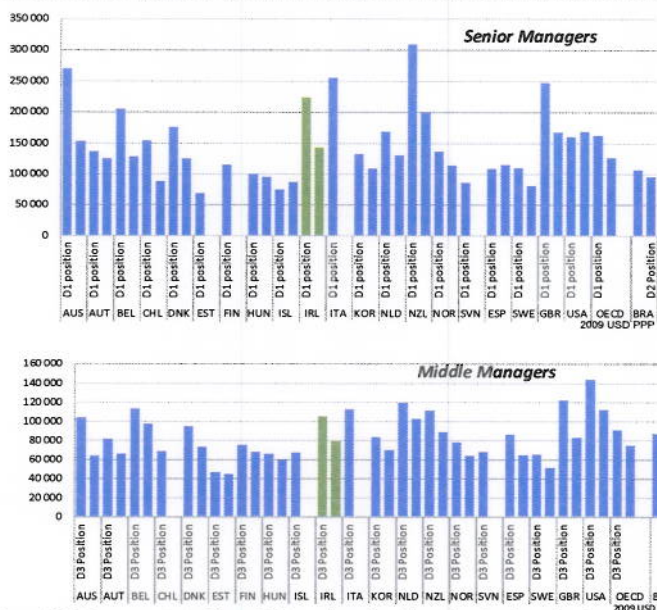


But the point has also arrived where we need to see a clear guiding blueprint for human resources in a new public service. The SMI HR reform process amounted to a bunch of ill co-ordinated initiatives bound together by a series of clichés. We need to do better and develop a vision and blueprint that addresses central issues like the kind of compensation and pay-fixing practices to be developed, the career systems that should underpin public service employment, the discretion to be allowed to agencies to engage in modern human resource management, the role of outsourcing, the reform of conflict management and resolution – to list but some of the central areas where challenges arise.

This is the best way in which public service leaders and public servants can respond to the attacks of their critics. But we await such a vision.

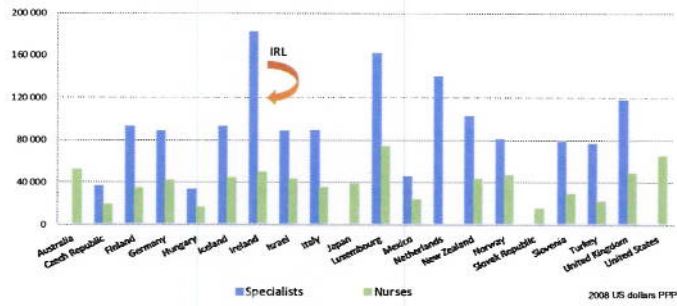


#### Annual Compensation of Central Government Senior & Middle Managers



Source: OECD, Government at a Glance 2011, employers' social contributions & working hours profiles excluded from figures.

Pay of Health Service Employees in 2008



Pay of Teachers in Secondary Education 2008

