

**Public Accounts Committee
Thursday, 3rd April, 2014**

**Opening Statement by Mr Robert Watt, Secretary General, Department of Public
Expenditure and Reform**

Introduction

Thank you Chairman.

I would like to thank the Committee for giving me the opportunity to make a short opening statement in my capacity as Secretary General of the Department of Public Expenditure and Reform. I would like to talk briefly about the role of the Department, and then to discuss in detail relevant aspects of the 2012 Appropriation Account.

Expenditure Consolidation

Working with the Department of Finance, a core aspect of our Department's work since its establishment in 2011 has been the strategy for fiscal consolidation. This has involved significant reductions in Government spending.

Since its peak in 2009, Gross voted expenditure has been reduced by 13.5%, from €63.1 billion in 2009 to €54.6 billion in 2013. Consolidation measures to date have ensured Ireland's successful exit from the troika programme. A further reduction of €1.7 billion is budgeted for this year.

This consolidation has required effective budgeting and it is worth noting that gross spending has been broadly in line or below profile in each of the years since the Department was established.

I would like to highlight, this morning, two aspects of this consolidation: reform of the Budgetary and Estimates process; and the ongoing reform of the public sector.

Reform of the Budgetary / Estimates Process

With the Department of Finance, we have implemented a set of reforms to Ireland's budgetary architecture. We hope this will:

- improve the management of public resources;
- increase transparency in the budgetary process; and
- deliver greater value for money for public spending.

A new Medium-Term Expenditure Framework, setting out multi-annual ceilings for each Department on a rolling three year basis, has been implemented.

The amount of information provided in the annual Estimates has been increased, as part of the implementation of our Performance Budgeting initiative.

A new Public Spending Code has been introduced to ensure that both current and capital expenditure are subject to more rigorous value for money appraisal in advance of public moneys being spent.

'IrelandStat' - the whole-of-Government performance measurement website – was launched.

The Irish Government Economic and Evaluation Service was established to support better policy making across the system.

We will shortly be commencing a second Comprehensive Review of Expenditure to examine spending and to inform the next three-year cycle of fiscal targets and expenditure allocations, for 2015 to 2017.

Along with the work of this Committee, the Comptroller and Auditor General and internal audit units, we believe that these reforms continue to embed a value for money culture. Of course, we are happy to work with members of this Committee to see what further steps can be taken in this regard.

I will speak more about Vote Budget issues in a moment.

Public Service Reform

The ongoing reform of the Public Service has been necessary to ensure that important services continue to be provided as spending is reduced.

Demands on our public services have increased and we have maintained service provision while reducing staff numbers in the Public Service by over 30,000 since 2008. The Public Service pay-bill has fallen from €17.5 billion in 2009 to €14.1 billion last year. New working arrangements have been introduced, including longer working hours, new rosters, and standardised arrangements for annual leave and sick leave.

We are also making good progress on increasing efficiency in areas such as Public Procurement, Shared Services, Digitalisation and Property Management. Further details of the reform achievements can be found in the Second Progress Report on the Public Service Reform Plan, which Minister Howlin published in January.

At that time, the Minister also published a new Public Service Reform Plan 2014-2016, which sets out a new phase in the reform programme.

Reform has been enabled by the climate of industrial peace that we have worked to maintain over the past three years. The Croke Park Agreement delivered on its objectives, through the delivery of €1.8 billion in pay and non-pay savings. The Haddington Road Agreement sets out measures to deliver further savings out to 2016. It provides for a total of 15 million additional working hours annually across all sectors of the Public Service, which will help to deliver long term and sustainable increases in productivity. Of course, reform is about productivity – and we can see significant gains in productivity across the system.

I would also like to highlight to the Committee some further aspects of our work in the Department.

Civil Service Renewal and Accountability

The Civil Service has gone through a period of change and we recognise that further change and renewal is required. Last year we started a Civil Service Renewal process. The purpose of this process is to set out a clear vision for the Service and the actions required to deliver this.

We are looking at areas where capacity and capability needs to be developed to meet current and future challenges. These include areas such as:

- leadership;
- change management;
- policy formation; and
- project and policy implementation.

Enhancing our HR capacity, different recruitment models and increased investment in training and skills are integral to the renewal agenda.

As part of a broad consultation process, a series of “Town Hall” meetings are taking place across the country to brief civil servants on the issues being addressed and to seek their input and ideas. To date, almost 1,700 staff have engaged with this process. This is the widest process of this type ever undertaken.

In January, we published a consultation paper on strengthening Civil Service accountability and performance. Greater clarity, transparency and common understanding of responsibilities in the Civil Service will accelerate improvements in how the Civil Service works and how performance is assessed. The Minister intends to publish the outcome from these processes in July.

Other developments within the Department of Public Expenditure & Reform

Briefly, I would like to mention a few additional developments that may be of interest to the Committee.

The Office of Government Procurement in our Department has been established to improve how public procurement is structured and managed, and has targeted savings over €500 million over three years.

The Office of the Government Chief Information Officer has also been established within the Department to build on our strong performance on eGovernment and to maximise the potential benefits of digitalisation and open data to deliver services in more efficient and innovative ways.

Peoplepoint, the Civil Service HR and Pensions Shared Service Centre, was set up under our Department. It currently services 24,000 civil servants across 19 organisations. When fully operational, *PeoplePoint* will deliver savings estimated at €12.5 million annually and improve the quality of information for managers.

The Civil Service Payroll Shared Services Centre is being established under our Department. This year, 27 of the 53 in-scope Bodies will transition into the new Services Centre. When fully operational, this will achieve significant savings each year.

We have also undertaken a baselining and business case exercise for a Financial Management Shared Service, to assess the potential for streamlining and improving the disparate systems and processes currently in place across 48 bodies in the Civil Service, Defence and Justice Sectors. On completion of an assessment of the business and technology requirements, a further submission will be made to Government to proceed to full implementation. An estimated €14.6 million in savings could be delivered and the project, if implemented, will also yield benefits in terms of improved financial management information, adding value to both financial analysis and decision-making.

Moving to accrual accounting is an important related issue. Our Department is engaging with stakeholders to identify the relevant issues and will be engaging with this Committee in due course. The transition process needs to take account of a number of related developments, including proposals for EU harmonised accounting standards; the recommendations of the IMF Fiscal Transparency Assessment Report; and the Financial Management Shared Services project.

These will be important changes affecting the management of public money.

Political Reform

Turning to the political reform programme, we are supporting a range of reforms in this area. We have drafted changes in legislation to give greater powers to the Ombudsman and for the Oireachtas to conduct inquiries within the current constitutional framework. We are also participating in the Open Government Partnership.

Other legislative reforms are being advanced. These include:

- the regulation of lobbying;
- a reformed Freedom of Information Act;
- legislation to protect Whistleblowers; and
- the further strengthening of the ethical framework for office holders and public servants.

Legislation

In addition to these political reform measures, the Department has prepared and published five other pieces of legislation in the last 12 months. These are:

- the Financial Emergency Measures in the Public Interest Act 2013;
- the Public Service Management (Recruitment and Appointments) Act 2004 (Amendment) Act 2013;
- the Ministers and Secretaries (Amendment) Act 2013;
- the Appropriation Act 2013; and
- the Oireachtas (Ministerial and Parliamentary Offices) (Amendment) Bill.

Administrative Duties

Last year we dealt with a total of 1,956 submitted Parliamentary Questions and 1,699 Representations.

Items on the Agenda

I would now like to turn to some specific items on the agenda today.

Vote 11 – Office of the Minister for Public Expenditure and Reform

The first item is the 2012 Appropriation Accounts for the Department of Public Expenditure and Reform. The Department had an outturn of €37 million in 2012, compared to an estimate of almost €42 million, leaving a surplus to surrender of €4.6 million. This variance arose largely because of:

- savings on administrative budget pay of over €2 million, due to a large number of retirements in February 2012 and slower than anticipated appointments to key posts as we sought to ensure the necessary skills were recruited; and
- savings of almost €1.8 million, arising from the timing of funding drawdowns on cross-border Peace and Interreg initiatives.

Vote 12 – Superannuation and Retired Allowances

Vote 12 provides primarily for pension benefits for civil servants and pension payments to their dependents. The original Gross 2012 Estimate for the Vote was just over €500 million. This was subsequently increased by way of Supplementary Estimate to a revised Gross Estimate of some €525 million to accommodate higher retirement levels in 2012. The Gross Outturn under Vote 12 for 2012 was €520.5 million.

The higher than anticipated numbers retiring in 2012 impacted significantly on the A4 Subhead from which once-off lump sum pension payments are made. The original 2012 estimate had been €116 million - against an outturn of €83.4 million in 2011. However, expenditure of €134 million had taken place on the Subhead by November 2012. It was against this background that a Supplementary Estimate was required.

Public Service Pensions – Recent Developments

A new Single Public Service Pension Scheme for new entrants to the Public Service has been introduced, which sees pension benefits based on career-average earnings rather than final salary, for all new entrants since the start of 2013. For these ‘new joiners’, there is a new minimum Public Service pension age of 66, which will rise in step with changes in the State Pension age to 67 in 2021 and 68 in 2028.

In addition, with effect from 1st July last year, there has been a further reduction in the rates of Public Service pensions of between 2 and 5% for those in receipt of pensions of more than €32,500.

Accrued Liability of Public Service Occupational Pensions

At my appearance here last October, I stated that following discussions with the Comptroller and Auditor General, my Department had commenced a major actuarial exercise with the

intention of updating the accrued liability in respect of Public Service occupational pension schemes.

I can inform the Committee that my Department has now completed an exercise to estimate the accrued liability in respect of Public Service occupational pension schemes. The key result is that the accrued liability in respect of Public Service pensions is estimated at €98 billion as at end December 2012. This figure is €18 billion lower than the previous estimate of €116 billion that was arrived at by the Comptroller and Auditor General for 2009.

Therefore, over the three years from 2009 to 2012, the accrued liability has fallen by €18 billion or by 16%. This reduction reflects the effect that expenditure control and containment in relation to pay and pensions has had on the overall liability since the last valuation. Further details of this work are published this morning on the DPER website.

Chapter 3 – Financial Commitments under PPPs

On the issue of PPPs, Ireland currently has 17 operational Public Private Partnerships. Two additional PPPs have reached financial close and are currently under construction. Expenditure on PPPs to the end of 2012 was almost €2 billion. Future unitary charge commitments, including the two additional projects now under construction, was almost €6.6 billion at the end of 2012.

In July 2012, Minister Howlin announced plans for an additional €2.25 billion investment in public infrastructure projects in Ireland, which included the new €1.5 billion PPP Phase 1 programme. This investment is additional to the exchequer public capital programme, as it is primarily funded by the private sector.

Due to coordinated efforts by many Departments and Agencies over the past 18 months, the Irish PPP market has made a marked turnaround and the PPP market has firmly reopened. Phase 1 PPPs are progressing well and in line with market capacity. Seven of the nine projects have issued to market.

Chapter 4 – Vote Accounting

Dealing now with Vote Accounting, the Comptroller and Auditor General's Report shows that Departmental expenditure funded from the Exchequer fell from of €49.3 billion in 2008 to €44.9 billion in 2012, a reduction of almost 9%.

Each vote stayed within the allocation appropriated by Dáil Éireann for 2012, with Departments surrendering €641 million back to the Exchequer at the end of the year.

Chapter 5 – Vote Budget Management

While the management of expenditure within voted allocations is the responsibility of each Department and Office, the reforms to the Medium Term Expenditure Framework implemented in the last year will assist with the control of Departmental expenditure.

The arrangements for Ministerial Expenditure Ceilings have been placed on a statutory basis. An administrative circular issued by my Department details the rules and arrangements for planning and managing current expenditure within these ceilings.

Under the common budgetary timeline introduced as part of the EU “two-pack” regulations, the annual Budget was published on 15th October. In line with this new timetable, the Revised Estimates Volume for 2014 was published on 18 December, 2013. This new timetable allowed much earlier consideration of the Estimates by the relevant Oireachtas committees.

Conclusion

I hope this morning I have been able to give some examples of the work of the Department. Once again, I would like to acknowledge the hard work and commitment of officials in the Department.

I look forward to working with the Committee as we continue our work.

Thank you.

ENDS