

**Statement by the Chairman of the Rehab Group, Mr Brian Kerr  
to the Public Accounts Committee**

**Thursday, 10<sup>th</sup> April 2014**

Mr Chairman, I am joined today by my colleagues Declan Doyle, Chairman of the Remuneration Committee, Hugh Governey and Liam Hogan, Rehab Group Board Members and members of the Remuneration Committee, Keith Poole, Director of Finance and Company Secretary.

You will note that neither Ms Angela Kerins nor Mr Frank Flannery are in attendance today. We wrote to both to determine if they would be attending. Both Ms Kerins and Mr Flannery have confirmed that they are not in a position to attend. Unfortunately, we cannot compel them to attend.

With your permission, I will make an initial statement and then ask my colleagues Declan Doyle and Keith Poole to make specific statements which will address issues raised, at and since the committee's meeting on 27<sup>th</sup> February.

In recent weeks, the Board of the Rehab Group has been reflecting on the difficult period that the organisation has been through in recent months.

The stark fact is that the reputation of Rehab has been seriously damaged.

We recognise that our response as a Board to recent political and public demands for information has been inadequate:

- In part because of the legal constraints that the Board is under in disclosing information about the terms and conditions of some senior people
- In part because the business and governance structure of the Rehab Group was not adequate to manage a very challenging and changing situation.

In addition, we recognise that as a Board we have not exercised strict and appropriate oversight of certain issues which have come to public attention in recent weeks.

The Board's priority now is to initiate a programme of transformation and change which will allow us to candidly confront the issues before us and to rebuild the reputation, staff morale and effectiveness of the organisation.

Importantly, this programme of change must strive to recover the confidence and trust of the people who use our services, our staff, the people of Ireland who fund us, including the Government, and other stakeholders – not least our colleagues in the charity sector who have suffered because of the fall-out over the current controversy.



As a matter of urgency, we are committed to making whatever changes are necessary, including changes to the Board, to ensure that the organisation can have the full confidence of those who use our services and those who fund us. This journey will not be completed overnight but the Board believes that if we set the right strategic direction and remain committed to that path, success can be achieved and a new dawn will emerge for Rehab.

A critical part of this recovery strategy is that we initiate a root and branch review and urgent transformation of how Rehab is governed and conducts its affairs. In simple terms, this means asking an external expert of repute and integrity to advise us on how best to address the following issues:

- What changes we need to initiate in order to renew the Board, and the way it works, so that we have the right skill set and the right procedures for providing the quality of oversight required in an organisation of our size and complexity, operating in the charity sector?
- How best can we increase the degree of transparency about what we do, for example, how people are paid across the organisation, so that we not only meet, but exceed, reasonable public expectations and regulatory requirements?
- Does the current structure of the group support the long term mission of Rehab in a rapidly changing regulatory environment?
- How can the board function so that it supports and upholds the core values and principles of Rehab?

We have engaged Dr Eddie Molloy to conduct and lead this review and transformation programme.

The process will include engagement with staff to ensure that their concerns are addressed in the unfolding reform programme and we trust that you will respond positively to this process.

On behalf of the other Board members here, let me also address the issue of our non-attendance at this Committee on 27<sup>th</sup> February. The facts are that following initial correspondence from the Committee, it was decided that Ms Kerins, Ms Kelly, Ms Keane and Mr McGuire were the people best placed to deal with the agenda items listed by the Committee and they set about preparing accordingly.

As a result of miscommunication and misunderstanding within Rehab, the team coming before the PAC was not changed following the PAC's email of 20<sup>th</sup> February.

We accept that this was an error on Rehab's part and we regret any offence felt by the Committee arising from our non-attendance.

Before handing over to my colleagues I would like to address some questions which have arisen about the Rehab Board and how it is elected.



The Rehab Group is a company limited by guarantee with 12 Board members. Members are elected for three years and can serve three terms. The Chairman is elected on an annual basis and can serve a maximum of 6 terms. The Board recognises that we have been remiss in renewing our Board membership and this is a priority area that we have asked Dr Molloy to assist us with in terms of refreshing the Board as soon as is practicable.

As I mentioned earlier, one of the key issues which Dr Molloy has been asked to advise us relates to the changes we need to initiate in order to renew the Board, and the way it works, so that we have the right skill set and the right procedures for providing the quality of oversight required in an organisation of our size and complexity, operating in the charity sector.

I will now ask Mr Declan Doyle, Chairman of the Remuneration Committee to speak about the work of that Committee.



**Statement by Mr Declan Doyle**  
**To the Public Accounts Committee**  
**Thursday, 10<sup>th</sup> April 2014**

Thank you Chairman,

I wish to associate myself with the remarks of the Rehab Group Chairman concerning our non-attendance at the meeting of 27<sup>th</sup> February. Mr Kerr set out the situation accurately and I too regret if any offence was caused by our absence.

I would also like to reiterate Mr Kerr's comments in respect of Rehab's commitment to providing responses that are as fulsome as possible within the law. My comments will focus on issues relating to the remuneration of the Chief Executive and the Rehab Group senior management team, in my role as Chairman of the Remuneration Committee of the Rehab Group Board. First, I note from queries raised previously by the Committee that it is interested to understand how the Remuneration Committee works.

The Rehab Group Board Remuneration Committee's duties focus on ensuring the ongoing appropriateness and relevance of the remuneration of the Chief Executive and the senior management team. The Committee comprises at least four members of the non-executive Board of the Group. We report annually to the Board on our activities. Our meetings can be attended by the Chief Executive and external advisors, as appropriate, but not as a matter of course. I must stress that no individual can be involved in any decisions as to their own remuneration. The Committee commissions reports or surveys to help it fulfil its obligations as required.

Specifically, our duties include:

- Determining and agreeing, with the Board, the broad policy for the remuneration of the Chief Executive and senior management team, which reports to the Chief Executive?
- In undertaking its duties, the Committee takes into account a range of factors, including the need to be competitive in the marketplace. The objective of the policy is to ensure that members of the senior management team are provided with appropriate incentives to encourage enhanced performance and are, in a fair and responsible manner, rewarded for their individual contributions to the success of the Group.
- Within the agreed pay policy, the Committee specifically determines the total remuneration package of the Chief Executive, including bonuses. It also determines the salary range for the senior management team.



- It approves the design of performance-related pay schemes for the Chief Executive and senior management team and determines the policy for, and scope of, pension arrangements for senior executives.
- The committee agrees the policy for authorising claims for expenses from the Chief Executive and Chairperson and non-executive directors.

Under its Terms of Reference, the Committee may review its own performance, constitution and terms of reference to ensure it is operating at maximum effectiveness and recommend any changes it considers necessary to the Board for approval. Following the events of recent months, the members of the Remuneration Committee have requested that a review of the work of the Committee be undertaken by Dr Molloy as part of the broader review of governance and structures to be undertaken by him.

In his presentation, Mr Kerr referred to the rights of individual employees to confidentiality in relation to their remuneration and conditions of employment:

In the course of the controversy surrounding Rehab in recent months, we have found it difficult to balance these legal rights with the requests from this Committee for details of salaries, pensions and bonuses of certain individuals.

The Board is under legal constraints regarding disclosing information about the terms and conditions of employees given the legal right to confidentiality enjoyed by those individuals.

This is not a circle we can square easily.

The right to confidentiality in relation to personal sensitive information is a right that is enshrined in Data Protection legislation passed by the Oireachtas, following legislation passed at European level.

It is important to state that in the interests of transparency we are committed to disclosing as much detail as it can to the committee. In order to meet this commitment we have undertaken a number of steps to ensure we are as transparent as possible, within the law.

On the 17<sup>th</sup> February, the Board of the Rehab Group disclosed details of the remuneration of our former Chief Executive following her decision to voluntarily waive her rights to confidentiality in relation to the details of her terms and conditions of her remuneration.

In the past week, we have taken additional steps in an attempt to secure permission for further disclosure to the Committee.

We wrote to the former Chief Executive and formally requested that she provide us with a clear indication of the information she permits us to communicate in relation to details of her remuneration as Chief Executive, up to and including the date of her cessation of employment, as well as her pension provision.



In legal correspondence received from our former Chief Executive last night, her lawyers specifically prohibited us from any disclosure in relation to her pay and terms and conditions of employment. She also expressly withdrew any waiver she had previously given.

In relation to Mr Flannery, we also wrote to him on Thursday, 3<sup>rd</sup> April formally requesting that he indicate the detail that he would give us permission to communicate to this Committee in respect of his remuneration as Chief Executive of the Rehab Group, as well as his pension provisions.

In correspondence received from Mr Flannery last night, he stated that he was unable to assent to the disclosure of any personal information in relation to my remuneration or pension entitlements.

As Mr Kerr stated earlier, the Board's approach to this hearing has been to meet the requests of the PAC wherever possible. However, in this instance meeting the requests of the Committee would involve Rehab breaching the law as it relates to the former chief executive and Mr Flannery, something you will understand we cannot do.

I will now turn to the recent issue of salary disclosure for senior executives within the Rehab Group and its companies. The Remuneration Committee sets the salaries of Rehab Group's senior management team only, that is the eight posts that presently form the Group management team. One of these posts is vacant. The Committee does not have any role in relation to any posts outside of that.

In line with the approach to the former chief executives, to ask for permission to publish salary details, the Rehab Group has also asked the seven most senior executives who comprise the Group's senior management team.

They have taken the step of waiving their rights under data protection and personally given permission for us to communicate details of their remuneration and their posts to the Committee. This information is therefore being provided to the clerk now.

I think it is important at this point to highlight the very broad and significant roles that each of these individuals hold within the Rehab Group. All have international responsibilities across the organisation and have operational responsibility for our training, health and social care, rehabilitation, employment and education services as well as for our central services, which provide support to all parts of the group in areas such as Human Resources, Finance, IT, Communications, Policy and Service Compliance, Health and Safety and Procurement.

There are four other managers who are outside the remit of the Remuneration Committee in receipt of salaries greater than €100,000. Given that they are outside our remit we have not asked them to waive their rights.



In publishing these salaries it is our hope that this disclosure will be taken in the spirit in which it is given. These individuals have given permission for this information to be made public in the interests of greater transparency. Many individuals within the Rehab Group have, as you will be aware, been subject to undue professional and personal attention in recent weeks and we would ask that the privacy rights of these individuals are not further impacted by virtue of this voluntary disclosure.

Rehab has already submitted to the committee details of all salaries paid to employees of the group in its Irish divisions over €65,000 in bands of €10,000 which is line with best practice for charities' reporting, SORP. Mr Poole will address this in his presentation shortly.

I would like to take this opportunity to provide the Committee with additional information in respect of the report provided to the Rehab Group Board by Towers Watson entitled the *2014 Remuneration Review of the Rehab CEO and Senior Management Team*.

The salaries of the executive team members of the Rehab Group are set by the Remuneration Committee of the Rehab Group, which commissions independent reports on salary levels in general Irish industry to advise it in carrying out its work. As part of this process the responsibility of each post is individually and independently assessed, internally and externally. In developing a policy for setting remuneration, the Board has traditionally looked to the "market median", or middle of the general pay market, to guide decisions making on pay level and individual pay positioning. Independent reviews of the posts within the executive team take place regularly, most recently by Towers Watson in 2014.

I can confirm that the report provided to the Committee on the 11<sup>th</sup> March is the full report produced by Towers Watson and provided to the Board on 17<sup>th</sup> February. It provides details of information provided to the Group Board to inform them in relation to decisions made by the Remuneration Committee charged with oversight in this area.

Many members of the Committee have sought additional information in relation to this Report. It is usual in organisations that use a Remuneration Committee that the Board would receive a report without any specific personal data in it, and that such information would be restricted to the Remuneration Committee. A more detailed working document presented by Towers Watson for use by the Remuneration Committee, which contained personal data, was used to inform the development of the final Report.

We have sought the permission of Towers Watson to disclose this discussion document to the Committee and they have given permission to do so. However, Towers Watson has redacted elements of this document in order to protect both commercially and personally sensitive information. In view of the requirement to redact specific commercially sensitive information Towers Watson has also provided a brief description of their methodology. As a result of the decision of the senior management team to voluntarily waive their rights to confidentiality in respect of their personal remuneration information, the Rehab Group has



not needed to redact this information. A copy of this working document is being circulated to the members of the Committee.

Members of the Committee have previously raised the issue of Rehab's pay policy and philosophy. Many years ago, the Rehab Group took the decision to benchmark senior salaries against commercial industry norms. This decision was taken to reflect the size, scale and diverse activities of the organisation and its international reach.

In line with the sentiment referred to in Mr Kerr's statement, the Remuneration Committee accepts that we have not given adequate attention to comparisons with organisations in the charity and not for profit sector. The Rehab Group is a large organisation, providing a vast range of different services to thousands of people and operating in a number of different industries, with more than 3,500 staff, a number which is constantly growing; however, we believe that in his review Dr Molloy will consider how we align ourselves more closely to the charity and non-profit sector in setting future remuneration.

Finally, I would like to reiterate what the Rehab Group Chairman has said that by engaging Dr Molloy to lead a review and transformation project in relation to the governance arrangements in Rehab we believe we have taken an important step. The Review will challenge us to candidly confront the issues before us and to rebuild our reputation, staff morale and enhance the effectiveness of the organisation.

I would now like to hand over to, Mr Keith Poole, Director of Finance who can provide further insights into the financial management of the Rehab Group.



**Statement by the Rehab Director of Finance,**

**Mr Keith Poole**

**To the Public Accounts Committee**

**Thursday, 10<sup>th</sup> April 2014**

Chairman, Members of the Committee,

In this opening presentation, I would like to pick up some of the issues that have come up since and prior to the last meeting of the Committee:

- Details of the funding that Rehab receives from the State
- Information about the Rehab Group's structure
- Details in relation to the Statement of Recommended Practice for Accounting and Reporting by Charities (SORP) and our plans in this regard

as well as covering some other matters of importance to the Committee

**Funding from Government agencies**

In order to give the Committee a full picture of the funds that Rehab receives from various government agencies, we are circulating a schedule showing all income received from government agencies or Departments for the last two years.

In 2013, Rehab received €95 million in total. In addition to income received from services provided on behalf of the HSE, SOLAS and the Department of Justice and Equality, other income amounted to €5.9m in 2013.

The two most significant items included in this income were:

- Capital grants received from the Department of the Environment, Community & Local Government under the Capital Assistance Scheme for the provision of housing for people with disabilities, and
- Funding received under the Wage Subsidy Scheme, known as the WSS, from the Department of Social Protection. The WSS is a financial subsidy available to all non-public sector employers, be they private sector or not for profit. It supports the employment of people with disabilities, who may have a reduced level of productivity as a result of their particular disability. We currently claim this subsidy for just over 170 employees.

We have provided the Committee with a set of Rehab's Consolidated Financial Statements for the year ended 31<sup>st</sup> December 2012 and I will endeavour to answer any questions you may have on these today.



## **Group structure**

The Rehab Group is a company limited by guarantee which holds a CHY number granted by the Revenue Commissioners. It is an independent charity which works to ensure its financial sustainability to ensure it can continue to support the people who use its services.

We acknowledge and recognise that our services are funded by the Irish taxpayer and that brings with it both privileges and responsibilities. Unlike other charitable organisations in our sector, referred to as Section 38 organisations, our staff don't enjoy the same security of tenure or pension benefits as colleagues in the public sector. If for some reason we lose a contract or a service provided to a state body, as we sit here today, Rehab is responsible for any closure costs, for example, lease termination or redundancy of people who don't transfer under TUPE.

Rehab's primary objectives are set out in its Memorandum of Association. In simple terms there are three types of activity that Rehab is involved in, both here in Ireland and abroad:

- We provide training, education and employment services aimed at getting people into a job or progressing to further education
- We provide various types of health and social care services that promote independent living and choice for our clients and their families and;
- We provide employment opportunities for disabled and disadvantaged people through social enterprises.

In order to achieve this, our legal structure comprises three different types of trading subsidiaries:

- Subsidiaries that undertake charitable activities
- Subsidiaries that undertake activities for furtherance of the Group's objectives and
- Subsidiaries that undertake activities for generating funds

Some of our subsidiaries that undertake activities for the furtherance of the Group's objectives also generate funds.

There are a number of subsidiary companies in our structure that are either holding companies or are dormant for all intents and purposes, though we do strive to ensure that we dissolve entities that are no longer required.

Currently the Group contains 31 legal entities, a copy of the structure of the Group has been provided to the Clerk. The top entity is the company the Rehab Group. Of the 31 entities in the group, 15 are registered in Ireland, 15 in the UK and one in Saudi Arabia. Fourteen are charities which are either registered with the relevant body in the UK, the Office of the Scottish Charities Regulator or the Charities Commission, or hold a CHY number here in Ireland. As soon as the new Charity Regulator, commences her work, we will register all our Irish entities, which hold CHY numbers, as charities under the Charities Act 2009.



## **SORP**

Rehab has now committed to adopting the statement of recommended practice (SORP) for accounting and reporting by charities. Practically this will require some significant changes in how we prepare our financial statements and we have committed to doing this for the financial year ended 31<sup>st</sup> December 2014.

The implementation of SORP will lead to a number of changes to Rehab's reporting both in financial terms and what we must include in our annual reports:

- SORP prescribes the principles and essential elements to be included in our annual report to accompany our accounts. The report and the accounts, taken together, will provide a picture of what we have achieved, our outputs as well as the difference we have made, our impacts. It will also include relevant information about our subsidiaries and governance structures
- It will enhance the relevance, comparability and clarity of the information presented in our accounts and in the annual report,
- Importantly, it will give all our stakeholders, be they funders, service users, donors, staff, financial supporters and others, a higher level of accountability and transparency
- Over time, it will improve the quality of financial reporting by all Rehab entities
- It will provide greater clarity as to the use of all donated monies
- It will detail the methodology employed in the allocation of shared service costs

As our 2013 accounts are finished and the majority of the audit work has been completed by our auditors PricewaterhouseCoopers, it would not be possible to implement SORP for the year just finished.

SORP will also require us to continue to publish remuneration of all staff in excess of €65,000 in bands of €10,000. This is work that we have already begun. We have already published details of all salaries paid to employees of the Rehab Group and its Irish divisions over €65,000, in bands of €10,000. This approach is a requirement for charities in the UK, and is followed by a number of charities here in Ireland and recommended, as best practice, by umbrella bodies, such as The Wheel and ICTR.

We understand the frustration of some Deputies who have stated that the disclosure using the SORP method for charities does not go far enough and who wish us to individually name all relevant postholders. Prior to attendance at the last meeting of the PAC, the Rehab Group discussed the matter with both our legal advisors and the Data Commissioner. Both have advised us that we cannot disclose salary details in a way that would make individuals identifiable except for the express purpose for which permission has been sought from the individuals concerned.



It is not possible, therefore, to give that information to the committee because we do not have the permission of all relevant staff to do so, but the Group's commitment to transparency is real, and by committing to implement SORP, as soon as practically possible, we will automatically do so into the future.

### **Payments to directors**

There has been some coverage of payments to Rehab Group Directors in the media. We recognise that this matter is of concern for members of the Committee and members of the public.

By way of clarification, I can confirm that no remuneration has ever been paid to a Director of the Rehab Group Board in respect of their roles as Directors. In addition no fees are paid to Directors of subsidiary boards for their roles as Directors. In recent years, certain Directors or their firms were paid by Rehab for the provision of professional services. These included quantity surveying, publications and editing. This practice has now been discontinued.

In addition, Mr Frank Flannery was paid professional fees by Rehab for consultancy services, including lobbying, for the Group and subsidiary companies. These fees were disclosed in the Group's annual report from 2011, as Mr Flannery was a Director of the Group. He commenced working as a consultant on his retirement as CEO in 2006. The annual payments to Mr Flannery for his consultancy services have been given to the Clerk.

Any monies that were paid to directors were paid for the provision of services and were always disclosed in our accounts. The Board has now resolved that this will not be permitted to happen again and nothing except the reimbursement of vouched expenses will be paid to Directors in future.

### **Conclusion**

To conclude, the Rehab is committed to effecting significant change in how the organisation is governed and structured. We have learned painful lessons. It is imperative that we act on these lessons. It is also imperative that the Group adopts best practice to clearly demonstrate the value for money for services we provide to the State. We have a determination to do so. This determination is underpinned by the review to be undertaken by Dr Eddie Molloy. This will inevitably lead to significant change which will enhance performance in how this organisation is governed and run.

