

Address by Secretary General Moran

To The Public Accounts Committee

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Meeting 125 – 08/05/2014

Introduction

Thank you, Chairman.

I am pleased to be here today to meet with the committee for the third time as Secretary General of the Department.

With me this morning are: Mr. John McCarthy, Chief Economist, Mr. Greg Dempsey, Chief Finance and Operations Officer; Mr Des Carville, Head of our Shareholder Management Unit; Mr John Hogan, Head of our Banking Unit and Ms. Cep Carty – also from the Finance and Operations office.

While we are here mainly to examine the accounts for 2012, the year of my first meeting with you as Secretary General, a lot has changed and been achieved in the past 2 years. I hope you agree it is appropriate to touch on that too.

Statement of Strategy Goals

You may recall that in 2012, against the backdrop of the significant changes facing our country, our management team took the opportunity to revise our 3 year Statement of Strategy to redirect and refocus our efforts in the period from 2012 to 2014.

In that document, we set ourselves five ambitious goals, around the economy and jobs, public finances, living standards, exit from the troika programme and a solid financial sector.

What to say?

Yesterday, I communicated to the Minister and the Government my decision to step down from my role given the successful completion of the first post-troika programme review mission last week and the very significant progress achieved already in restoring economic

and banking sector stability. These were my objectives when I took up the role and I also felt that I owed this Committee the courtesy of announcing it before my appearance here today.

In the light of my announcement yesterday, I have given particular thought to what I might highlight to you for our discussion today.

Outcome

I could discuss the significant savings in our 2012 outcome as we delivered our programme using less resources than allocated in the budget.

Economy, Banking Sector and Jobs

Or I could relate to you details of the very significant stabilisation and progress we see in the economy, in the fiscal situation or even in the banking sector. For example, the first goal we set ourselves in 2012 included working to create an economy with significant increases in employment. At that time, the Irish economy was losing nearly 350 jobs per week.

Some described it as foolhardy to set ourselves up to fail so openly by including this goal in what was then a two year strategy. This was a natural reaction, it seemed to me, for people working under the environment of easy criticism (some fair but much unfair) which prevailed at the time which can easily inhibit the setting of stretching targets.

But who now can say that the public sector cannot set itself ambitious targets? More particularly, people said it was not wise as creating an environment conducive to job creation was a task not just for ourselves but a multi-disciplinary shared task involving both the private and public sector, especially colleagues in the Department of Jobs, Enterprise and Innovation.

As the Department's management team, we felt though that given the seriousness of this problem we had to be courageous enough to work to ambitious non-silo'ed tasks and targets and also had to make this our first priority and core to all we have been doing.

Under direction from the Minister, we looked not just at the macro situation, which of course was important, but also sector by sector micro analysis of the economy was conducted by our new expanded economics team, looking not just at sectors by department but also at any barriers to growth in the key but not-necessarily aligned sectors of the economy.

Our efforts (still ongoing of course) included identification of triggers that might be pulled to help growth in the sectors with high potential and relentless pursuit of solutions for financing the economy.

We also embarked on a coordinated effort to publicly explain our decisions and our forward looking strategies to both foreign and domestic investors and businesses to help create confidence and inform their own investment decisions.

These actions of ours were but a small part of an integrated broader whole of Government effort.

I believe we are entitled, therefore, to take some satisfaction from the fact that while at still unacceptably high levels, within only two years, the unemployment rate continues to fall incrementally from a peak of 15.1% in February 2012 to the April figure released last week of 11.7%. Also, at a rate of 3.3%, Irish employment growth now outpaces anywhere else in Europe. Furthermore, at less than 3%, the Irish Government can now borrow to finance further measures at the lowest rates ever in the history of the State and a long way from the 14% which prevailed during July 2012.

The performance of the economy, public finances and banking sectors and the main continuing risks for the future are documented in our Report Card which was circulated to you all last week so it may not be the best use of our time to dwell any further on all of that here today.

Performance Against Goals

I also thought to attempt to set out for you fuller details of the tremendous achievements of the Department in 2013 towards each of our five goals, but there again, to maximise our time, I have simply distributed to you our Annual Review which was communicated to the Government earlier this week and published yesterday. I think the Review speaks for itself. I would like especially to express my thanks to my colleagues in the Department and their families for their personal contributions and single-minded dedication to these tasks.

There are only just over 300 people in the Department of Finance (I have heard people who think that there are thousands), that means under 1% of the civil service. During 2013, we operated as four groups of often times overlapping teams dealing respectively with business-as-usual priorities driving towards a higher-performing Department, legacy issues from the crisis, forward planning issues and the EU Presidency.

Even a cursory review of their achievements in our annual reviews for 2012 and 2013 in that light will help you understand why I am so proud of their work and achievements which culminated in a safe and successful exit from the troika programme at the end of last year.

Workings of the Department

Given that this is likely to be my last appearance before you in my current role, what I thought would be most beneficial is to share some more detailed observations with you about the changes and improvements we have been making to the governance mechanisms and workings of the Department itself and answer any questions you might have on these. I was pleased to see your own reference to this in the press release issued about our discussions today.

Given that the Comptroller and Auditor General has raised no specific concerns about the accounts of 2012, these changes are perhaps as critical to your analysis of how well we are spending our time and resources in rebuilding the Department for the future. They are also key to understanding the challenges to delivery of future strategies by the Department and

so I hope you will forgive me for taking this opportunity to expand on them at some length for you.

For me, the important point is not so much the result of our handling of any specific policy item but whether in handling that, we are displaying now a governance structure and capabilities that gives comfort that we are able to identify trends and risks and to deal well to avoid those risks or deal with issues as they arise no matter how sizeable they might be.

I understand that it is not typical to make such a lengthy statement but given the importance of the issues you raised and for which I wished to share my observations, I have taken the liberty of producing a longer written statement the contents of which I shall summarise here today.

Many have questioned how the failings occurred in the past in our system and how we might move to fix that. I believe new processes embedding principles of good governance, more effective communications and a culture encouraging open challenge and questioning will go a long way to addressing many of the past failings.

I am grateful therefore to the Committee for agreeing to my request to share in some detail with you the work being done by my management team to identify and begin to rectify deficiencies in the governance and operation of the Department.

It is worth observing at this point that the current management team of the Department is now a blend of necessary and relevant experience both with pre-crisis and post-crisis individuals. I believe that to be the right combination of management change, drawing on the skills and knowledge of the past, supplementing with new skills and perspectives, coaching and training the whole team and then moving forward as a new diverse and cohesive unit. It would be foolhardy to expect people like me to arrive into a complex system and be able to achieve results without being able to draw on the best of the pre-existing and experienced colleagues.

Given this combination of experience, I would like to believe that our priority identification and recent work reflects a balanced set of views and an appropriate blends of insights. I would also like to especially pay thanks to Jim O'Brien and Michael McGrath who like me are moving on to new challenges over the summer but who have devoted themselves fully to support our efforts and achieve our results since my appointment.

A Parallel programme of reform

Behind the more visible reforms of the economy and banking sector, in our Department, our new management team have been pursuing a parallel but less visible course of reform of the essential governance and workings of the Department, in many cases, paving the way for similar actions taking place in the broader civil service.

You may recall that when we set out the revised Statement of Strategy during 2012, we indicated an intention to make the Department "modern, professional and forward-looking", and to introduce equity, partnership, leadership, challenge and integrity as our core values and of course to be more transparent.

A measure of the quantum of change already well under way is reflected in the very structure of the Department which now better embraces modern best practice, going beyond in some areas even the recommendations such as those contained in the Wright Report.

In 2012, our Department was structured around three policy areas of “Financial Services and Taxation”, “Banking Division”, “Budget and Economic Division”. Less attention was directed at the support and control functions. Our changes have involved focussing, resourcing, and investing more in areas like a more formalised risk management process, a risk committee, a policy committee for robust debate of policy ideas, internal and external communications to avoid silo’ed information sharing, more appropriate use of IT, a better modern HR function and a Project Management Office for the Department’s own annual priorities and deliverables – not only for the successful management office set up for the troika programme.

Under the new management team, we continue to radically change the way the Department operates, working quietly away. The job is now well mapped out and we are well underway.

As we set out to do in 2012, for efficiency, we have reunited the budget and tax policy areas and reunited the banking and financial services areas. The newly created International Division has opened up our Department to the world (as I shall more fully describe below).

With our fourth policy area, the new Economics Division, we have made economic analysis more central to our daily work, separating the analysis from the budgetary office pressures to encourage the formulation of more independent views. Since John (McCarthy)’s appointment we have been better able to play our true role in the development of economics thinking in the State and apart from recruiting in new economists, we have also moved the focus from short-term forecasting into the development of broader economic analysis to be shared with a wider community encouraging robust stakeholder debate. We hosted a gathering of the Irish public sector economists, at an IGEES forum to debate our developing thoughts of the important issues for the Medium Term Economic Strategy (MTES). We would now love to do even more to enhance our economic modelling capacity and integrate that better with our emerging financial stability and risk analysis and capabilities.

Equally importantly as these changes to our policy areas, we have moved to become a Department with an entirely different support structure for what we have to do:-

- Internal structures have been revisited to better facilitate a culture of greater challenge. The new risk, legal and compliance functions and enhanced peer review of policy directions are central pillars in this regard.
- The State’s accounts are now produced by a team led by an accountant of over 20 years’ experience, Greg Dempsey who is here today.
- We have a risk office led by our Chief Risk Officer, Neil Ryan, who has over 20 years’ legal and banking experience.

- We have a policy committee under the direction of Ann Nolan one of our most experienced senior civil servants who has unparalleled knowledge of each area of practise in the Department so as to encourage cross-discipline and cross-unit debate.
- We have a newly formed legal and compliance unit under Antoine MacDonncha's direction with newly recruited lawyers and a specially recruited experienced Compliance Officer.
- Our Management Advisory Committee is becoming an executive style Management Board.
- Under Greg (Dempsey)'s continuing direction, we now have a new Corporate Office to support the operation of both the Management Board and its new subcommittees, notably the Risk Committee and the Policy Committee.
- The Corporate Office now also houses a Project Management Office who run quarterly business planning processes and weekly updates on deliverables as well as training for other staff in project management techniques.
- We are reinventing how we communicate internally and externally having established a Communications Office to augment our Press Office's efforts.
- Under the leadership of Niall O'Ceallaigh, we have outsourced operational HR so as to have a more professional HR function increasingly able to focus on strategic HR issues like recruitment, learning and development, flexible resource management and performance management using our new Integrated Business Planning Process.
- We are managing the good and bad performance of our teams. We moved from a 32% compliance record in 2012 Performance Management to 100% completion in 2013.
- We have begun the long process of enhancing our IT systems, starting with a new website for clearer communication and increased use of technology for internal communications, document sharing and working while "on the road".
- As I mentioned last year, we have redirected our Audit Committee and Internal Audit Reviews to identify vulnerabilities in more strategic areas and help us scope the remedial action.
- And this year we have begun the process of combining our former Troika management team with our MTES team to create an Economic Development and Growth Office.

These changes do not become fully operational and embedded overnight but I am very happy to see the considerable progress we have been making in such a short time. This is not just my own view. The progress, for example in the important area of risk management, was indeed positively recognised by our outgoing Audit Committee Chairman.

Reputation ReBuilding – a key mission

Like the reputation of Ireland, the reputation of the Department of Finance has taken a considerable beating. I believe things are now different. People now recognise the changes that have been taking place.

Back in 2012, like statements about being Irish when abroad, saying one worked at the Department of Finance was something people avoided volunteering to others.

That is not a comfortable place in which to drive policy innovation and implementation. It was not a comfortable place for our management team to begin the task of rebuilding morale, our reputation and belief in delivery. Remember, many of our team had been just diligently doing what they had been asked to do. Many had then jumped in to help with extraordinary efforts once the crisis hit. Frankly, it was not a comfortable place either from which to re-stabilise an economy and banking sector. I would not be truthful if I did not confess to a very considerable degree of reluctance myself at taking on the task and the reputational risks of same, back in 2012.

More worryingly, for you as the Public Accounts Committee and for us as a management team, hiring discussions during 2012 and early 2013 shared these same reputational risk concerns. The Department and even the broader public sector had gone from being a “go to place” to work to being a place people preferred to avoid. That was not the ideal starting place for our new management team and broader staff to begin the hard job in hand during 2012. I would ask you, though, to review our teams’ output against this real backdrop of the time and in future continue to be supportive of ways in which we can continue to improve, be innovative, audacious in setting our targets, and attract the best available talent to our public sector.

Rebuilding a Strong Team

Like we have seen has been the case with the economy of Ireland, the fundamental foundations were present in the Department for a rebuilding exercise. What I found among the staff in the Department was a deep commitment to the job at hand and a willingness to go beyond the call of duty to devote time and energy to the task.

There was also an acknowledgement at all levels throughout the Department though that it was necessary to deploy more investment in the people, in the systems and in the embracement of modern management techniques which might have ensured a more robust warning system and associated remedial action.

There was also an acknowledgement that there was a need for additional skills and resources especially to fight the extent and nature of the challenges facing us. Despite misconceptions among some of the public, thanks to a determined recruitment campaign (including many pro bono assignments to meet short term needs), we no longer have a static closed team and have also begun to plan for future expected departures. Over 100 new people have been recruited into the 300 or so Department staff since 2012 supplementing and enhancing the existing teams. Many of our own team members have been refocused and trained allowing them to compete for new positions and promotions but only where they were the best person for the job. We quickly instituted a rule that

positions of Assistant Principal and above were to be filled only with competitions open to the public as well as internal staff where possible. All of this has allowed us to set the bar even higher for what we want to achieve.

Putting Stakeholders First

What I'd like to highlight for you today in the time that remains is how we as Department officials have begun the job of restoring the Department's capabilities and reputation by putting stakeholders first. During or after our engagement today, I welcome your further thoughts about how we might do more.

Learning the lesson to become a Stakeholder-focussed Department has guaranteed the Department has started to become a more open and modern one.

Many more changes are set out in Section 3 of our 2013 Annual Review.

Government and Oireachtas

Of course, the Government and Oireachtas remain amongst our most important stakeholders. As well as implementing the Programme for Government, we have also tried to reinvent the way in which we interact with the Government and the Oireachtas, including with important committees such as your own, sharing much fuller information and analysis to enable better challenge to our own views as we develop policy advice.

We cannot be afraid of fair challenge to our own thoughts and more importantly not be afraid if appropriate to modify our own advice to the Minister taking into account new perspectives or arguments brought to our attention.

Our own Minister has led the initiative of enhanced engagement with the Oireachtas. For example, he now appears with officials before the Oireachtas Committee on European Affairs ahead of every ECOFIN. John, our new Chief Economist, and his team also recently appeared in front of the FinPER Committee to brief them on Ireland's Stability Programme Update before it was formally submitted to the European Commission.

But achieving what we would like to ultimately achieve will also require a quite dramatic transformation of the way in which information is handled and stored in the Department. Before that job is completed, quite considerable and frankly at times expensive investment in technology may be required to do same. I would urge you in the future to be supportive of my successor as that job is continued and the right expertise and technology to do so is engaged. The quality of information on which we have to base our decisions, while much improved in recent years, is still very much below what I would consider to be an optimum level and to get there will require considerable further investment of technology and time. We are a long way away from being able to data mine the wealth of information present across other organs of government.

A mindset change is however one of the first things to change in terms of a willingness to share information and break down silos and improve communication flows. There we are making progress. But that is not all that is required. Sharing has to be efficient and easy too and work across all government departments.

A small measure of the efficiencies we can and need to secure is well illustrated by one little success from 2013 in the matter of Parliamentary Questions with which the deputies will be familiar. Our new automated process means the 2013 experience of 5,866 paper based files physically travelling around the Department for review and approval is no longer a factor of our work in 2014.

While the task ahead is yet considerable, the road is now mapped out and progress already is significant. Given the scepticism at large about the Department in 2012, we were particularly pleased and appreciative of the public acknowledgements in 2013 of our more recent efforts, for example when the Taoiseach recognised the work of the Department's officials during his speech on the Budget in October of last year and again in connection with the promissory note negotiations. And indeed the positive comments made by many of you at my last meeting here was welcome and indicative of how we are improving our stakeholder engagement. I might take the liberty to point out the obvious - these recognitions when a job is well done are very important to rebuilding morale in the public sector to where it needs to be!

Wider Public Service

As a central Government Department, we are also acutely aware of the leadership role we must play across the wider public service, including internationally.

In a period where the challenge is to do more with less, closer collaboration and team-work with our colleagues across other Government departments and agencies and the private sector is critical. We have tried to lead from the front. Our efforts include:

- Under John Hogan's direction, taking the initiative to set up and chair the cross-governmental State Mortgage Arrears Steering Group to drive coordinated policy development in this key area for the lives of an over-indebted public. I want to particularly recognise the way John led by example in embracing not just in his own unit but in this wider framework our own newly created PMO methodology to track action points and deliverables there to report them and progress to the relevant Cabinet Sub-Committee;
- Setting up and Chairing a similar SME State Bodies Working Group (and associated broader consultation group) to identify and drive measures to increase credit levels for economic and employment growth;
- Under the direction of Paul Ryan, driving a number of shared services projects and volunteering Senior Responsible Officers (SROs) for the Civil Service's Payroll Shared Service (PRSS), the Banking Shared Services Project and the Financial Management

Shared Service projects which, respectively, aim to deliver savings and better service for the Irish taxpayer;

- Playing a leading role in the Clearing House Strategic Group to develop opportunities for growth in International Financial Services;
- Leading the preparation of a Medium Term Economic Strategy, the post troika medium-term forward-looking strategy we had called for as early as 2012;
- Ensuring our support for the annual Action Plan for Jobs was not just about tax measures and included broader analysis like for example chairing the Activating Dublin public and private sector group to identify ways to further enhance Dublin as a global location for tech start-up companies.
- Setting up and chairing a “Financing the State” Steering Group to progress alternative funding mechanisms for investment in infrastructure from the State’s upcoming priorities.

As well as domestic engagement, the secondment of staff from the Department of Foreign Affairs and Trade in my Department has resulted in far closer and more effective ties with our Embassy network than in 2011. Our International Economic Relations Unit not only now arranges all of our international visits with the relevant ambassadors and their staff but also holds weekly video-conferences with key embassies to ensure Ireland’s economic messages are consistently delivered across the world and our economic priorities reflected in the diplomatic efforts of our global colleagues.

We have also stepped up to the mark in Europe. My colleague Aidan Carrigan, Head of our Financial Services Policy area has been appointed Vice Chair of the European Financial Services Committee. I have also been honoured to co-chair an Expert High Level Group exploring pan-European capital markets ideas for Financing for Infrastructure and SMEs and to present our conclusions to the European Finance Ministers and Governors at the Informal Ecofin meeting in Athens.

Industry & Social Pillars

I have heard it said that the Department was closed to views from industry and the social pillars. This was not true.

Every year, for many years now under Derek Moran’s direction the tax policy unit of the Department has led the way in open consultation with stakeholders and receives budget submissions from a wide range of stakeholders including the industry and social pillars. The Department’s Tax Strategy Group (TSG) has a well-established record of facilitating in-depth consultation in assessing taxation options. Papers from the TSG are available on the Department’s website now along with a much greater range of documents across all our divisions.

But we recognised a lot more could be done.

Firstly, to ensure this was done transparently, I have published periodically my own diary in full detail. In a further break from tradition, we also identified on our website by name and profile the individual management team leader dealing with each policy area to facilitate consultation and promote accountability.

Perhaps, the most obvious example though of the Department's new way of working was our commitment that enhanced engagement with such stakeholders would underpin the preparation of the Medium Term Economic Strategy. We did not restrict ourselves to wide-ranging consultations with other Government departments and economists. We also engaged bilaterally and in groups with other domestic and international bodies, NESC, other administrative structures and sectoral representatives and businesses.

We now think differently about how we approach tasks. In a new departure, but reflecting how the best ideas are developed in other spheres, we engaged the views of design engineers in how we might further enhance the process of policy development. A team from Pivot Dublin worked with our own team and their combined output included running a 'Young entrepreneurs event' to specifically seek the views of a more diverse group of entrepreneurs, specifically, female entrepreneurs, young entrepreneurs (mainly under 35) and 'new Irish' entrepreneurs and students. Our earlier consultations had already highlighted to us how much and how quickly Irish society was changing and so soliciting these new views was also key.

Academia

We have also led the way in breaking the taboo that the views and analysis of identified civil service officials should not be shared in public. This must be further encouraged. It is good for the development of our own talent and it helps better inform other academic thought about shared problems.

Officials have published a number of academic papers that have been published in various academic publications. I'm proud that the Department has led the debate on important issues. For example, over the past year papers have been published on issues such as the Patent cliff, the R&D tax credit and the structure of Ireland's tax system. We have been also active in sharing information to help inform and participating ourselves in debates about entrepreneurship and other industrial policy matters, taxation, regional planning, housing and construction policy, the problems of excessive debt, and shifting trends in how to fund economic growth. Given the need for quicker analysis of the mortgage arrears situation, we took the initiative to create and make available to the public our own time series of information on a higher frequency basis, as we had done in 2012 with deposit numbers to help stabilise that situation.

The Department was once viewed as not receptive to outside views. I would say this is certainly not now the case, if it ever was. For example, Des and the Shareholder Management Unit engage on a constant basis with outside advisers and hear their views. The Economics Division now invites a number of prominent economists as a group into the

Department twice a year to share their views on the economic outlook. This process feeds into the preparation of the Department's two main sets of forecasts each year, the annual Budget and the Stability Programme Update. We also have lunch and learn sessions for staff where outside experts come in and share their views and of course bilateral discussions take place with outsiders all of the time now.

In a new initiative to encourage next generation thinking, the Department has also launched an "*Economic Policy Advancement*" prize in partnership with the Trinity Economic Forum. All 3rd level students were asked to develop a policy proposal for identified concerns of macroeconomic policy. The winner will now be offered a three-month internship in the Department over the summer months.

International Engagement

From the outset, Minister Noonan recognised the integral role international relations plays for Irish economic and financial policy.

We have opened the Department's work out to the world with our new international division, whose successful work was evident during the presidency but more discretely during the intense global diplomatic efforts around the renegotiation of the troika programme, the promissory note restructuring and the clean exit from the troika programme. Two-way international secondments and international missions led by the Minister and myself are now commonplace in the Department's quarterly work programmes. Equally, as economic policy thinking became front and centre in international investor focus, we stepped up to the plate with considerably enhanced engagement and information to support the NTMA and IDA.

Public

The public however remain our most important stakeholders.

Our Department is perhaps less public facing than others in terms of the delivery of our services.

We are conscious however of the very direct impact of our actions on all public stakeholders.

This means that we need to be fully aware at all times of our responsibility not only just to work to increase the living standards of and alleviate the impact of legacy problems for all citizens but also to make sure that we do our maximum to ensure sustainable growth for the future and avoid the pitfalls lurking ahead.

We have invested much effort into improving the communications channels we use to all, but particularly to the public taxpayer and we will continue to do more to find new means of communicating with those impacted by our actions, whether it is social media, use of video

(the preferred internet communication channel) and public consultation or just a simple one-to-one conversation.

I can also say that in the Department there is greater recognition that we owe a particular duty to the public to also ensure that we do whatever we can to avoid having further failings in the management of the economy.

For that, further embedding of a culture of openness, of internal and external challenge and peer review, of risk management and robust and innovative policy formulation is key. This is not easy stuff though. It requires ensuring adequate investment to have access to the best talent and information. It means learning to listen. It means embracing an environment often lacking in organisations across the world of open, free and honest debate and mutual trust where everyone's views are well received and cheap shots avoided. It requires the nurturing of talent so as to create the leaders of tomorrow who need to be instilled with a sense of creativity to develop policies for a changing world but also a sense of conviction and courage to be able to identify the next problem and shout stop when it is needed.

I said earlier that I am proud of the team with whom I have worked. I hope you and our other stakeholders also are happier with what we have been doing these past couple of years. Along the way above, I have had occasion to mention many of the senior members of our team but it is the contribution of the other unsung members of the staff to whom real credit goes. They are the people that make all of our results a reality.

I thank for your attention and this opportunity to address you and look forward to your questions.