

“Running the Public Sector Better”

Paper by Donal de Buitleir, Chairman, Civil Service Performance Verification Group to Dublin Economic Workshop Conference, Kenmare, 15 October 2005

“It is not like the private sector where you, you can take jobs out immediately. I accept that.”

Kevin Kelly, Interim CEO of HSE on “The Right Hook” 16/8/05

Introduction

This paper reviews the progress that has been achieved in public service reform and suggests some areas in which further change is required. In this paper I focus on what has been achieved in the 27 Departments and Offices in the central civil service, which is the area within the remit of the Performance Verification Group (PVG) which I chair. Needless to say the views I express in this paper are my own and should not be attributed to other members of the Civil Service PVG.

Context

The first thing is to recognise that management and particularly the management of change is more difficult in the public sector than in the private sector. This is for two reasons. Firstly, the core public service does not operate in a competitive market. If you have a choice; to change or to go out of business then change becomes attractive. This impetus to change is absent in the core public sector. To take the example of Aer Lingus. Whether one agrees with the substantial changes that have taken place in Aer Lingus or not, there can be little doubt that they would not have taken place or taken place much more slowly but for the extremely competitive environment in which the company found itself.

The second reason is that the public service objectives are more complex and diverse than making a return on capital. Public sector managers may be faced with competing objectives, which make the management task more difficult.

The inevitable result of all this is that change is more difficult and certainly slower to achieve than in a private sector environment.

It should also be recognised that the progress that is being made is being made in the context of a reduction in civil service numbers. At the end of December 2004 the total number serving in the non-industrial civil service was about 5 per cent below the end-2002 baseline.

Sustaining Progress

“Sustaining Progress” (Para 19.22) provides that payment of the final two phases of the benchmarking increases and the general round increases is dependent, in the case of each sector, organisation and grade, on verification of satisfactory achievement of the provisions on co-operation with flexibility and ongoing change; satisfactory implementation of the agenda for modernisation set out in the Agreement, and the maintenance of stable industrial relations and absence of industrial action in respect of any matters covered by this Agreement.

This was a very significant change. For the first time, both general round and special pay increases were contingent on some measure of performance in the public sector.

What Has Been Achieved ?

Industrial Peace and Co-Operation

The first thing to say is that the Agreement has delivered on industrial peace. There has also been co-operation with modernisation and flexibility. One particular provision has, I believe, delivered good results. Where a proposed change is in dispute, the agreement provides for a dispute resolution process, which is binding on both sides. This means that instead of a stand-off which could last for ages, a decision gets made and depending on the outcome of the arbitration process, progress is made.

Customer Service

It is important to acknowledge the progress that has been made and the improvements that have taken place in the delivery of public services. There have been major improvements in the quality of the delivery of public services through the use of technology. Looking at the central civil service alone, I have been struck by the progress on issues that impact day and daily on the lives of citizens. The improvements that have been made in the arrangements for taxing one's car, filing tax returns, getting a passport, receiving social welfare benefits are dramatic and represent major positive changes in customer service and productivity.

For example, motor tax online went live for renewals due on or after 1 March, 2004. In the first eight months of this year, there were 540,000 on-line transactions accounting for some €115 million. Almost 30 per cent of

renewals are now conducted online; the figure for the Dublin region is 46 per cent. The licensing of new or imported vehicles on-line will be piloted in November. The reduction in queuing time alone is a major benefit.

In 2002, 9 per cent of all timely income tax returns were filed electronically. This increased substantially to 40 per cent in 2003 and 53 per cent in 2004, representing over 157,000 returns. By the end of July this year, 57,000 income tax returns had been filed electronically - 47 % up on 2004. The error rate on electronic returns is less than one-third that of paper returns because the validation built into the electronic form keeps mistakes to a minimum.

The number of claims for disability benefits processed in 3 days rose from around 3 per cent in November 2003 to 29 per cent in July 2004, and 32 per cent in February 2005. This has been achieved despite an increase in claimload. In addition, average overall processing time has been reduced from 8.19 days in November 2003 to 6.55 days in February 2005.

The automatic payment of child benefit linked to birth registration data is another very useful advance.

There has also been a very substantial increase in the use of electronic methods of payment, which dispenses with outdated and costly paper systems. Again to take a Revenue example, 91 per cent of staff now receive on-line payment of salaries and travel and subsistence payments (2004 payments).

These changes are among the most visible to the public and a lot more is changing behind the scenes; there is greater mobility and use of competitive promotion systems, improvements in financial management and information systems and performance management is developing. But more remains to be done.

HR

Looking first at the HR area, there has been much needed progress in the area of competitive promotions. The data are in Table 1.

Table 1 All Promotions by Method of Promotion 2004

Open Competition	123
Interdepartmental Competition	162
Internal Competition	180
Total	465
Seniority	78
Total Promotions	543
per cent	85.6
Competitive	

Source : Department of Finance

Now 5 out of 6 promotions are following some form of competition. Just over half are following either external or interdepartmental competition. While more remains to be done, this represents a significant change from the old seniority system.

There has also been a significant improvement in the number of women qualifying for promotion. This is not just an equality issue – important as that is. It is also vital if the public service is to make best use of the talent that it has. The data are in Table 2.

Table 2 All Promotions by Grade 2004

	To EO	To HEO	To AP	To PO	Higher	Total
Males	113	64	51	14	10	252
Females	195	49	27	16	4	291
Total	308	113	78	30	14	543
per cent	63.3	43.4	34.6	53.3	28.6	53.6
Female						

Source : Department of Finance

Progress in the areas of open recruitment in general and addressing skills shortages has been disappointing. “Sustaining Progress” provided for the introduction of arrangements for the open recruitment of staff in a number of specialist and professional disciplines, where such skills were not sufficiently available in the civil service. A survey of Departments identified 41 posts in 8 Departments, mainly in the IT and financial management areas. However, IMPACT took the matter to arbitration. The net result is that 2 posts have been filled (at Assistant Principal in the Office of the Pensions Ombudsman) and a further 12 ICT posts at AP and HEO level will be advertised shortly.

Table 3 Skill Shortages Identified Under Sustaining Progress

Posts Identified	41
Deferred by Departments	4
Deferred pending Decentralisation Decision re ICT Hubs	9
Posts Sought to be Filled	28
Filled in 2004	2
Appealed by IMPACT	26
of which Recruitment will begin shortly	12

Source: Department of Finance

The number of skill shortages identified seems very low and the progress in filling the posts has been very disappointing. It also seems that the interpretation of skill shortages has been too limited. In addition to professional skills, it would appear that competencies in areas including project management and contract negotiation need to be increased.

The Agreement also provided for open recruitment to replace staff who resigned in the previous year to take up positions in the private sector or elsewhere in the public sector. Competitions were held in 2003 to fill 4 posts at Assistant Principal (AP) level and 3 at Higher Executive Officer (HEO) level – the posts were filled in 2004. 5 posts have been identified in respect of resignations in 2003-2004.

Clearly there is a need for much greater progress on the issue of open recruitment. The taxpayer has a right to expect that all public service jobs are filled by the best qualified person and all citizens should have a right to compete for them. This is not a new concept in that for example, such a system applies to the appointment of County Managers, which are open to

all. Open recruitment is an area which needs specific attention in any follow on public pay agreement.

The Agreement also sets an expenditure target of 4 per cent of payroll on training and development. In 2003, spending in the civil service under this heading was 3.78 per cent of payroll. In my view, we need to be sure that enough of this budget goes on management development and policy analysis and evaluation skills.

Better Regulation

In January 2004, the Government published a very important White Paper. In launching the White Paper the Taoiseach Bertie Ahern noted that the quality of the regulatory environment is a key factor in the competitiveness in any economy.

“While we must have regulation in certain economic and social areas - nobody expects the market to protect the environment or to provide for the less well off or marginalised in our society. We all know that we need health and safety regulation, and employment and consumer protection. But we can’t keep adding new regulations and expect that there will be no downsides!

So we need to tackle the issue of volume of regulation, if nothing else. And systematically examine what is already in place to see if it is still relevant and still achieving the objective that gave rise to it. This greater care and management of the regulatory framework is the core commitment we are making in this White Paper.”

The scope for improvement here is substantial. In 2003, the Dutch Government committed itself to a 25 per cent reduction in red tape by 2007. The Dutch Bureau for Economic Policy Analysis estimated that this would result in an increase of Dutch GDP by 1.5 per cent. This is not a trivial sum. In current Irish terms, it would amount to almost €2 billion or over three times annual public capital investment in the health services

Progress to date on regulatory reform has been slow. Five Departments and Offices have piloted Regulatory Impact Assessments on a variety of regulatory proposals. A report (Boyle, 2005) on the pilot exercises has found that there are significant benefits to be achieved from carrying out an RIA and that RIA’s can lead to better quality regulation. Consultation with parties potentially affected by regulations was found to be another extremely important and useful element of the RIA process.

The Attorney-General's Office has carried out a review of pre 1922 legislation. The priority in this exercise was to identify Acts in force from 1235 to 1922 that should be repealed and to get an overview of the size and scope of what would be involved in modernising pre-1922 legislation. As a result over ninety Acts were identified for repeal and a Bill to do so has been passed by the Seanad.

While all this is useful, I believe much greater emphasis needs to be put on regulatory review by Departments; not only as regards regulatory proposals but also to review existing regulations, which impose more costs than the benefits justify. To help tackle this issue, every new piece of legislation should be accompanied by an assessment of compliance costs.

Compliance costs can be very significant. For example, US income tax compliance costs are estimated at \$125 billion, more than twelve times the IRS budget.

What More Do We Need To Do ?

Review Role of Government

Government should concentrate on its core functions. At present, Irish Government activity is very widely spread. Government is in the business of making briquettes, growing trees; providing health insurance; selling gas, running buses and trains; running ports and airports; providing electricity; running greyhound races (9 dog tracks), running a postal service and a broadcasting service.

This is in addition to providing core public services like defence and security, and providing or funding health, education and welfare services.

In the area of waste alone, local authorities act as regulator, planner, provider and price fixer. Now we all know the conflicts that can arise when Government acts as both regulator and producer. Perhaps the most egregious example of this was when the late Jim Mitchell T.D. as Minister for Transport introduced a Bill in Dail Eireann (Air Transport Bill, 1984) to make selling cheap airline tickets a criminal offence. Happily the proposal drew such ridicule that it was withdrawn eventually.

In my view, the public sector should concentrate on its key role as legislator and provider (or funder) of public goods and leave the provision of services to competitive markets as far as possible.

The operation of the VAT system is a barrier to outsourcing in so far as services provided in house are VAT free while those, which are outsourced bear VAT at the appropriate rate. Where an entity is chargeable to VAT this makes little difference in that a credit is obtained for the VAT paid. Where a public sector organisation is exempt from VAT, there is a cost penalty to outsourcing. To deal with this VAT paid on services bought in by public sector organisations should be credited in their budgets.

International Benchmarks

As much as possible of public sector activity should be made contestable by contracting out the provision of services. The discipline of competition should increase the efficiency of service provision. While more could be done in this area, significant services will continue to be provided by public authorities. In these cases, there is a need for some proxy for competition.

International benchmarks are a very useful method of comparing the performance of organisations, which have no natural competitors. However, they should be used with care and not followed blindly but can highlight areas for review. For Ireland comparisons with organisations in small countries are more likely to be relevant.

Performance Management and Reward

Sustaining Progress identifies the implementation of a Performance Management and Development System (PMDS) as a priority. While many Departments and Offices have indicated that the implementation of PMDS is allowing for a more focused approach to the delivery of training and development programmes and is improving communications within the organisations, there is still a distance to travel before the system is fully in place.

Further development is essential particularly in the area of linking performance appraisal to reward. To assist this process, part of any general increase in pay under a new public pay agreement should be channeled into a bonus pool to be distributed to employees in line with performance.

Modernise Accounting Systems and Information

Accounting information is a signalling system, which leads to action. Using the existing public accounting information is like trying to tell the time with a defective clock. Once managers get the right information, it is much easier to make good decisions.

While useful progress is being made under the Management Information Framework, Government accounts are prepared on a basis, which would not be acceptable for the smallest business. The traditional vote (cash) system should be abandoned and cost centres established with full accrual accounting.

Public sector bodies should also publish balance sheets. This would bring home to budget holders the value of assets under their stewardship and encourage them to use them more productively. A capital charge for assets held would also assist this process. In addition, the introduction of charges for depreciation would give a much clearer picture of net investment in infrastructure.

The system in New Zealand of capital charges provides a useful model. Government has a large investment in the assets of Government departments. To maintain this investment, money has to be raised in taxes, borrowed or diverted from other spending. The capital charge

- ensures that prices for goods and services produced by Government agencies reflect full production costs
- allows comparison of the costs of output production with those of other producers (whether in the public or private sector)
- makes explicit the cost of maintaining the capital investment in public assets
- creates an incentive for public bodies to make proper use of working capital and to dispose of surplus fixed assets.

The rate of the New Zealand capital charge is reviewed annually as part of the Budget process. It is on the net worth of a Department excluding any assets which the Department does not fully control. This exclusion is because it would be inappropriate to levy a department on assets over which the chief executive does not have direct control.

Pension Costs

The present system of unfunded public pensions understates the cost of public services. Making a charge for the increased value of accrued pension rights would also make explicit the full cost of taking on additional employees.

The additional information provided would allow Government to manage its liabilities with full knowledge of its asset base. Reporting assets, liabilities, revenue and expenses would also help public sector managers become more conscious of the need to manage public resources efficiently.

Numbers Cap

Some control of public expenditure is exercised by imposing a numbers cap in certain sectors. An important instance is in the health service, which employs over 100,000 employees (FTE's). The present system is very crude and leads to dysfunctional behaviour such as employing agency nurses when permanent staff would be cheaper and give a better service. (The cost of an agency nurse is about 1.8 times that of a permanent employee.). The system is also crude in that all posts regardless of level are given the same weighting.

Clearly a more sophisticated system is needed. The challenge is to replace “numbers” control with an alternative mechanism which controls costs (both at present and in the future) but which does not have built into it the potential for absurdity and dysfunction which is a consequence of the present system. One option is that when budgets are being prepared they should be accompanied by a manpower plan. Once the budget is approved, numbers and grades associated with it should be automatically approved. Any additional funding which either explicitly or implicitly contains funding for numbers should be added to the limit.

To ensure effective control of numbers, budgets need to be prepared for a three year period so that the full year impact of developments during the year are made visible.

Development of Benchmarking

Government is committed to another benchmarking exercise. I believe we need to build on the foundations that have been laid in any future public pay agreement. The principle that pay increases be contingent on satisfactory performance is a good one and should be continued.

Acknowledgement

I am very grateful to Don Thornhill for valuable comments on this paper. I alone am responsible for opinions expressed and errors and omissions.

Appendix 1: Note on Performance Verification Groups

Five Performance Verification Groups (PVG) were established under “Sustaining Progress”. These were for the Civil Service, Education, Health and Local Government and Justice sectors.

Each PVG has an equal number of management, trade union and independent members. The independent members were to have relevant expertise and include, where appropriate, representatives of the customers of the sector. In addition, each group has an independent Chair.

Each sectoral PVG makes an assessment of progress, at the latest, one month in advance of each of the payment dates specified in the Agreement (apart from the first 25 per cent of the increases recommended by the Public Service Benchmarking (Quirke) Body).

The assessment procedures are complex and are as follows :

Action Plans

- (i) Each PVG informs the Secretary General responsible for the relevant sector and the appropriate sectoral partnership committee of the reporting format to be used for action plans to achieve the agreed performance targets.
- (ii) The appropriate partnership committee agrees the action plan for the relevant area and submits it to the PVG for approval.
- (iii) The PVGs assesses the action plans to confirm whether they meet the requirements of the Agreement, and conform with the reporting format, timetable and procedures mentioned above.
- (iv) If the PVG considers that an action plan is unsatisfactory it is referred back for review through the partnership process.

Progress Reports

- (i) Heads of organisations prepare progress reports and submit them to the appropriate partnership committee.
- (ii) The partnership committee, having considered the reports from heads of organisations, submits them together with a report on the sector to the Secretary General responsible for the sector.

Assessment of Verified Progress

- (i) The Secretary General responsible for the sector submits the reports to the PVG together with his/her assessment of progress achieved.
- (ii) Before reporting to the PVG, the Secretary General informs the appropriate National Council of the assessment of progress which he or she intends to convey to the PVG. Where the Secretary General considers it likely that his or her report on the assessment of verified progress achieved does not warrant implementation of a pay increase, the matter is discussed by the relevant National Council before the report is finalised and if he or she still intends so to report conveys any union side comments to the PVG.
- (iii) The PVG decides on the basis of the reports submitted to it if the level of progress achieved during the period warrants the payment of the relevant pay increase(s).
- (iv) If the PVG decides in any case that the making of a payment is not warranted, the relevant Secretary General refers the matter to the relevant National Council for discussion before he or she takes a final decision.
- (v) In the event that a trade union considers that the decision made by a Secretary General does not conform with the terms of the Agreement, it may have recourse to the provisions of “Sustaining Progress”, which deals with breaches of the Agreement.

Departments which have other public service bodies under their aegis will fulfil the role of quality assuring outcomes where a PVG does not exist or does not have a direct role in relation to the bodies in question.

The final decision in relation to payment of increases rests with the Secretary General; the PVG recommends; the Secretary General decides.

References

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