AHCPS Submission

Recruitment and Retention Issues in Senior Leadership Grades – Principal Officer

1 Introduction

This paper is divided into three parts. The first sets out why recruitment and retention are now emerging as critical issues for the grade of Principal Officer. Secondly the paper examines movements in public service and private sector pay as evidenced in the first report of the Public Service Pay Commission (May 2017) and highlights those factors which impact most directly on the grade of Principal Officer. The third part of the paper draws on a detailed pay analysis carried out by the IPA which looks at direct pay comparators for the grade of Principal Officer and shows the significant disparity that now exists between the public service posts and their private sector analogues. In this section we also briefly look at the issue of pension comparisons as they pertain to grades at these levels and point out flaws arising with the ASC. Our conclusions summarise the main arguments for the Pay Commission to recommend adjustments to the pay of the grades represented by the AHCPS.

2 Recruitment and Retention

Traditionally the grade of Principal Officer would have been a mid to late career posting with perhaps a 2% to 4% annual turnover, largely filled by internal recruitment. However, because of the demographics of the Civil Service, staff turnover in the next 5 years will be significantly increased at this level. As the D/PER Civil Service Renewal Plan noted in 2014 '*In the next 6 years 31.9% of senior management in the Civil Service (Principal Officer and above) will be over 60 years of age and have served 40 years or more*.' This pattern arises from the expansion of the Civil Service in the 1970s, with accession to the EU, etc. Inevitably, 40 years on, there is an exodus from this cohort of staff, many of whom would have advanced to senior positions in their career.

The consequential filling of this much increased number of expected vacancies has been made more difficult by two sets of factors, internal and external. The external factors relate to changes in the workplace generally with increased pressure and individual accountability, etc. in management level posts. In the Civil Service , this is exemplified by the increased parliamentary oversight, greater transparency in decision making arising from Freedom of Information, etc. All these measures combine to bring significantly more stress to senior management positions which impact on the attractiveness of these posts.

The second set of factors that have lessened the attractiveness of senior level Civil Service posts relate to a series of internal measures which were taken as part of, and in addition to, the Financial Emergency Measures in the Public Interest (FEMPI) legislation. The FEMPI legislation introduced three rounds of reductions in pay which, as a matter of policy, were deliberately structured to bear disproportionately on the more senior grades. (The different approach taken in the private sector is discussed in section 3 below). In addition, many other measures such as the loss of annual leave for newly promoted Principal Officers have combined to make promotion posts less attractive to internal candidates who are still the main source for the filling of these posts. The next two sections will discuss the impact of pay levels on potential external candidates, but it is worth pointing out that D/PER in its main submission for the first report of the Pay Commission indicated that there were problems recruiting to senior management and specialist roles. Specifically, they referred to the fact that the PAS executive search function had found in trying to attract private sector candidates to senior level posts in HR, IT and Finance that while "*candidates have been very interested in these roles… the challenge has been that the remuneration (salary and benefits) the candidates currently earn is at least 30% higher than that on offer in the Civil Service*."

Many current and former members of the Association regularly perform interviewing duties for PAS and we are aware of strong anecdotal evidence that many private sector candidates who do compete are often significantly more junior in the organisational roles compared to public service candidates on equivalent salaries.

3 Pay Trends in Public Service and Private Sector

The May 2017 report of the Public Service Pay Commission set out in Chapter 5 (and the accompanying Appendix F) a detailed analysis of pay trends in the public service and the private sector. A consistent theme emerging from this analysis is that the private sector sought to protect earnings of those with key skills, including those in leadership positions, to support business survival. Figures 5.4 and 5.5 (page 45) of the PSPC report show the differing approaches to pay reductions adopted by the public and private sectors in the periods 2007 to 2010 and from 2011 to 2014. In the first period – at the height of the financial crisis virtually all groups saw pay reductions, however in the public service these were highest in the 30^{th} to 90^{th} percentile, the opposite approach to that taken in the private sector.

As figure 5.5 shows, the period 2011 to 2014 marks a period of pay recovery in the private sector with the highest levels of recovery being shown in the 80^{th} and 90^{th} percentiles. In contrast the public service shows the highest levels of pay recovery in the 10^{th} and 20^{th} percentiles but with a further round of pay reductions for the 80^{th} and 90^{th} percentiles. There can be no dispute about the fact that the mathematical result of these two trends has been to push the pay of Principal Officers further and further behind their private sector pay analogues, however these are defined.

It is worth recalling that while the second report of the Public Service Benchmarking Body found that, by and large, public service pay was not out of kilter with the private sector, however it did find that the pay of Principal Officers had fallen behind and did recommend a modest increase to the grade. In its recent report the Pay Commission recommended (at 8.10) that such grade specific issues be addressed. Given the evidence produced by the Commission itself, referred to above, the need to address the pay of Principal Officers becomes even more time-critical.

4 Pay Comparators for Principal Officer

The Commission's attention is drawn to the IPA Research Study in Appendix 1 to this paper. This study set out to evaluate the position of Principal Officer, Assistant Principal and Prison Governor and to use the evaluations to identify similar positions in the private sector. The study used published pay surveys (in particular those from CIPD and IBEC) to determine the pay and benefits of private sector positions comparable to the grades in question.

The study also sets out the changing environment facing the civil service and the greater challenges now facing senior management grades in the civil and public service. These include greater centralisation of authority, greater specialisation and professionalisation, new service delivery models including shared services, greater Oireachtas oversight and more public accountability. These changes have taken place in parallel with a major economic crisis which saw the state introduce a range of cost-cutting measures aimed at reducing the pay and conditions of service of public servants while increases in population and changes in the wider environment have demanded increased levels of service provision.

The leadership and governance role of the grade of Principal Officer are set out in the study and a number of pay comparators identified from the 2016 IBEC Salary Survey. While previous pay determination exercises such as the Benchmarking Body had access to confidential information enabling direct comparisons, this exercise is making use of published data and therefore has to use a more transparent methodology. The approach taken is to focus on the competencies and challenges arising for Principal Officers and finding specific private sector posts where similar competencies and challenges occur. The posts identified were Head of Regulatory Affairs, Finance Director, Head of Human Resources and Head of Quality Assurance. While the IBEC survey differentiates between companies employing between 100 and 249 employees and those employing 250 or more employees, it was felt that appropriate comparators could best be identified at the smaller end of the large company cohort, i.e. companies with between 250 and 400 employees. Companies above this size would have pay comparators at a lower tier organisationally which would distort comparisons. An exercise was therefore carried out to derive an adjusted median which would be representative of companies in the 250 to 400 employee cohort.

The comparative salary figure for Principal Officers was taken as the mid-point of scale between the scale minimum of the pre 1995 Principal Officer scale and the scale maximum of the post 1995 scale (€86,266), while the IPA calculated the average adjusted median of basic pay for the private sector pay comparators at €119,430, i.e. a difference of 38%. However, a feature of private sector employment, particularly at higher levels is that in addition to basic pay there are invariably bonus payments (car, health insurance, performance bonuses, etc). When account is taken of these factors the pay differential rises to 60%.

Pensions

In its analysis of public service and private sector pensions, the PSPC concluded that on average ‘classic’ public service pensions were generally more valuable than private sector pensions and that premium involved was now likely to be greater than the 12% premium identified by the second Benchmarking Body, and could be up to 18%, i.e. a further 6% above 2007 levels compared to average private sector pensions. While our Association would not disagree with this analysis generally, it is worth pointing out that the evidence is that at *senior* management levels in the private sector the pension provision is generally significantly better than for the private sector workforce as a whole. In these circumstances, applying a further pensions premium for senior public service management grades is much more difficult to justify when compared to their direct private sector comparators.

In its first report the Pay Commission indicated that any agreed increases in employee pension contributions would be applied in conjunction with the discontinuance of the Pension Related Deduction (PRD). In the event the Public Service Stability Agreement (PSSA) has included the introduction from January 2019 of the Additional Superannuation Contribution or ASC which will increase the pension contribution for Principal Officers from 6.5% to between 12.5% and 13.5%.

On page 5 of its report the Pay Commission noted that benefits for members of the Single Public Service Pension Scheme are currently on a par with private sector defined contribution pension schemes. In these circumstances the Association would contend that ASC which will be levied on these members appears difficult to justify in view of the findings of the Pay Commission report.

5 Conclusions

In the first part of this paper we have explained why demographic factors over the next number of years will see acute recruitment and retention difficulties for the grade of Principal Officer. Quoting from the evidence produced by the Public Service Pay Commission’s own first report, we have shown the very different approaches taken to senior management level remuneration. The rationale for the approach taken in the public service was in part ‘political’ – in that those with the broadest shoulders had to be seen to take the greatest hits to their remuneration as a measure of social solidarity, in a time of national crisis. Indeed, senior public servants largely accepted this rationale given the ethos of the public service.

Whatever about the rationale for different approaches taken by the public service and private sector in the past, the operational consequences for recruitment and retention of senior level grades is now posing acute problems. Persisting with crisis measures after the time of crisis has had the unintended consequence of significantly reducing the comparable public service remuneration ‘offering’ to senior management grades compared to the private sector. This is highlighted very clearly by the figures shown in the IPA study and discussed in the third part of our paper. It is simply not possible to operate two different pay economies in the long term.

Where senior public service pay falls significantly behind the private sector this has the long term effect of reducing the ‘gene-pool’ of new entrants at more senior levels as well as leading more public servants to move to the private sector. Equally when the perceived balance between additional remuneration for more onerous duties is perceived to be out of kilter, fewer internal candidates decide to go forward for promotion, which again weakens the future leadership ‘gene-pool’ for the public service.

In view of the very compelling analysis of pay movements already carried out by the Public Service Pay Commission, as well as the IPA study which shows in concrete terms the consequences of those pay movements, we consider that there is a strong case for the Pay Commission to recommend appropriate pay adjustments for Principal Officers to correct the pay anomalies that have been thrown up by the previous crisis measures. The demographic time-bomb identified by the Official Side, and the need to ensure the quality of future leadership cadres for organisational reasons, mean that corrective measures need to be addressed as a matter of urgency.