



**VIEWS ON ESTABLISHMENT OF A PUBLIC SERVICE PAY  
COMMISSION.**

**Abstract**

“We must create a pay and performance framework that over time will drive an innovative, creative and world-class service.”

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**ISME, the Irish Small & Medium Enterprises Association**, represents in excess of 10,200 SME businesses throughout the 26 counties employing more than 245,000. We are an INDEPENDENT body representing owner managers of small & medium businesses in Ireland. Our independence stems from the fact that as a business organisation we uniquely rely on the resources of our members. We are not reliant on big business which over-rules and compromises other representative organisations. We are the only independent representative body for SMEs in Ireland.

Our observations and recommendations are primarily from the perspective of SMEs and in particular, Owner managers, the risk takers of the economy. SMEs account for 99.7% of all enterprises in Ireland and account for 70% of all private sector employment. Small & medium businesses are a vehicle for economic growth, job creation, competitiveness and innovation, as well as providing a range of goods and services to all sectors of the economy.

The Association recognises the reality that economic growth is co-produced by a collaborative relationship between business and government, both discharging their proper responsibilities.

While we recognises the role of government, we also look to the Public Sector to work within Government. The public sector will need to lower its cost base and manage risk better, invest in talent and develop new innovative organisational forms in which to deliver public services more adaptively and responsively to all our needs. This must be done while preserving the crucial public service character of accountability and universality of access.

#### Challenge.

A key challenge for Government is to maintain and improve the standard of public service, as the structures of public service delivery are reformed. Vital to this will be to ensure that public service employees are adequately and fairly rewarded for their contributions, and that the public service ethos, that sense of mission and public duty that motivates many to work delivering public services, is maintained. This requires that a delicate balance be struck.

Increasing labour productivity in the public sector is an essential element in improving aggregate productivity levels. Resource inputs to the public sector are finite, therefore reform-driven productivity growth offers the only way to maintain and enhance service levels.

Through the process of a Pay Commission the reform agenda can be driven to make government entities more output and outcome focused and it can allow greater autonomy be given to individual government entities to manage and allocate resources more efficiently through structures that link budget allocations to performance.

The challenges facing the Irish economy in the medium to longer-term are very significant and will require focused and sensible Government policies. A strong public sector is obviously an important component of any modern economy, but it has to be efficient, cost effective and focused on delivering value for money.

This is a major challenge and its success is crucial to securing a more balanced, innovative and high growth Irish economy. Success will be a fundamental building block in driving economic growth and social well-being, but it cannot be done without motivated, high calibre public servants.

The public sector has undergone major challenges and changes since the economic crisis of the late 2000s. This has resulted in changes, such as fewer staff at a time of growing population and service demands.

There are many challenges facing the public sector. Efficiency and cost-effectiveness can still be improved. Trust and confidence in aspects of public services remains low.

### Benchmarking

The previous two processes (Benchmarking 1 & 2) actually placed a serious extra financial burden on the economy at a time of immense challenge. It was initiated at the height of the bubble era and was supposed to award pay increases on the basis of comparable workers in the private sector. It ended up being a grossly un-transparent exercise through which the public pay bill rose by 138pc in just eight years up to the crash.

The benchmarking deal had many shortcomings and did not succeed in its original aims and most importantly did not lead to a significant improvement in the quality of public services. It was a missed opportunity for meaningful reform of public sector service delivery and has actually made a significant increase in the permanent cost base of the economy. It is essential that any successor does not have these shortcomings.

The proposed Public Service Pay Commission must not be allowed make the same mistakes and must recognise the challenging realities facing both the public and private sectors. Two parallel worlds cannot be allowed to continue, one consisting of a growing and increasingly affluent, cossetted and costly public sector, and the other consisting of a private sector being squeezed by the globalisation process.

In any consideration of public sector pay, the terms and conditions of employment in the public sector relative to the private sector must be a key consideration.

### Present Conditions

Public sector workers have longer holidays, have a job for life and have a guaranteed pension. This stands out in marked contrast to the situation in the private sector where holidays are typically shorter, where there is increasingly no such thing as a job for life and pensions are coming under increasing pressure.

The pension's situation should be a particularly important consideration.

It is estimated, for instance, that to obtain a salary-indexed pension (like our public servants have) in the private sector would require contributions of 45% of a person's salary throughout their working life. In the public sector, the majority of employees are entitled to guaranteed and relatively generous pensions. This is in marked contrast to the private sector, where pension's coverage is low and future pension benefits are under serious threat due to a combination of poor market performance and the changing trend in the nature of private sector pensions.

The majority of private sector workers who have pensions, are on defined contribution pension schemes, where the amount they contribute and market performance will determine the pension that will be received in retirement. These consideration should be taken on board when considering the relative pay situation for public sector and private sector workers.

The public sector, while essential, is an expensive and growing part of the Irish economy. With such a large cost, it is essential that the value for money be maximised.

Previous processes to adjust Public Service Pay lacked transparency and were shrouded in secrecy. This undermined its credibility and justifiably created much angst in the private sector.

#### Competitiveness & International Comparisons.

To achieve its economic growth potential in the longer-term, it is essential that a position of competitiveness be maintained and enhanced. Competitiveness should be broadly defined to include the wage and general cost environment, the physical and IT infrastructure, the quality of public services, the value for money obtained in the delivery of public services, the overall tax environment and the quality and flexibility of the labour force.

Any future Public Service Pay Commission report should present international data. Ireland is part of a single market with a single currency and seeks global competitiveness. If Irish public services are too expensive by international standards, they price jobs out of the private sector. One of the weaknesses of the previous process was the failure to present international data.

#### Independence & Transparency.

Public sector pay must be adjudicated on independently. Public sector pay is an issue of concern to the public as a whole for it is public resources that are being used to fund it. Public sector pay should not be determined by the bargaining power of the unions involved but by fairness, accountability and international comparison.

The Public Service Pay Commission must take into account all of the aforementioned realities. Quite simply the public sector pay bill cannot be allowed grow indefinitely as this would ultimately necessitate a significant increase in the tax burden, which would undermine Ireland's growth dynamic and potential. The public sector cannot be allowed crowd out the productive private sector, as this would ultimately undermine economic activity and destroy employment.

The process must be transparent, must insist on proper performance measurement and must recognise the realities of the globalised world in which the very small and very open Irish economy now operates. In many ways a parallel universe has been allowed develop in the Irish economy in recent years, with on one side a cosseted public sector and on the other side a private sector labour

force that is facing more and more uncertainty in relation to job security and future pension benefits.

### Recommendations.

The public has the right to know that pay is deserved, fair, under control and designed to drive improving public sector performance – and, just as important, that there are no rewards for failure. We must create a pay and performance framework that over time will drive an innovative, creative and world-class service. All this demands much stronger governance of the pay-setting process and independent assessments of performance indicators.

The Association feels that the key considerations or terms of reference underlying the Public Service Pay Commission should be:

- The quantitative and qualitative evaluation and measurement of work.
- The total elements of reward in the public and private sectors.
- The incompatibility of cross-sectoral relativities and the need for internal consistency and coherence.
- The over-riding need for modernisation and change in the public sector.
- The necessity for government entities to be more output and outcome focused.
- The examination of personnel issues in the public service, such as recruitment and retention, with the intention of deepening the talent pool.
- How greater autonomy could be granted to individual government entities to manage and allocate their resources more efficiently.
- Investigate what structures can be used to link budget allocations to performance.
- Comparisons with the private sector.
- The need for equity between public sector and private sector employees.
- The impact of pay on national competitiveness.
- The value of public sector pensions relative to those in the private sector; and
- Other material sectoral differences in conditions and benefits such as security of tenure and benefit in kind.

An independent and rigorous commission can bring hard evidence to the table on pay issues. This evidence along with its findings should be published. The Association is of the opinion that to avoid any perception of bias that the proposed Public Service Pay Commission should be peopled by independent experts, and that insider stakeholders will be kept firmly on the outside. The chair should also be an international expert.

We also recommend that the CSO and the ESRI produce indisputable comparisons between public and private sectors in Ireland and between Ireland and its international comparators.

The Commission should provide evidence-based advice to the government on levels of pay for the public sector groups.

The Commission should receive written and oral evidence and conduct workplace visits. It will weigh the evidence and with their own independent research, it will formulate recommendations which are then submitted to the government.

The government will not be bound by the Commission recommendations. It is up to the government to decide how to react to this advice.

The Commission should have between 6 and 8 members, from a range of backgrounds. They will be appointed by government following public advertisement for a term of 3 years (renewable) and paid on a per diem basis.

ISME.

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