



Small Firms Association

**Submission on public sector pay
in the context of national
competitiveness and productivity**

Presented to:

Public Sector Pay Commission

January 2017

Introduction

The Small Firms Association (SFA) is the trusted partner of small businesses (less than 50 employees) in Ireland, with 8,500 members and four affiliated organisations in all sectors and parts of the country. Its mission is to deliver business-focused advice and insights to member companies, influence government policy to the benefit of small businesses and connect its members in a thriving community.

The SFA has a vision of Ireland as the most vibrant small business community in the world – supporting entrepreneurship, valuing small business and rewarding risk takers. In this context, the SFA welcomes the opportunity to make a submission to the Public Sector Pay Commission. The submission is based on our knowledge and experience of the small business community, which comprises over 235,000 businesses, employing half of the private sector workforce, and the real economy in which they operate.

Overview

Public sector pay is an issue that concerns the whole of the economy and society. The cost is spread across all taxpayers and must be affordable and provide value for money.

From a private sector perspective, managing wage expectations is currently the most important issue facing small businesses. In a context of zero inflation, in which businesses do not have the scope to increase prices, wage pressures are being fuelled by unrealistic demands in the trade union movement, both public and private sector.

The Government has already committed to effectively a 2.5% pay increase per public sector worker with €150mn in increments and €317mn under existing commitments under Lansdowne Road, which were accelerated just last week. In contrast, just 60% of SFA members are able to give pay increases this year, with the average being 2%. In the discourse about restoration, we should not forget the many small business families that will never have to worry about restoration, as their businesses are gone.

The Public Service Pay Commission is the structured process to determine public service wages. Any renegotiation of Lansdowne Road must reflect the government's ability to pay and must take account of all aspects of remuneration, including pensions and allowances, not just basic pay.

Economic context for wage negotiations

Small businesses are cautious entering 2017. Half of SFA members believe that the business environment is improving (down from 66.4% in May 2016) but 18% feel it is disimproving (up from 3%). There are many factors that contribute to this overall sentiment.

– Growth

It is estimated that the economy grew by 3% last year, compared to growth in the real economy of about 5% in 2015. Domestic demand has had strong areas of recovery but remains well below peak levels. The regions are also still lagging behind Dublin in terms of recovery to peak levels of activity. 85% of the fall in GDP during the recession took place outside Dublin but less than half the recovery has been seen there.

Growth in recent years was heavily export led. This was concentrated in a small number of firms and sectors. Many firms that focus on the domestic market did not reap the same benefits. Turnover in retail, for example, is still 12.5% below its 2007 peak.

Add to this mixed picture new challenges such as Brexit, President Trump's protectionist ethos and growing anti-free trade sentiment across the western world. Sectors such as agri-food, retail, manufacturing and tourism are facing into a more difficult year in 2017 as the full implications of these challenges bite.

– ***Inflation***

Inflation for 2016 is likely to be in the region of 0.3% following a fall of -0.3% in 2015. Falling goods prices have cancelled out the inflationary effect of increasing cost of services. Increases in big ticket items, such as insurance, have been more than offset by downward pressures on items such as in mortgage interest, energy and transport (fuel). Intense competition in retail has resulted in a 9% fall in goods prices over three years.

Where price pressures are coming through they are very context specific, e.g. rent. Given that this is relevant to only a small percentage of the population, it would be most effectively addressed using targeted initiatives.

Inflation at amongst the lowest levels in the history of the state means that consumer purchasing power is rising. There is little cost of living justification for take-home pay increasing. Real (inflation adjusted) wages have not dropped on average from 2008.

– ***Employment and wages***

Employment has been growing steadily since 2013 but both employment and consumer spending are still below their pre-crisis peak. Dublin is now at 97% of peak employment whereas the west and border regions are both less than 90%.

The labour market is tightening quickly and short-term unemployment is now back to pre-crisis levels. Low inflation means strong real wage growth and tax cuts have increased take-home pay. For example, due to changes in Budget 2017, a worker with average earnings will see their pay increase by 0.6%.

In the small business sector, where wage increases are bring given (60% of firms) they currently average around 2%, with differences between sectors driven by skills needs and stages of recovery. Labour costs are already well above European averages in key sectors. Despite the crisis, wages in manufacturing are 32% higher than the UK for example.

– **Competitiveness**

Ireland's international competitiveness improved between 2009 and 2012. This was due to a mix of external factors and internal competitiveness gains. Since 2012, however, we have begun to see a gradual slide again on what is already a high cost base.

Costs still remain a major challenge for businesses in Ireland. The majority of location sensitive business costs are based on labour, interest rates, property and transport. Many businesses are still faced with high borrowing costs and boom time property rates. Labour costs also present a competitiveness challenge.

The public sector pay debate

Industrial peace in the public sector is important for our economy and society as a whole, but it cannot be maintained at any cost.

From a business perspective, there must be no return to benchmarking. Excessive public sector remuneration growth results in higher demands in the private sector and resultant loss in international competitiveness.

The reality of the Lansdowne Road Agreement is that it has been extremely lucrative for public sector workers, including:

- €280mn in pay increases in each of 2016, 2017, 2018
- €150mn increments per year
- Average pay increase = €1,300 per worker
- 2.7% increase in average gross pay (vs. 2% in private sector)

CSO data shows public sector average weekly earnings are already 50% higher than in the private sector – €914.58 compared with €635.52. In addition, the average public sector pension would be valued at €1.5mn if funded in the private sector.

Any increase in public sector remuneration must have a new source of funding, as the Government is already running a budget deficit. The principal options available are increased general taxation, reduced public services, decreased capital investment, or higher charges to businesses (e.g. waste, water, rates). Small businesses believe that no significant changes can be supported by any of these areas in the current economic context.

The Public Sector Pay Commission – A new approach needed

The formation of a Public Sector Pay Commission is an opportunity to rethink how pay is set in the public sector and to establish best practice principles such as:

- Full transparency
- Assessment of international trends, approaches and methodologies

- Specific sectoral approaches (e.g. health, education etc.) to avoid a one-size-fits-all approach to public service pay policy
- Ex-post evaluation of the PSPC itself

In addition, the SFA believes that a comprehensive qualification of all pay and non-pay benefits within the public service must also be conducted (e.g. total pension package, full leave entitlement, working hours, job security, incidence and value of variable pay, car parking, etc.). Pay level assessments must address issues such as grade, function, location, length of service/experience and specialist skills. Performance and service provision must also be taken into account.

When comparisons are being made with remuneration in the private sector, the broadest possible comparators should be used. Comparisons should be insulated from short-term spikes in private sector pay. Furthermore, analysis of private sector pay rates must reflect the economy as a whole (e.g. MNC, SME, etc.) and an appropriate geographical spread across the country.

We are concerned that the Commission did not issue a public call for submissions, which is common practice, and this will limit the potential for good evidence-based policy-making. This should be remedied for future work, if the Commission remains in place.

Conclusion

The SFA welcomes the establishment of the Public Service Pay Commission as a structured way to determine public sector remuneration. The small business community calls for the Commission to adopt an approach that reflects best practice, the challenges facing the Irish economy and the government's ability to pay.

For further information on any of the issues raised in this submission, please contact Patricia Callan, SFA Director, on 01-6051602 or patricia.callan@sfa.ie

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