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Management of the Exchequer Pay Bill - Key Issues

JOHN HOWLIN, SIMON MCGRATH, PÁDRAIC REIDY AND DAVID SMITH
PUBLIC SERVICE NUMBERS SECTION
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Summary of Key Points

- Between 2000 and 2008, the Exchequer pay bill more than doubled to €17.2 billion. This was driven by a 73,000 expansion in public service numbers (FTEs) and increases in pay rates.
- During the crisis period, pay measures, both relating to pay rates and public service numbers, proved effective in reducing expenditure, with a €3.4 billion reduction in the Exchequer pay bill between 2008 and 2014. Measures to reduce public service numbers, including the introduction of an Employment Control Framework (ECF) and a moratorium on recruitment and promotion, were supported by productivity measures underpinned by Public Service Agreements.
- The implementation of the crisis measures to return stability to the Exchequer pay bill were helped by the centralised structures in place in Ireland for public service pay determination. The IMF[1] has noted the ability to get agreement on the need for wage reductions without significant industrial action and how this was something that was not as evident in other countries heavily affected by the economic crisis.
- This centralised approach to pay negotiations continued with the phased unwinding of FEMPI measures in the Public Service Stability Agreement 2018-2020 with this agreement being negotiated taking into account the medium term fiscal constraints and providing for retention of productivity measures.
- Emergency measures do not provide a stable and enduring basis for the effective management of the Exchequer pay bill. In more normal economic and fiscal times, an institutional framework that encompasses a structured approach to fiscal planning (which incorporates the pay bill), ensures competitive rates of pay for public servants and embeds workforce planning across the public service, can support sustainability in the Exchequer pay bill over the medium term.
- International comparisons suggest that there are a range of mechanisms and approaches to improve the alignment of Exchequer pay within an overall expenditure management framework. In Ireland, many of these processes have been put in place or are currently being established. These initiatives will be important to support additional reform measures in strategic HR and will work towards delivering a methodology for workforce planning, that is underpinned by clear consideration of available fiscal resources, and that looks to increase productivity by harnessing ICT and ensuring the necessary skills are in place to deliver services in a changing environment.

[1] https://www.imf.org/external/np/pp/eng/2016/040816ab.pdf

Introduction

Reflecting the critical role of public services, the Exchequer pay bill constitutes a relatively large share of Government spending in all countries. This paper examines the trends and the institutional framework within which Ireland's Exchequer pay bill is managed. In addition to examining the existing mechanisms, the paper assesses how the current structure can be better aligned with the overall medium-term expenditure framework (MTEF). As such, this paper attempts to identify the main considerations associated with the Exchequer pay bill and address them as a whole.

The analysis presented in this paper reflects on the nature of the Exchequer pay bill in terms of the implied liability associated with its expansion over time. This can introduce an element of inflexibility into the baseline level of public spending given the medium to long term commitment inherent in hiring additional public servants. In this way, spending on the pay bill can clearly have a significant impact on the fiscal balance and the composition of overall Government expenditure. If not effectively integrated into overall budget and expenditure planning, high or increasing pay bill levels can have the potential to seriously weaken fiscal planning. The experience in the wake of the economic and fiscal crisis reiterates the importance of ensuring that the evolution of the pay bill is such that it is strongly consistent with fiscal sustainability over the medium-term taking account of the risk of economic and other shocks that have the potential to adversely impact on the overall fiscal position.

Reflecting this, a key objective of this paper is to identify the key issues and challenges associated with managing the Exchequer pay bill. This assessment takes account of both the recent trends in the pay bill, informed by key drivers, in addition to a broader assessment of these trends in the context of an analytical framework developed by the IMF[2] which incorporates issues related to:-

- Fiscal planning;
- Rates of pay; and
- Workforce planning.

[2] https://www.imf.org/external/np/pp/eng/2016/040816a.pdf

Drivers of the Exchequer Pay Bill

Overview

Reflecting increases in the demand for public services, Government spending, including expenditure on the pay bill, tends to increase as a share of GDP as countries develop[3]. However, the relationship between income and pay bill spending weakens in advanced economies suggesting that the share of the pay bill in GDP stabilises at higher levels of development (Kuckuck, 2014[4]). The role of the State in Ireland, as in most developed economies, has increased significantly over the past number of decades. An increase in the role of Government has enhanced the delivery of public services. However, spending on the delivery of services needs to be balanced with spending in other areas such as public infrastructure and social protection, crucial for economic growth and poverty reduction[5].

In the last number of years, the Irish economy has been growing strongly. This growth, in tandem with significant reforms introduced during the global financial crisis, has supported a recovery in the public finances. The overall fiscal context is that key expenditure pressures such as, for example, the need for substantial increases in public investment, unwinding of FEMPI measures and meeting increasing demographic costs, will have to be managed whilst also complying with the obligations set out within the Stability and Growth Pact (SGP) and the Fiscal Responsibility Acts 2012 and 2013 (SES, 2017[6]). Under the preventive arm of the SGP, increases in expenditure are governed by a set of rules designed to limit the scope for pro-cyclicality in fiscal policy. By extension this puts a premium on accurate expenditure forecasts – based on detailed estimation of pressures – allowing for realistic allocations of available resources through medium term expenditure ceilings.

In terms of the pay bill, which is comprised of the number of public servants and their rates of remuneration, public service recruitment and pay increases tend to be quite cyclical in nature. Raising public service pay and / or boosting recruitment during cyclical upturns can exacerbate output fluctuations by further stimulating demand, curtailing the stabilising role of fiscal policy and increasing public debt during downturns as pay increases are often hard to reverse[7]. Under the SGP, the goals of sustainability, stability and counter-cyclical fiscal policy became key parts of fiscal decision-making among the EU Member States, including Ireland. In this context analysis of the composition and drivers of the Exchequer pay bill can help facilitate enhanced fiscal planning against the backdrop of the

[3] See Wagner's Law which posits that government spending tends to increase as a share of GDP as countries develop, reflecting increasing demands for public services.
[4] Kuckuck, Jan, 2014, "Testing Wagner's Law at Different Stages of Economic Development," FinanzArchiv: Public Finance Analysis, Vol. 70, No. 1, pp. 128–68.
[5] https://www.imf.org/external/np/pp/eng/2016/040816a.pdf
[6] http://www.finance.gov.ie/updates/summer-economic-statement-2017/
[7] https://www.imf.org/external/np/pp/eng/2016/040816a.pdf

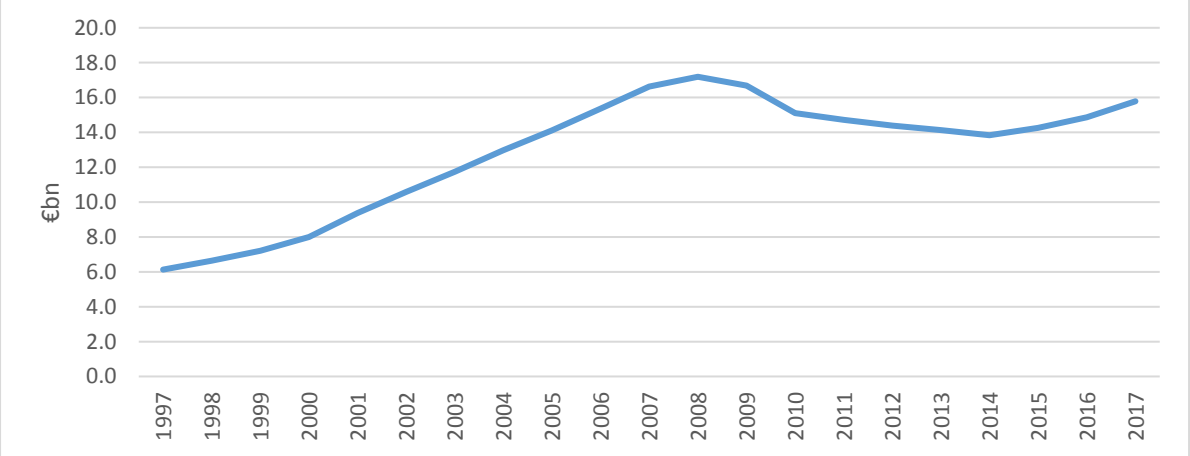
planned achievement of the Medium Term Budgetary Objective[8] (MTO) and longer term targets for the debt ratio.

Prior to outlining the trends in the Exchequer pay bill, it is important to note the distinction between the total number of public servants and Exchequer funded public servants with the latter excluding certain cohorts of public servants, mainly Local Authority staff, who are not funded from the Exchequer. Throughout this paper, reference to the Exchequer pay bill will exclude these staff, however, for completeness, analysis of public service staff numbers includes them.

Trends in the Exchequer Pay Bill

As illustrated in Figure 1 below, between 2000 and 2008, the Exchequer pay bill more than doubled, increasing from €8.0 billion to €17.2 billion. This was driven by a 73,000 expansion in full time equivalent (FTE) public service numbers and increases in rates of pay through national pay agreements and other pay awards. The latter was the main driver of Exchequer pay bill increases over this period, accounting for €6.7 billion or 73 per cent. Overall, the average annual growth rate in the pay bill in the period 2000 to 2008 was 10.2 per cent.

Figure 1: Exchequer Pay Bill (€bn), 1997-2017*



Source: Department of Public Expenditure and Reform databank / Notes: *Net of Pension Related Deduction (PRD)

Having reached €17.2 billion in 2008, the Exchequer pay bill was reduced following the onset of the financial crisis falling by €3.4 billion[9] or 20 per cent between 2008 and 2014. This was the first

[8] The rules of the SGP bind EU governments to their commitments towards sound fiscal policies and coordination by setting a budgetary target in structural terms for each country, known as the MTO.
[9] Net of Pension Related Deduction (PRD)

significant reduction in the history of the State and was driven by Government policies to limit new recruitment, the introduction of the Financial Emergency Measures in the Public Interest (FEMPI) Acts and consequent pay agreements. Counterfactual analysis[10] carried out by the Department of Public Expenditure and Reform indicates that in the absence of policy interventions by successive governments over the period 2008 to 2013, the Exchequer pay bill may have reached €21 billion, or nearly €7 billion (50 per cent) higher than the actual cost in 2013.

With the unwinding of the FEMPI measures, the pay bill has been increasing over the last number of years and by the end of 2017 reached €15.8 billion, an increase of €920 million on the 2016 outturn (net of PRD). This increase was driven by factors including demographic related staffing needs in particular in the Health and Education sectors, Government Decisions related to, for example, increased Special Needs Assistants (SNAs) and Gardaí (1,000 additional Gardaí and civilians in Budget 2017), and the Lansdowne Road Agreement (€844m between 2016 and 2018[11]).

International Comparisons

From a Euro-wide perspective broadly similar trends are evident over the period 2007-2014, i.e. growth in public service pay and numbers up to 2009, a decline with the onset of the economic crisis and a recovery period beginning in 2013/2014[12]. The Euro-wide decrease in employment in the public sector following 2009, at 3.5 per cent, was the most significant reduction in Government employment in the last three decades. In Ireland the decrease in total public service numbers (FTEs) between 2008 and 2014 was just less than 10 per cent.

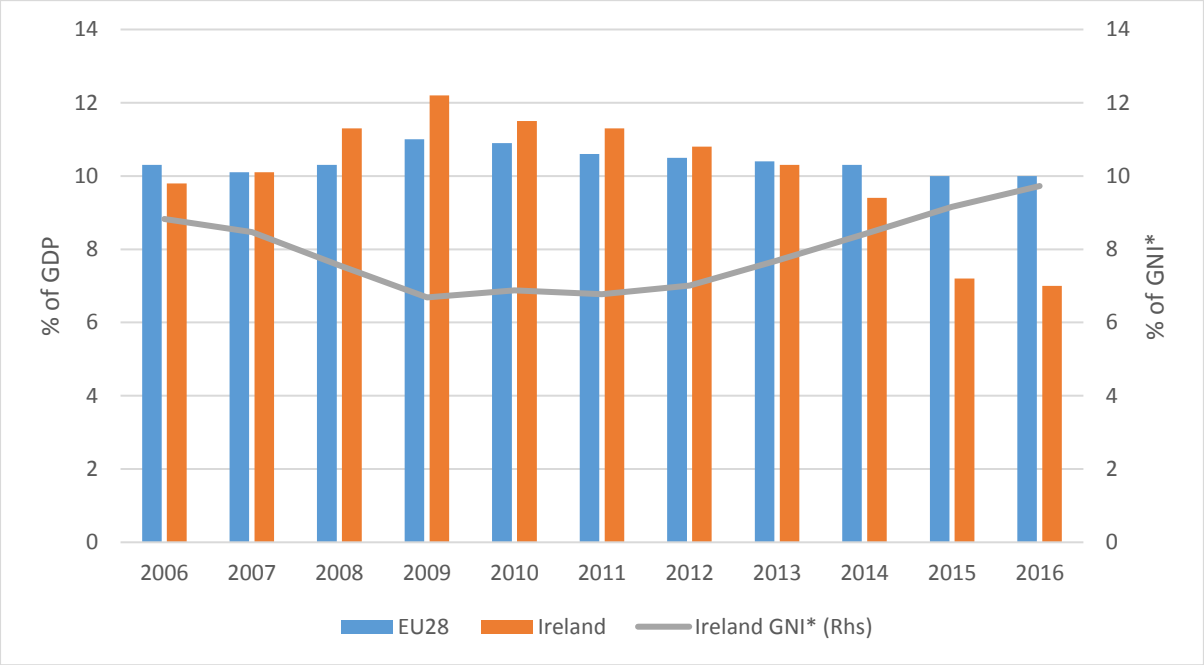
Cross-country variation in pay bill expenditure as a share of total spend and GDP reflects mainly country choices regarding the role of Government in service delivery[13]. For Ireland, expenditure on Government employees as a share of GDP averaged 10.1 per cent from 2006 to 2016. The EU28 average over the same period was 10.4 per cent. The decline in 2015 of the share of compensation of employees in GDP, to 7.2 per cent, was due to a sharp statistical increase in GDP in Ireland. This was followed by a further decline to 7.0 per cent of GDP in 2016.

The various issues with GDP as a measure of real economic activity in the Irish economy led the Economic Statistics Review Group[14] to recommend the use of a new modified Gross National Income

[10] http://igees.gov.ie/wp-content/uploads/2013/10/The-Cost-of-the-Public-Service.pdf
[11] Inclusive of the previously committed costs attributable to the Haddington Road Agreement.
[12] ECB (2016) The Fiscal and Macroeconomic Effects of Government Wages and Employment Reform
[13] https://www.imf.org/external/np/pp/eng/2016/040816a.pdf
[14] http://www.cso.ie/en/media/csoie/newsevents/documents/reportoftheeconomicstatisticsreviewgroup/Economic_Statistics_Review_(ESRG)_Report_Dec_2016.pdf

measure, GNI*. This aims to provide a more consistent measure of domestic economic activity and may represent a better benchmark in an Irish context. Using this measure the compensation of Government employees in Ireland, as measured by Eurostat, was 9.2 per cent of GNI* in 2015 and 9.7 per cent of GNI* in 2016. As the Figure below displays, this is in line with current EU norms.

Figure 2: Compensation of Employees as a Share of GDP and GNI* in Ireland and as a Share of GDP in the EU28, 2006-2016

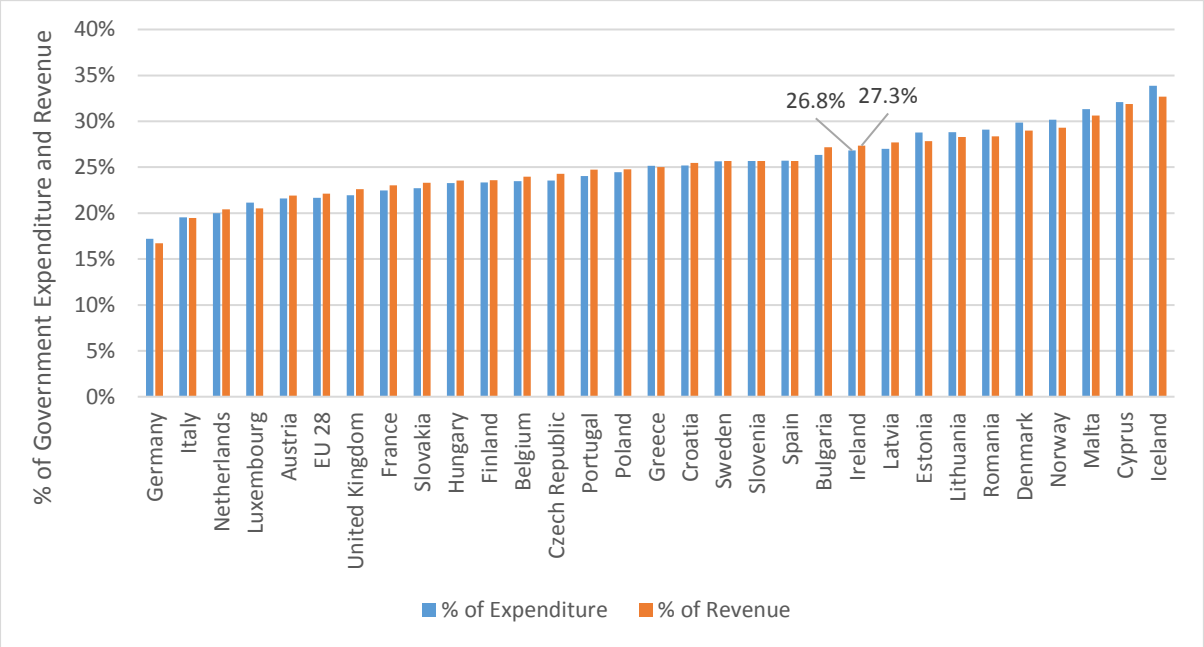


Source: Eurostat and CSO

Given the above limitations which affect comparisons based on economic activity, particularly for a small highly-open economy such as Ireland, there is value in examining other relevant comparators. Reflecting the central role of public service provision, the Exchequer pay bill constitutes a large share of Government expenditure in all countries[15]. As illustrated in Figure 3 the pay bill as a share of total Government expenditure in Ireland is above the EU average at 26.8 per cent. The compensation of employees as a share of Government revenue yields a similar result – 27.3 per cent for Ireland in 2017 versus an EU average of 22.1 per cent. However, care needs to be taken when interpreting international comparisons given that the structural differences in the scope and delivery of public services across countries which impacts on comparisons.

[15] https://www.imf.org/external/np/pp/eng/2016/040816a.pdf

Figure 3: Compensation of Employees as a Share of Government Expenditure and Revenue, 2017

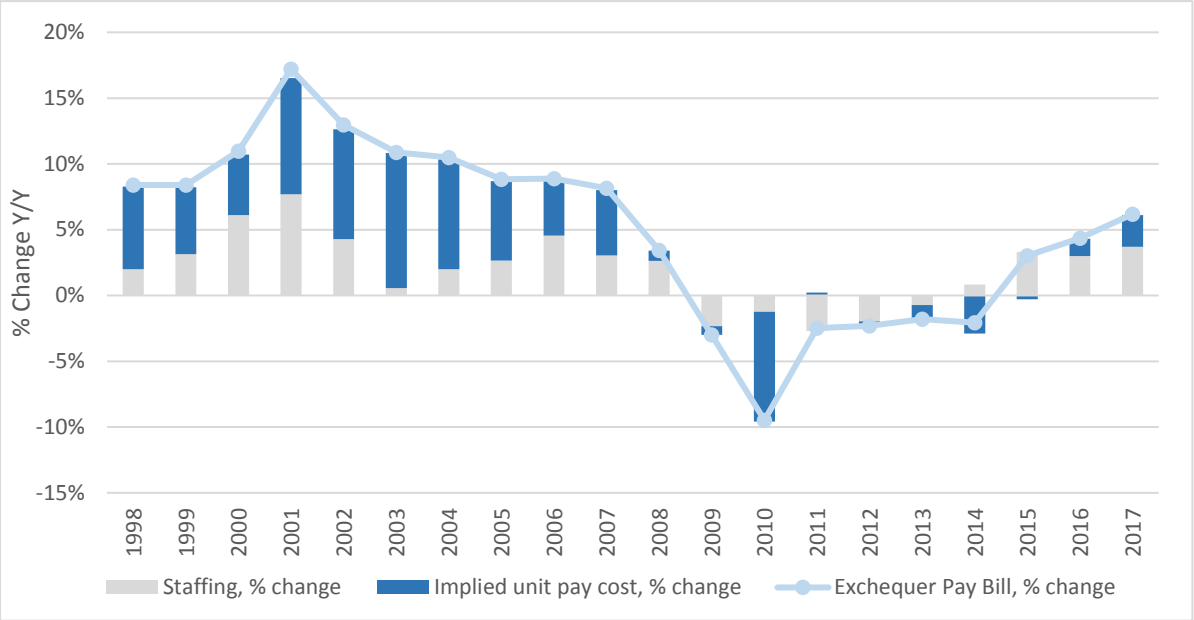


Source: Eurostat

Nominal growth in the Exchequer pay bill has both volume (i.e. number of public servants employed) and price (i.e. public service pay rates) drivers. On the volume side, changes in the size and composition of public service employment determines growth in the pay bill. On the price side, the unit cost of each individual employee is the key driver.

In Ireland, as displayed in Figure 4 below, unit costs were the key driver of the increase in the pay bill up to 2007 and the subsequent decline in the pay bill, especially in 2010 when the FEMPI (No. 2) Act instituted an average salary reduction of around 6.5 per cent. More recently, the increase in public service staff numbers has been the main driver of growth in the Exchequer pay bill. From 2014 to 2017, Exchequer funded staff numbers growth has accounted for €1.4 billion or 73 per cent of the growth in the Exchequer pay bill. Trends in both drivers, numbers and rates of pay, are now analysed in more detail.

Figure 4: Estimated Drivers of the Annual Change in Exchequer Pay, 1998-2017



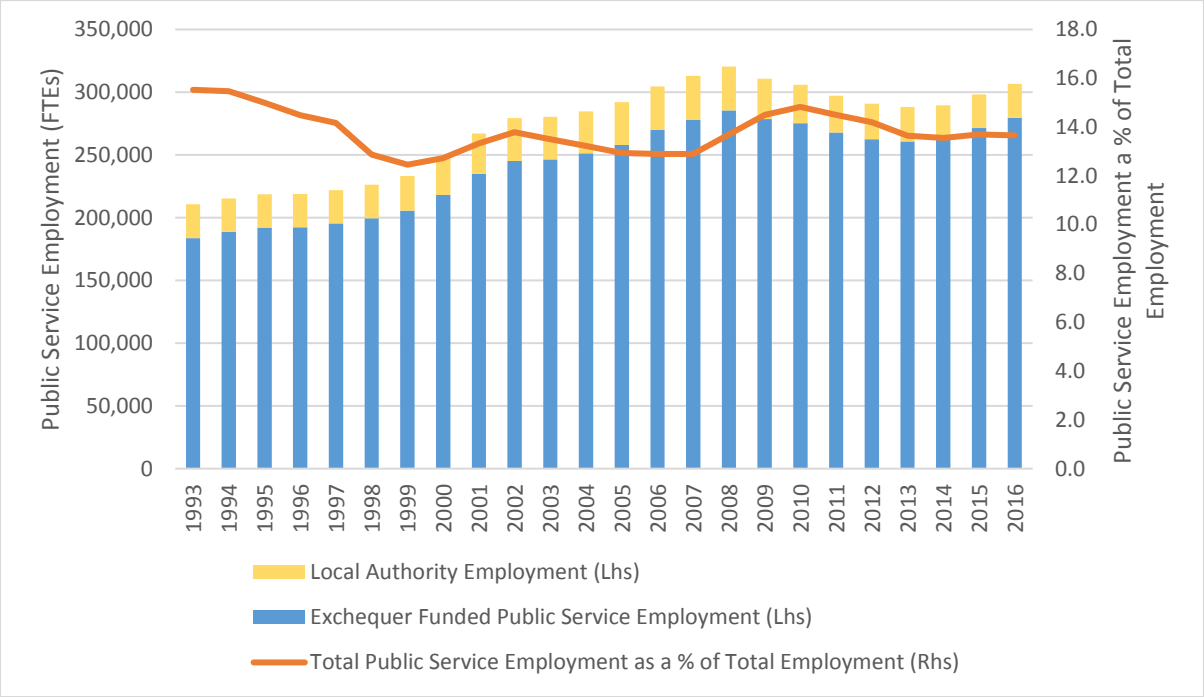
Source: Department of Public Expenditure and Reform Databank and author's calculations / Note: Average staff numbers are estimated by taking the simple average of the end-year point estimates of the relevant years. Average unit pay costs are calculated on the basis of this staffing cohort, which excludes Local Authority staff as they are not paid out of Exchequer funds, and the overall pay outturn (net of Pension Related Deduction) for the year.

Public Service Staff Numbers

In this section, given the size of the sector, Local Authority staff are included in the analysis. However, as highlighted above, these staff are not paid from Exchequer funds and are not included in any of the analysis as it relates to the Exchequer pay bill.

At the end of 2016, the State employed over 306,000 FTEs representing approximately 15 per cent of total employment in Ireland. Figure 5 below sets out public service employment levels in Ireland since 1993 as a percentage of total employment. Due to significant private sector employment growth, this share declined through the 1990s to the start of the 2000s. Since this point, it has remained within a range of 14 per cent to 16.5 per cent of total employment.

Figure 5: Total Public Service Employment (FTEs) and Share of Total Employment (%), 1993-2016



Source: DPER and CSO

Drivers of Public Service Numbers

Over the last two decades public service numbers have been driven predominantly by changes in demographics and service demand as well as developments in the economy and the public finances.

Demographics/Service Demands

Between 2000 and 2017, total public service employment has increased by nearly 30 per cent, with over 90 per cent of this increase being in the Health and Education Sectors, areas of the public service with a high proportion of frontline staff. The growth in total public service employment needs to be viewed in the context of the wider demographic trends throughout this period. For example, between 2000 and 2017, the size of the population increased by approximately 26 per cent. In the same period, the number of children up to the age of 9 increased by 28 per cent and the population aged 65 and over increasing by 53 per cent. In addition, the increase in staffing over a longer time period can also be explained by policy decisions aimed at improving the level of public services. For example, in the Education sector, the pupil teacher ratio (PTR) at primary level has been reduced from 19.2 to 15.7 between 2000/2001 and 2016/2017.

Ireland's population has continued to grow over the last number of years. This has led to significant increases in the demand for public services. Selected key trends driving service demands are:

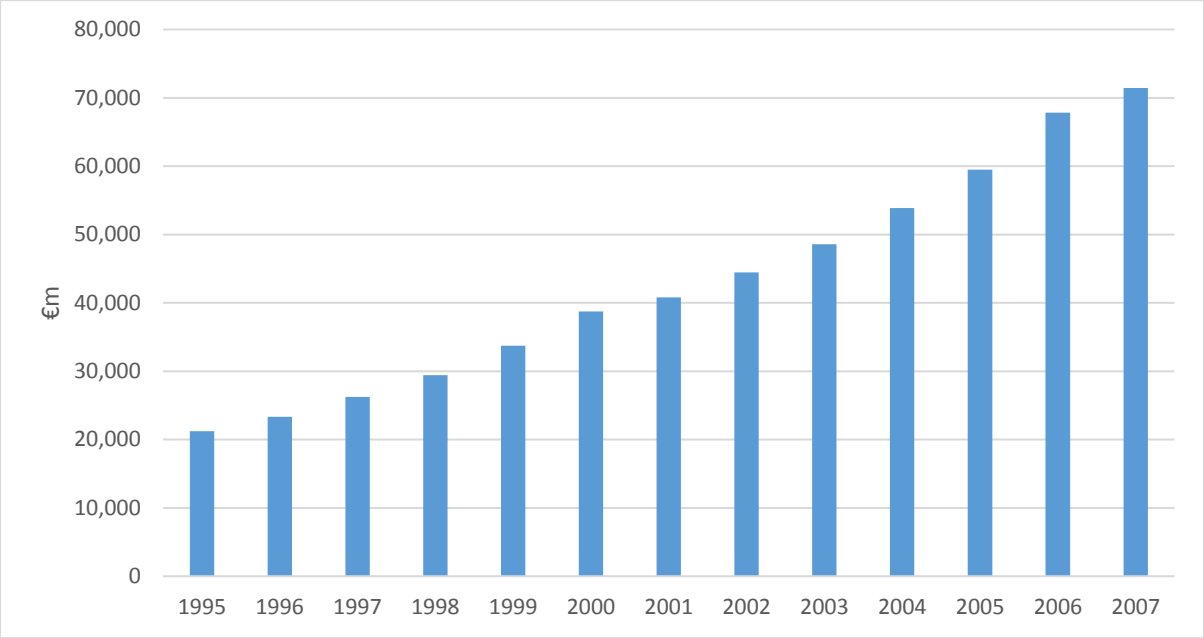
- The population has increased by 559,000 (+13.2 per cent) between 2006 and 2017 to stand at 4.79 million[16];
- Ireland had the highest birth rate in the EU in 2016 and the joint lowest death rate resulting in a natural population change of +7.1 per 1,000 inhabitants. This was the largest annual natural rise in population in the EU[17];
- Ireland had the second highest fertility rate in the EU (1.94) in 2015[18];
- As a percentage of the population, Ireland had the highest percentage of under 15s (21.1 per cent) and the lowest percentage of over 65s (13.5 per cent) in the EU in 2017;[19]
- There has been an increase of over 21 per cent (195,785) in students in full-time education between 2006 and 2017;[20]
- There were 32 per cent (407,614) more medical card holders in 2016 than in in 2006;[21]
- Life expectancy has risen from 76.7 to 79.6 years for males and from 81.3 to 83.4 for females between 2005 and 2015[22]; and
- The number of people aged 65 and over rose by 102,174 between 2011 and 2016, meaning that old age dependency stood at 20.4 per cent for the State, compared to 17.4 in 2011 (CSO[23]).

Economic Context / Public Finances

From the early 1990s, the Irish economy enjoyed a period of sustained economic growth with real GDP growth averaging over 6 per cent per annum between 1990 and 2007. The unemployment rate was reduced from 6 per cent in 1994 to 4 per cent in 2000. The size of the labour force increased significantly during this time, due to both favourable demographics and inward migration. Total numbers in employment rose steadily from 1.2 million in the late 1980s to 2.2 million in 2007[24]. This extended period of exceptional economic growth contributed to a sharp increase in tax revenues. This revenue, the trend in which is detailed below, created the significant fiscal space required for the recruitment of substantial numbers of public servants over this period.

[16] https://www.cso.ie/en/releasesandpublications/er/pme/populationandmigrationestimatesapril2017/
[17] https://ec.europa.eu/ireland/news/ireland-highest-birth-rate-and-lowest-death-rate-in-the-eu-in-2016_en
[18] http://ec.europa.eu/eurostat/statistics-explained/index.php/Fertility_statistics
[19] http://ec.europa.eu/eurostat/statistics-explained/index.php/Population_structure_and_ageing
[20] https://www.cso.ie/px/pxeirestat/Statire/SelectVarVal/saveselections.asp
[21] https://health.gov.ie/wp-content/uploads/2018/01/Key-Trends.pdf
[22] http://ec.europa.eu/eurostat/statistics-explained/index.php/Mortality_and_life_expectancy_statistics
[23] http://www.cso.ie/en/media/csoie/releasespublications/documents/population/2017/Chapter_3_Age_and_sex_composition.pdf
[24] https://data.oecd.org/emp/labour-force.htm

Figure 6: General Government Revenue (€m), 1995-2007



Source: CSO / Notes: Figures reflect total receipts from taxes and social contributions.

The cyclical nature of tax revenues, and heavy reliance on construction activity, especially through the mid-2000s, meant that when construction related activity collapsed after 2007, so too did tax revenues. For example, stamp duty on property declined by 86 per cent[25] from 2007 to 2009. This cyclicality in tax revenues caused significant issues as the fiscal crisis developed.

During the crisis Government policy was very strongly directed towards making savings from the Exchequer pay bill by reducing the number of public servants and their rates of remuneration. To control the number of public servants a moratorium on recruitment and promotion across the public service was introduced as an emergency measure in 2009. The moratorium did allow for the filling of some vacancies in exceptional circumstances, particularly in the Education and Health sectors. It also provided for vacancies to be filled by redeployment of staff from other Departments or public bodies.

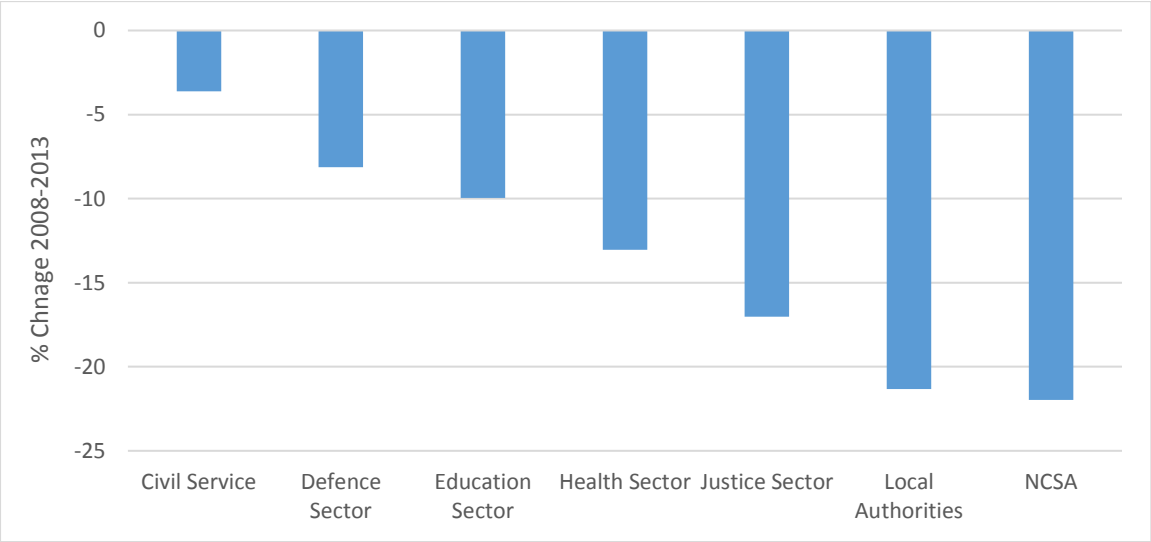
The reduction in numbers became more targeted in 2010 with the introduction of Employment Control Frameworks (ECFs). This involved setting multi-annual headcount ceilings for public service bodies. Each Department, and bodies under their remit, then had to deliver on their targets through non-replacement of retiring staff, redeployment and incentivised career breaks.

[25] https://www.revenue.ie/en/corporate/documents/statistics/receipts/net-receipts.pdf

As noted in the IGEES report on the Cost of the Public Service[26], redeployment of staff across the public service provided considerable flexibility to respond to the changing needs of citizens, while reducing localised inefficiencies in staffing levels. Some 12,400 staff had been redeployed to end December 2013.

In addition, an Incentivised Scheme of Early Retirement (ISER) was introduced in May 2009, which allowed public servants of 50 years of age to retire early and receive a pension based on their actual service. Approximately 1,000 people left the public service under this scheme. These measures, combined with non-replacement of retiring staff, resulted in a 10 per cent reduction in staff numbers in the public service from 320,000 in 2008 to 288,000 by the end of 2013. Figure 7 below details the sectoral composition of this decline in staffing.

Figure 7: Percentage Change in Public Service Staffing by Sector, 2008-2013*



Source: Department of Public Expenditure and Reform Databank / Note:*NCSA refers to Non-Commercial State Agencies

The scale of the economic crisis and the proportion of spend on the Exchequer pay bill meant that a significant reduction in the pay bill was required to return stability to the public finances. Given the context in which the emergency measures were introduced, this possibly gave rise to certain issues regarding efficiency. For example, the early retirement scheme would have resulted in a loss of knowledge with experienced staff leaving the public service and, in the Health sector, given the demands on services, the savings from reduced public service numbers may have been partially offset by increased overtime and use of agency staff. Such issues point towards the need for ongoing

[26] http://igees.gov.ie/wp-content/uploads/2013/10/The-Cost-of-the-Public-Service.pdf

sustainable management of the Exchequer pay bill during more normal economic times to help avoid the need for emergency measures in the future. Further analysis of these type of issues could be carried out to gain a better understanding of the impact.

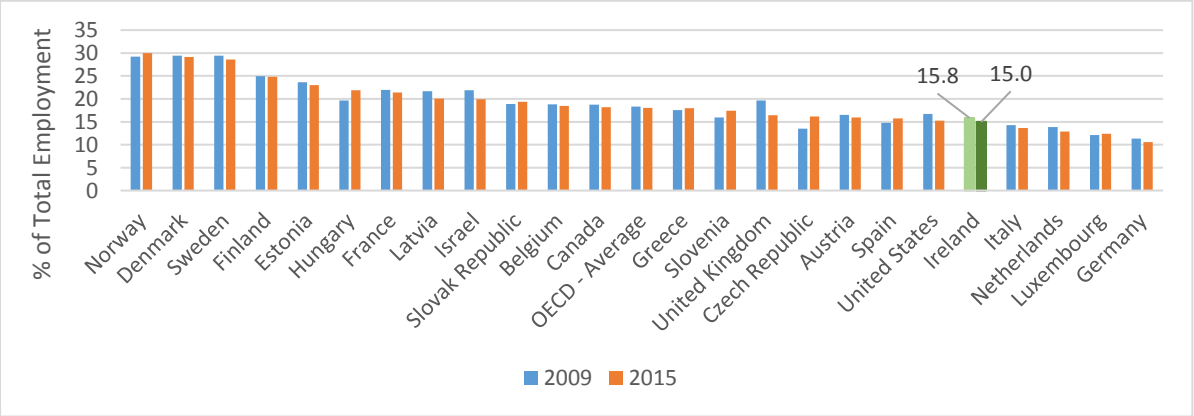
The moratorium and ECFs were lifted for most Departments in 2015 and replaced by delegated sanction arrangements. The sanction allows Government Departments to recruit and promote in grades up to and including Principal Officer (or equivalent) without having to seek direct approval from the Department of Public Expenditure and Reform (DPER), subject to remaining within an overall Exchequer pay ceiling for a given Department. Delegation of sanction represented reinstatement of the position which existed prior to the moratorium. The sanction also allowed Departments to institute similar delegated arrangements with public service bodies under their aegis.

Since the introduction of delegated sanction, staff numbers have grown by approximately 3 per cent per annum. At the end of the first quarter in 2018, staff numbers stood at just over 320,000 FTEs. This represents an increase of 32,000 FTEs compared to the beginning of 2014. These increases have been directed towards sectors delivering frontline services. Taking account of transfers of functions, there was an increase of 15,944 in the Health sector, 12,773 in Education and 1,000 in An Garda Síochána.

International Comparisons

The figure below sets out an international comparison of Government employment. In terms of the level of employment in general Government as a percentage of total employment, Ireland is below the OECD average – 15 per cent of people employed in Ireland in 2015 were employed by the Government, down from nearly 16 per cent in 2009. This compares with an OECD average of 18 per cent. The countries with the highest share of Government employees are Norway, Denmark and Sweden where close to 30 per cent of total employment is in the general Government sector.

Figure 8: Employment in General Government as a Percentage of Total Employment in Selected OECD Countries, 2009 and 2015



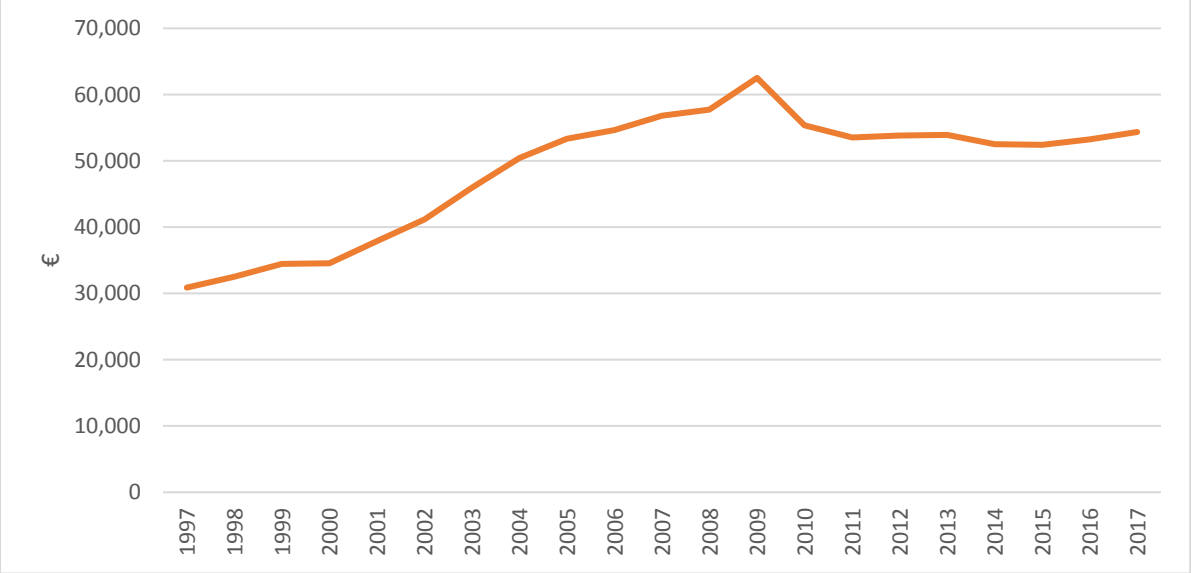
Source: OECD

These figures show that Ireland is not out of line internationally. However, care needs to be taken when interpreting international comparisons such as those outlined above. This is because different countries deliver public services in different ways. In some countries, the private sector can have a significant involvement in the delivery of services e.g. childcare in Ireland, while in other jurisdictions similar services may be provided by the State, e.g. Nordic countries. As a result, cross country comparisons must be interpreted carefully and the above analysis should only be seen as indicative.

Public Service Pay Rates

The other key element of the pay bill relates to the remuneration of public servants and how this changes over time. Figure 9 sets out the inflation adjusted Exchequer cost per employee from 1997 to 2017 as a simple average of the Exchequer pay bill, net of PRD, divided by the end year number of Exchequer funded public servants, and hence includes, for example, employer PRSI as well as direct pay costs. Although this measurement is relatively crude, the overall trend is one which is consistent with our understanding of growth in the pay bill and the subsequent correction which took place following the crisis.

Figure 9: Inflation Adjusted Average Public Service Pay (€000s), 1997-2017



Source: Department of Public Expenditure and Reform Databank and author's calculations

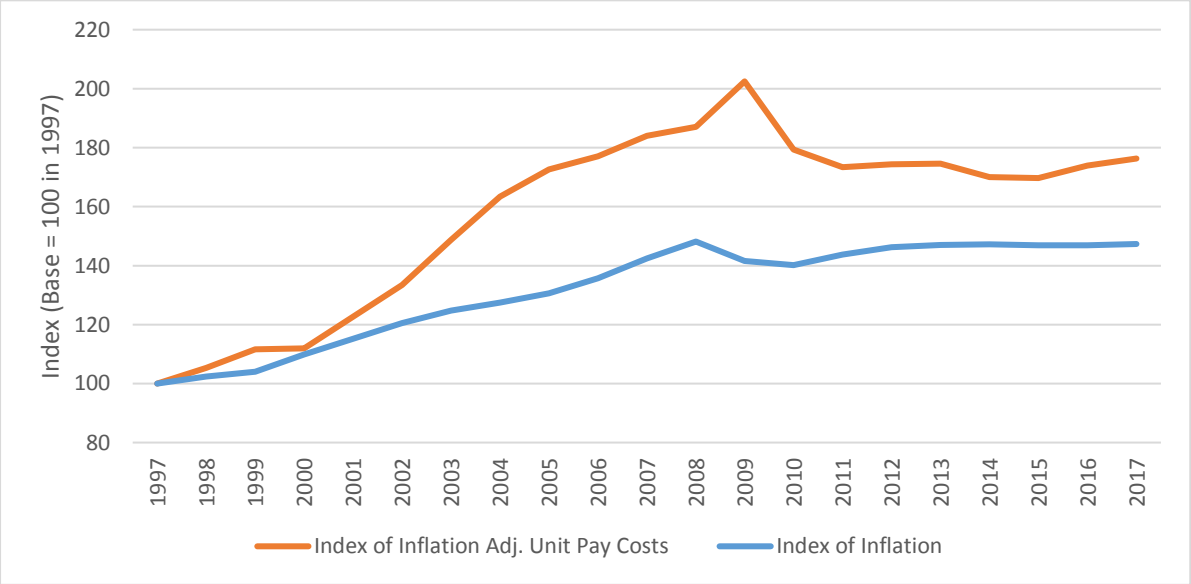
Drivers of Public Service Pay Rates

Ireland has tended to have a highly centralised approach to setting and implementing policy on public service staffing levels and employment terms and conditions, underpinned by central pay bargaining between management and staff unions.

A system of social partnership existed from 1987-2009 which can be seen as a national variant of the social pacts that emerged in many European countries from the late 1980s onwards[27]. These social partnership agreements provided for pay adjustments that were of general application across the economy and, in some instances, for an element of local bargaining.

Initially, under social partnership, modest wage increases were agreed upon accompanied by income tax reductions. As the country moved into the 'Celtic Tiger' era, larger pay adjustments were provided for[28] driven by a number of factors. These included strong economic growth, demographic pressures, a tight labour market and the rate of inflation. The impact of the latter led to the mid-term renegotiation of pay agreements, including additional pay provisions, in the early to mid-2000s. In addition to the base adjustments in pay provided for under national pay agreements, a practice also developed of processing special or grade pay claims. Settlement of many 'special claims' effectively led to a series of consequential pay increases[29]. This is reflected in the increases in pay over and above the rate of inflation throughout this period.

Figure 10: Index of Inflation and Inflation Adjusted Unit Pay Costs, 1997-2017



Source: CSO and authors own calculations

In 2000, following a provision in the Programme for Prosperity and Fairness, the Public Service Benchmarking Body (PSBB) was established to examine and make recommendations on the pay levels

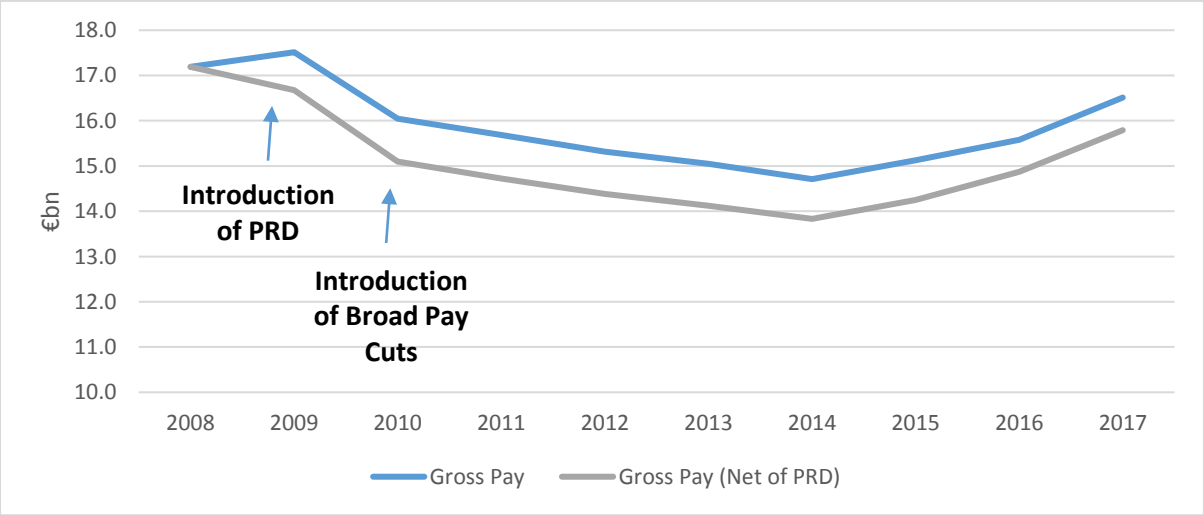
[27]Teague, P and Donaghey, J. (2015) 'The life and death of Irish social partnership: lessons for social pacts'.
[28] http://www.tara.tcd.ie/bitstream/handle/2262/27906/WP270.pdf?sequence=1
[29] http://paycommission.gov.ie/wp-content/uploads/PSPC-report-2017-WEB.pdf

of all key grades in the public service in comparison with equivalent positions in the private sector. Benchmarking was seen as a response to the prevailing labour market conditions at the time and to concerns that the public service was losing competitiveness in recruiting and retaining competent employees compared with the private sector[30].

From the end of 2009 onwards, the system of social partnership ended and, in the public sector, the level of centralised control intensified resulting in the introduction of the moratorium on recruitment and promotion and of ECFs which gave overall authority to the Minister for Finance, and then to the Minister for Public Expenditure and Reform, to severely restrict recruitment and promotions and to determine maximum staffing levels in each sector of the public service, levels that reduced year on year over the period.

In March 2009, subsequent to an 11-month pay freeze on public service pay rates announced the previous year, the FEMPI Act introduced a Pension Related Deduction (PRD) for pensionable public sector employees. Higher rates were applied to higher earners but the average reduction was 7 per cent of total salary yielding savings of more than €900 million per annum. In January 2010, under the second FEMPI Act, a graduated pay cut was applied to all public service employees yielding savings of approximately €1.2 billion in the pay bill.

Figure 11: Changes in the Exchequer Pay Bill, 2008-2017



Source: Department of Public Expenditure and Reform

In 2010, amidst a worsening economic landscape, and given the necessity for Ireland to comply with the European Commission's Excessive Deficit Procedure (EDP) and implement a plan to reduce the

[30] http://igees.gov.ie/wp-content/uploads/2013/10/The-Cost-of-the-Public-Service.pdf

deficit to 3 per cent of GDP, further expenditure reductions related to the pay bill were needed. The Croke Park Agreement in 2010 (CPA) represented a return to collective bargaining between the Government and the public sector unions. The agreement included provisions for wide-ranging reforms to the public service, including redeployment, which focused on achieving efficiencies and increased productivity through the maintenance of public services with reduced numbers of staff.

Much of the savings attributed to the CPA were due to the overall reduction in public sector numbers, although significant non-pay savings were also achieved through shared services and procurement reforms delivered under the terms of the CPA.

The CPA was succeeded by the Haddington Road Agreement (HRA) in 2013. The agreement imposed further cuts in pay in addition to productivity measures which led to public servants working longer hours. Recent analysis by the Irish Government Economic and Evaluation Service (IGEES)[31] in DPER found that at the end of 2016, the value of the additional hours worked by public servants under both the CPA and HRA was approximately €583 million based on the salaries of those public servants who worked additional hours.

By the end of 2014, the FEMPI measures introduced during the crisis had yielded €3.4 billion related to direct savings in the pay bill via reductions in gross pay and the Pension Related Deduction. The balance of the savings are attributable to reductions in numbers, and to productivity measures underpinned by the aforementioned Public Service Agreements[32]. In achieving the above, the IMF[33] has noted that 'what was also unusual [in the Irish experience] was the ability to get agreement on the need for wage reductions without significant industrial action by the public sector, something that was not as evident in other countries heavily affected by the effects of the economic crisis'.

Unwinding FEMPI

With the improvement in the public finances, linked to the recovery in employment and the economy, the Government engaged with public service unions to agree the Lansdowne Road Agreement (LRA). This agreement commenced the gradual process of unwinding FEMPI. Under the terms of the agreement most public service staff received phased increases in earnings in 2016 and 2017. These increases came about through a combination of salary increases for those earning less than €65,000 and an increase in the threshold for payment of the Pension Related Deduction.

[31] http://www.budget.gov.ie/Budgets/2018/Documents/2.Estimating%20the%20Value%20of%20Additional%20Hours%20Worked%20-%20HRA%20and%20CPA.pdf
[32] http://www.per.gov.ie/wp-content/uploads/Mid-Year-Expenditure-Report.pdf
[33] https://www.imf.org/external/np/pp/eng/2016/040816ab.pdf

The most recent steps in the managed transition out of FEMPI and into a more normalised industrial relations and pay environment can be seen in the successor to the LRA. The Public Service Stability Agreement 2018-2021[34], provides for pay increases, in total over the term of the agreement, of between 6.2 per cent and 7.4 per cent to different income groups through salary increases and increases in the threshold for the PRD. It also makes provision for the PRD to become a regularised pension contribution for public servants, a measure which will support the longer term sustainability of the public service pensions bill. Another key feature of the agreement is the maintenance of the productivity measures introduced during the crisis period, specifically additional working hours for public servants[35]. The agreement, which was informed by the work of the Public Service Pay Commission and has an estimated cost of €1.1 billion, provides medium term certainty on a key element of the Exchequer pay bill.

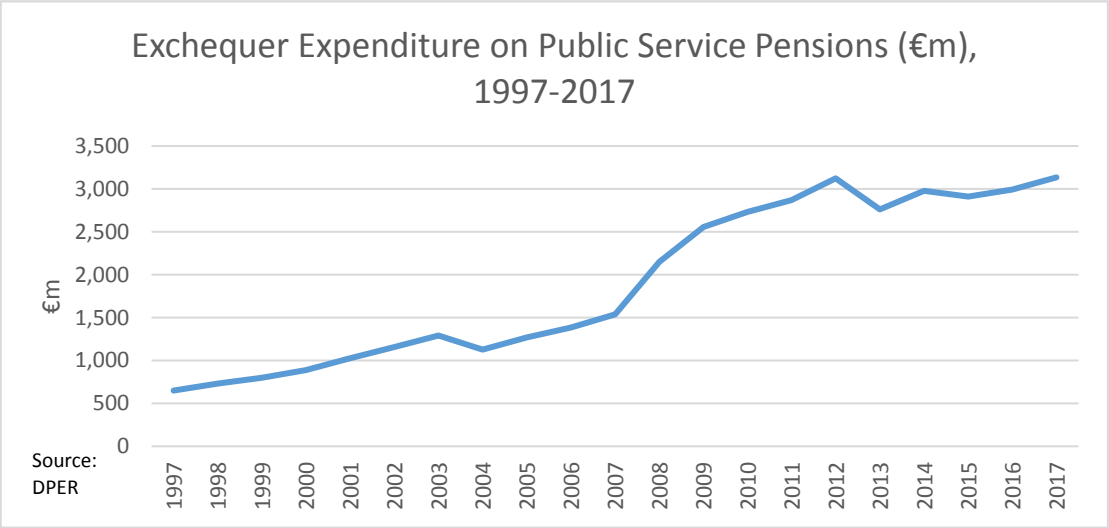
This section has considered the key trends and drivers of the pay bill over the last number of decades and the changing context within which these trends have developed. The following section builds on this by assessing these developments within a framework which allows for a more systematic analysis of the Exchequer pay bill based on the recent experience in Ireland and approaches internationally. This section also sets out a number of initiatives which can support sustainability in the Exchequer pay bill into the future.

[34] www.per.gov.ie/wp-content/uploads/LRA-extension.pdf

[35] The value added by this measure is addressed in a paper published with Budget 2018. It can be accessed on the Budget 2018 website – http://budget.gov.ie/Budgets/2018/2018.aspx

Box 1: Exchequer Expenditure on Public Service Pensions

While not a key focus of this paper, the issue of public service pension costs is one that is important in the context of overall Exchequer expenditure. This is not only because it already represents a large area of spend but also because it is set to continue to increase in line with the cost of living in the years to come. As set out below, Exchequer expenditure on public service pensions has increased significantly in the last couple of decades. While changes to the retirement age, the introduction of the Single Pension Scheme and the conversion of the existing Pension Related Deduction (PRD) into a permanent Additional Superannuation Contribution (ASC) have positively impacted the sustainability of pensions expenditure, demographic factors and the continued increase in public service numbers mean that the level of expenditure in this area will continue to increase in the years to come.



The current level of expenditure on public service pensions, in addition to the level of future liability, highlights the need to ensure a sustainable approach in relation to the recruitment of additional public servants. The recently published 'Actuarial Review of Public Service Pension Liabilities' undertaken by DPER (link below) suggests that the value of the State's accrued liability in respect of retirement benefits for current and former public service employees is estimated to be between €97.2 billion and €114.5 billion as at 31st December 2015, depending on various assumptions. As the State hires additional staff, this liability will increase. Therefore, it is important that decisions related to the hiring of additional staff across the public sector are taken with a view to ensuring the short and medium term sustainability with regard to the Exchequer pay bill and the longer term sustainability in the Exchequer pensions bill.

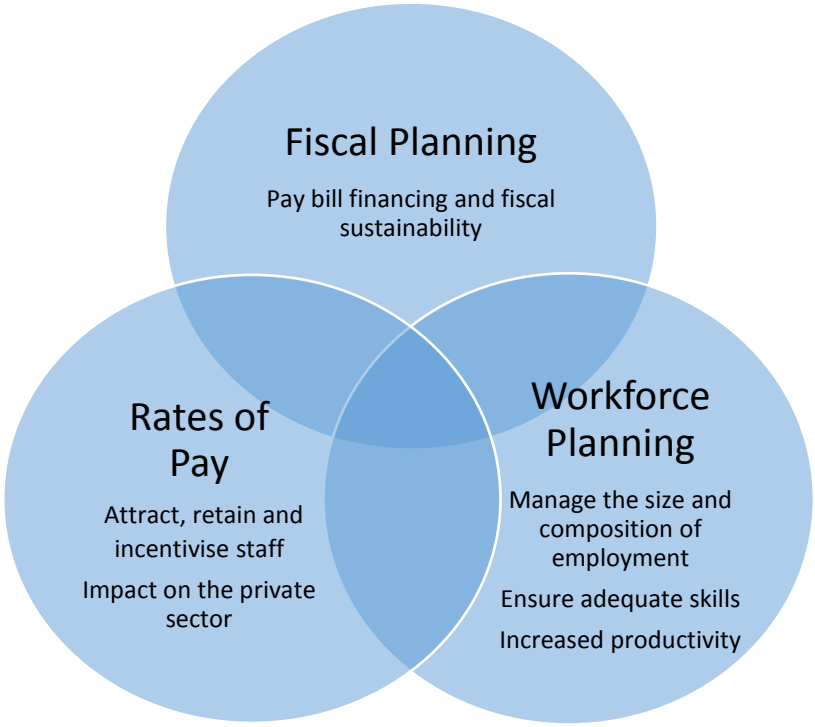
36

[36] https://www.per.gov.ie/wp-content/uploads/Accrued-Liability-Report.pdf

Analytical Framework for Considering the Exchequer Pay Bill

A key objective of this paper is to assess the Exchequer pay bill in the context of fiscal sustainability. There are several aspects to this assessment. Effective management of staff numbers and pay requires fiscal planning, a competitive level and structure of pay, and an appropriate level and composition of employment supported by strategic workforce planning[37]. Taken from an IMF framework which is assessed in detail below, these key elements are important for the efficient provision of public services in a fiscally sustainable manner.

Figure 12: Framework for Considering the Exchequer Pay bill



Source: Based on IMF (2016)

Fiscal Planning

Fiscal planning involves the integration of decisions on public sector pay and employment levels into a medium-term budget framework. This can ensure that increases in the pay bill are appropriately financed. As the framework shows, fiscal planning is a key element of Exchequer pay bill management. In its absence, as highlighted by the IMF, unsustainable increases in the pay bill can have unintended

[37] https://www.imf.org/external/np/pp/eng/2016/040816a.pdf

adverse implications for the fiscal balance requiring disruptive fiscal adjustment over the medium term to ensure fiscal sustainability.

Fiscal Planning in an Irish Context

Public expenditure in Ireland is managed within the bounds defined by medium-term fiscal policy targets set by reference to the requirements of the agreed EU Fiscal Rules. Expenditure increases arising from demographic pressures, service demands and pay agreements must be met from within the medium term fiscal path targeted under the fiscal rules. Increased numbers of public servants in frontline service delivery roles are a prerequisite to the provision of increased levels of public services in areas subject to significant demographic pressures. However, given existing pay commitments, growth in public service staffing inevitably reduces the resources that would otherwise be available for 'non-pay' Government uses such as, for example, further increases in public capital investment and social welfare payments.

International experience[38] indicates that increases to the Exchequer pay bill impact in practice through increased Government budget deficits rather than any re-prioritisation or "crowding out" of other expenditure. This would indicate that the primary risk from increases to the pay bill arises initially in relation to the achievement of key fiscal targets and compliance with fiscal rules. However, in the fullness of time increased Government deficits and rising debt levels will constrain the extent to which Government can access the resources required to grow public services, reduce socio-economic disadvantage and invest to build the economy's long-term growth potential.

The next section of this paper discusses some of the main mechanisms that may be available through which the Exchequer pay bill can be accommodated within overall fiscal targets over the medium term in a sustainable way.

Public Expenditure Management and the Paybill[39]

In more normal economic and fiscal times, an institutional framework that encompasses a structured approach to fiscal planning, which incorporates the pay bill, can support sustainability in the Exchequer pay bill over the medium term. Such an approach can help to avoid a need for emergency measures, in particular given the medium to long term commitment inherent in hiring additional public servants. To successfully manage the pay bill requires increasing the integration of pay bill decision making with medium-term expenditure and fiscal planning.

[38] https://www.imf.org/external/np/pp/eng/2016/040816a.pdf
[39] The analysis of the Exchequer pay bill in this section is not presented net of PRD.

This is currently done through delegated sanction arrangements. Delegated sanction involves Departments managing their own staffing levels within multi-annual Exchequer pay bill ceilings. The sanction permits Departments to fill vacancies through recruitment and/or promotion in specified, designated grades at or below Principal Officer Standard or equivalent. The sanction also permits Departments to have similar cascade arrangements in place with their respective agencies.

Since its introduction in 2015, there has been broad compliance with the policy across most Departments. The main exception to this has been the HSE which exceeded its Exchequer pay bill ceiling by 4.8 per cent in 2015 (€279m), 1.3 per cent in 2016 (€85m) and by 1.6 per cent in 2017[40] (€108m). If the Health sector is excluded, the overall pay bill outturn would have been 1 per cent (€93m) below the REV provision in 2015, 2 per cent (€189m) below the REV provision in 2016 and 0.7 per cent (€67m) below the REV provision in 2017. These figures indicate that delegated sanction has been operated effectively by most public service bodies. While it does not have delegated sanction, the pay bill ceiling in An Garda Síochána[41] has also been exceeded by 3.6 per cent in 2015 (€33m), 0.8 per cent in 2016 (€8m) and by 5 per cent in 2017 (€51m). In An Garda Síochána, there is evidence that the level of overtime has been a catalyst for pressures on pay[42], while overruns in Health encompass a range of factors including significant increases in annual staffing levels.

Another important point to be considered in relation to delegated sanction arrangements is the connection between the pay bill ceiling and the actual numbers of staff that can be accommodated within these ceilings. While Departments provide indicative numbers of staff that they intend to hire within their pay bill ceilings each year, exceeding these numbers does not currently constitute a breach of delegated sanction arrangements as long as Departments remains within their overall pay bill ceiling[43]. However, Departments in making decisions in relation to hiring new staff need to consider the longer term sustainability of the pay bill. Ultimately, in order to ensure the medium term sustainability of the pay bill, Departments will need to actively manage pay bill expenditure in such a way as to achieve an appropriate balance between hiring new staff and allowing for increases in rates of pay over time.

[40] Provisional outturn figures for 2017.

[41] It should be noted that An Garda Síochána does not have delegated sanction and operates under an ECF with set limits for the key supervisory ranks as the mechanism to control pay expenditure.

[42] This was analysed by the Department of Public Expenditure and Reform as part of the 2017 Spending Review process - http://igees.gov.ie/wp-content/uploads/2015/02/Challenges-for-Investment-in-Police-Expenditure_-A-Public-Expenditure-Perspective.pdf

[43] This reflects the flexibility provided to Departments in terms of workforce planning in the transition from ECFs to delegated sanction.

Adjustments to Pay Bill Ceilings

As currently implemented delegated sanction arrangements for public service employment set out a three year multi-annual pay bill ceiling for each Department/Office. These ceilings can only be adjusted on foot of a budgetary decision by Government in relation to the overall Departmental ceiling. In practice, this means that the multi-annual pay ceilings – the purpose of which is to support medium term financial and workforce planning – can be adjusted on an annual basis. This has the potential to impact adversely on medium term certainty regarding the pay bill and discourage commitment to the policy objective of better strategic workforce planning and reform measures across all sectors of the public service.

As illustrated in Table 1 below, there has been growth of nearly 10.8 per cent in the Exchequer pay bill (net of PRD) since 2015. This increase in the pay bill reflects both the impact of pay agreements and the hiring of additional staff with over 75 per cent of the increase in total public service staffing since the end of 2015 being in the Health and Education sectors.

Table 1: Recent Trend in the Exchequer Pay Bill* (€bn), 2015-2017

	Outturn 2015	Outturn 2016	Prov. Outturn 2017	% Diff 2015-2016	% Diff 2016-2017	% Diff 2015-2017
Pay Bill Expenditure	14.3	14.9	15.8	4.3	6.2	10.8

Source: DPER / Note: *Net of PRD, Rounding affects totals

An important consideration in the coming years will be the extent to which Exchequer pay bill ceilings are adjusted at Budget time to allow for an appropriate level of public service numbers growth in the following year(s). As highlighted in the 2018 Summer Economic Statement (SES)[44], the level of resources required to increase public service numbers will need to be balanced with pay commitments within the Public Service Stability Agreement and demands for additional resources across other areas of Government. Therefore, it will be important that key sectors of the public service manage their pay bill within their ceilings and engage in appropriate workforce planning to maximise their resources.

Further to this, strategic workforce planning cannot be based on the assumption that it is appropriate for staffing to continue to increase across all areas of the public service, notwithstanding increased funding for the provision of additional public services. In sectors where technology can be utilised to a greater extent, and where administrative tasks can be increasingly automated, the need for

[44] https://www.finance.gov.ie/wp-content/uploads/2018/06/180619-Summer-Economic-Statement-2018.pdf

additional staffing may be reduced and the composition of staff in certain sectors may need to develop to reflect this. These and other important elements need to be considered in order for workforce planning to contribute in a meaningful way to the sustainable management of the pay bill over time.

International Experience

Ireland's experience is consistent with that in other countries where ceilings on pay and/or employment have been imposed to facilitate consistency with fiscal objectives. Over sixty per cent of the countries in the IMF's reviews have established a ceiling on the total pay bill, often in combination with alternative approaches. However, the IMF highlights that ceilings on the pay bill and employment do not appear to be fully effective for advanced economies in terms of fiscal planning. Pay bill ceilings often appear to be put in place as a crisis management mechanism to seek to counterbalance the influence of underlying institutional weaknesses. The focus for many countries now is to use fiscal frameworks to manage overall spending, including the pay bill, in a manner that ensures the long-term sustainability of public expenditure and stability in public service provision. Such an approach works towards avoiding a situation where pro-cyclical expansions in an economic upswing result in significant reductions in economic downswings. This approach requires improved predictability and planning of expenditure outlays to understand the medium-term implications of current pay and employment decisions through better medium-term forecasting of the pay bill.

IMF survey[45] results indicate that medium term forecasting of the pay bill is associated with outcomes more in line with overall fiscal plans. This is because forecasting over the medium term rather than annually can improve predictability and planning of budget outlays and help governments to understand the medium-term implications of current pay and employment decisions.

In Ireland, improvements are being made in this area building on analyses of sectoral pay and workforce planning. For example, recent analyses of the Health[46] and Justice sectors[47] have highlighted some key issues in the area of staff levels and composition. This type of analysis, while informative, tends to be restricted in terms of the level and granularity of data available. In order to develop a better understanding of the key sectoral issues, and to facilitate more pay bill expenditure modelling, further improvements will need to be based on more detailed and timely data collection. Work is currently underway in the Department of Public Expenditure and Reform to increase the level of sectoral public service HR data that is available centrally for analysis by putting in place a database

[45] The IMF Fiscal Affairs Department (FAD) developed a new database on cross country institutional arrangements for managing the wage bill based on a 42 country survey of key institutional arrangements for wage bill management.
[46] http://igees.gov.ie/publications/economic-analysis/health/
[47]http://igees.gov.ie/wp-content/uploads/2015/02/Challenges-for-Investment-in-Police-Expenditure_-A-Public-Expenditure-Perspective.pdf

for the public service as a whole. Collecting data in this way will support the development of a more robust evidence base for decision making.

The IMF assessment also highlights control mechanisms in relation to both staffing and pay rate decisions. In relation to the latter, pay negotiations in Ireland are centralised and taken into account within the budgetary process. This compares favourably to international practice as over half of countries surveyed by the IMF do not integrate decisions on pay increases into their budget planning process in a timely manner. Half of the advanced economies have ad hoc pay negotiations, with over a third making decisions on pay increases during the year without directly linking them to the budget. In addition, public service pay negotiations in Ireland are not based on any predefined formal indexation rules outside of the control of Government. The most recent pay agreement was conducted in advance of the budget with medium term fiscal constraints reflected in the overall discussions and subsequent settlement. This type of systematic pay negotiation is associated, internationally, with improved outcomes for pay management.

However, there is potential scope for greater integration of the Exchequer pay bill and public service staff numbers into ongoing Estimates reforms. This was highlighted in the context of the 2017 Spending Review process[48] where the need for greater workforce planning was one of the main general outcomes of the Review[49]. Reflecting this, the 2018 Spending Review incorporates a range of overarching and sectoral analyses, including this paper, which focus on a range of issues related to pay, pensions, staffing and recruitment.

In addition, the Public Service Reform Plan, *Our Public Service 2020*, highlights the importance of workforce planning in a key action on 'mainstreaming strategic workforce planning in the public service'. The public service wide focus of the reform plan will be important in driving improvements over the medium term. Importantly, this will need to be linked to rigorous evaluation and the new Public Sector Evaluation Unit, established in DPER, will have a key role in this regard. Further detail on workforce planning is set out in later sections.

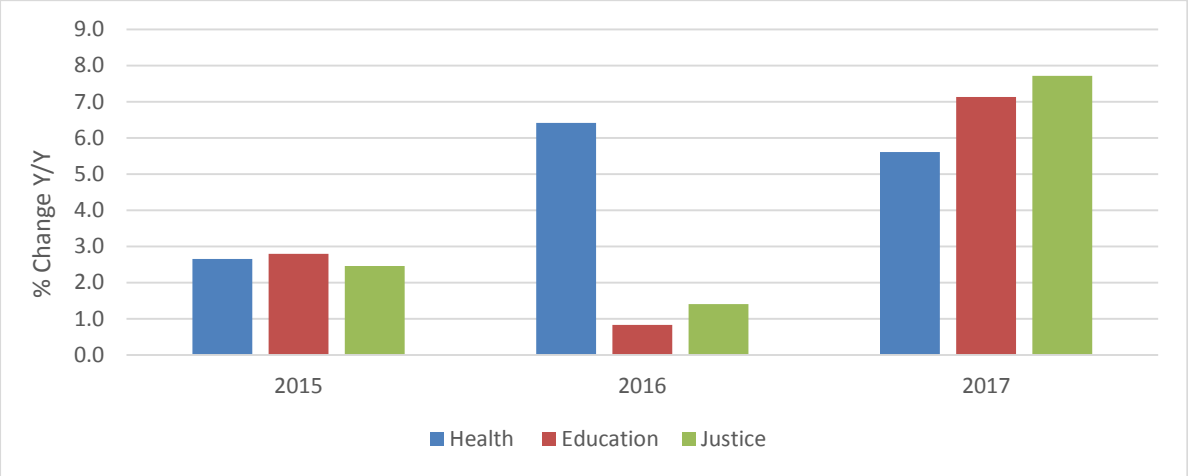
Controlling the Exchequer Pay Bill

There is a role for monitoring and control mechanisms in ensuring the continued sustainability of the overall pay bill. In this regard, it can be seen from Figure 13 below that much of the recent upward pressure on the overall pay bill originates from the Health, Education and Justice sectors. This is not surprising given these areas account for over 85 per cent of the Exchequer pay bill.

[48] http://www.per.gov.ie/en/spending-review/

[49] This was noted in the paper on Challenges for Investment in Police Expenditure- A Public Expenditure Perspective.

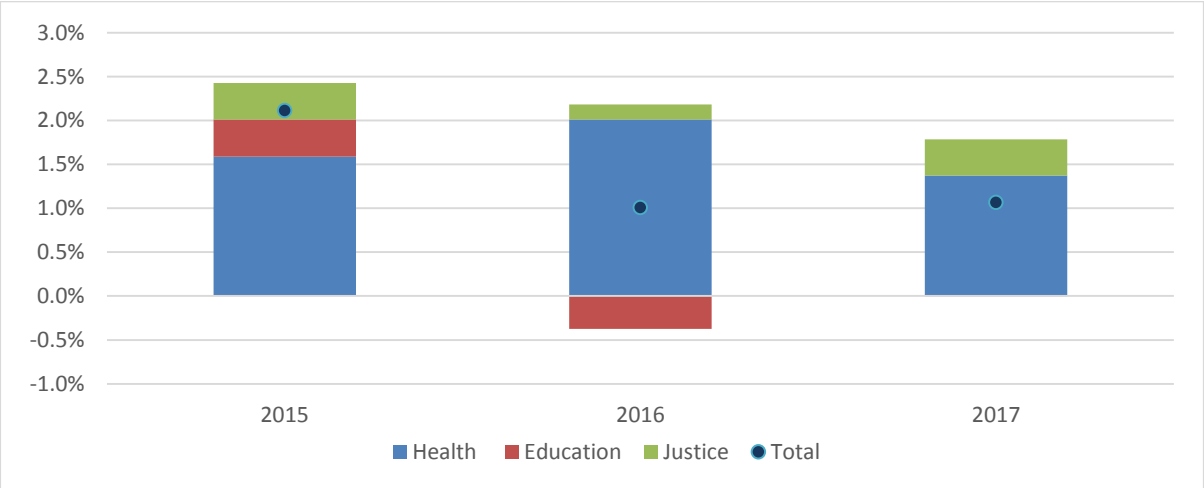
Figure 13: Trends in Public Service Paybill – Key Pressure Areas*



Source: DPER / Notes*: All figures are gross (inclusive of PRD) and for 2017 are provisional outturns

However, Figure 14 shows that while the annual increases in the Education and Justice sectors are, for the most part, planned and programmed into the overall expenditure framework, much of the increases in the Health sector arise from in year increases over and above budgeted allocations. This has been driven by higher than planned increases in the level of staff across the Health sector.

Figure 14: Exchequer Pay bill – Variance against Budget, Contribution by Main Departments*



Source: DPER / Notes*: Outturn versus Budget for 2013-2016 and Provisional Outturn versus Budget for 2017

In terms of addressing unplanned expenditure overruns, internationally a majority of countries use budget execution rules with over 60 per cent of the countries reviewed by the IMF requiring legislative approval for in-year wage increases. The efficacy of these types of controls are directly linked to the availability of detailed and up to date information that can be interrogated to provide comprehensive

and timely information on pay bill pressures. In this context, the IMF survey[50] highlights that in over 65 per cent of countries, personnel and payroll databases are directly linked. In Ireland, detailed HR data is available centrally in DPER but only in relation to the civil service. This does not extend to the public service. This data gap reduces the Government's ability to gain a clearer understanding of the underlying issues leading to Exchequer pay bill increases over and above budgeted allocations in certain sectors, particularly in Health. The availability of more comprehensive and timely information on public services numbers across all sectors of the public service through the establishment of a public service HR databank as set out above can play an important role in providing the information and evidence required to support compliance with expenditure targets.

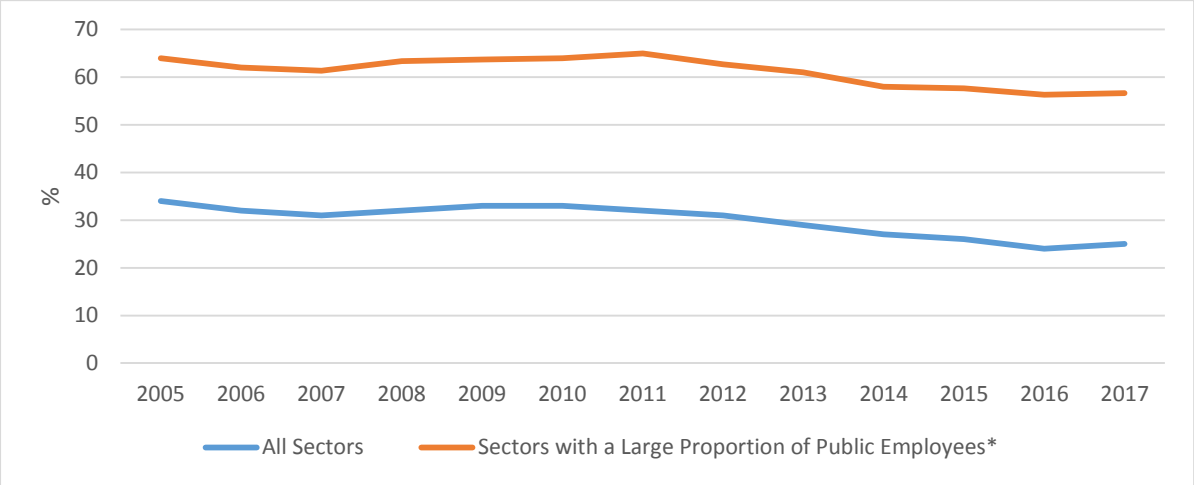
Rates of Pay

Effective management of the rates of pay for public servants is another key element in ensuring fiscal sustainability in the Exchequer pay bill. As highlighted by the IMF, competitive pay rates are required to ensure that governments can attract and retain skilled and committed personnel to provide quality public services. Conversely, if Government pay levels are too generous this can create upward wage pressure in the wider economy and exacerbate pressures in other expenditure areas[51]. This highlights the importance of ensuring that the approach to pay is consistent with fiscal planning.

In addition to the range of considerations associated with ensuring expenditure on pay is in line with available resources, the IMF research highlights a number of other important influences on the determination of pay rates. One important determinant relates to the legal rights to organize into trade unions, to allow collective bargaining, and to take industrial action in support of claims relating to wage and employment conditions. Collective bargaining, through public service wide negotiations, is a mainstay of public service pay determination and this has been supported by high rates of union membership. As illustrated by the chart below,[52] while union membership rates have been declining in recent years, they remain highest in the sectors that would traditionally be associated with the public service, i.e. public administration, education and healthcare.

[50] IMF 42 country survey of key institutional arrangements for wage bill management.
[51] https://www.imf.org/external/np/pp/eng/2016/040816a.pdf
[52] Sectors with a large proportion of public employees include Public Administration and Defence; Compulsory Social Security, Education and Human Health and Social Work Activities. These sectors are used as a proxy for the public service but also include private sector employees. As such, these figures should be seen as indicative estimates.

Figure 15: Trend in Union Membership in Ireland, 2005-2017*



Source: CSO QNHS Special Module / Note*: Sectors with a large proportion of public employees include Public Administration and Defence; Compulsory Social Security, Education and Human Health and Social Work Activities. These sectors are used as a proxy for the public service but will also include private sector employees. As such, these figures should be seen as indicative estimates.

While it is beyond the scope of this paper, the potential for successful negotiation of the substantial pay reductions across the whole of the public service following the onset of the crisis would have been very challenging in the absence of the industrial relations structures and arrangements in place in Ireland.

The broader approach to pay determination is another way in which rates of pay can be influenced. The system as determined by Government can impact on the flexibility to adjust pay, differentiate scales, and to provide additional allowances to attract and retain staff especially in areas with skills shortages. This also includes elements such as terms and conditions, increments and pension entitlements.

In Ireland, a co-ordinated approach to pay determination is in place. The application of pay rates is managed through a centralised system of pay scales rather than through individuals negotiating on their own behalf. Terms and conditions, increments and pension entitlements are all linked to pay scales which are determined by Government. However, allowances are also a feature in Ireland and have allowed Government to adjust pay in certain areas, e.g. Justice and Education. In the economic downturn, while Government policy reduced rates of pay, it also focused on amending/removing allowances. Some of these measures have subsequently been reversed through successive pay agreements, however key reforms to terms and conditions and pensions remain in place.

Another important influence on the rate of pay for public servants is the comparisons between public and private sector wages. This provides governments with information to compete with the private sector and help inform pay negotiations. According to IMF surveys, a third of countries conduct comparisons on an ad hoc basis, while less than 10 per cent conduct a systematic annual or biannual comparison. This type of analysis has been conducted on an ad hoc basis in Ireland over the last number of decades. Most recently, the Central Statistics Office (CSO) has produced estimates of the public private pay gap for the period 2011 to 2014, which broadly shows a decline in public sector pay relative to the private sector, especially at higher levels of pay.[53]

Ensuring that public service pay is competitive, in terms of pay rates generally in the economy, is important both for management of the Exchequer pay bill and overall public expenditure levels[54]. A key consideration within this is the potential for public sector wage setting to act as a reference point for private sector bargaining. Consequently according to international experience and evidence the approach to ensuring competitive pay between the public and private sector needs to reflect a number of important considerations. These include:

- Public sector pay rates can act as a reference for the private sector;
- The magnitude of relative public-private wages can vary depending on economic and socio-economic factors;
- A public-private pay gap, where it is not justified by relative skill levels or job characteristics, has the potential to lead to higher taxation or crowding out of other public spending leading to a deadweight loss associated with distortionary taxation;
- Public service pay rates depend on public sector workers' ability to compete over the allocation and size of the pay budget. The degree of unionisation, typically higher in the public sector, can lead to greater bargaining power and a public sector wage premium;
- Higher public sector wages can also reflect discriminatory wage setting practices in the private sector, e.g., against females or unskilled labour; and
- Lower public service wage rates may result from public sector workers enjoying non-pecuniary benefits such as a higher degree of job security, longer holidays, and generous pension schemes.

[53] http://www.cso.ie/en/media/csoie/newsevents/researchpaper/EconA20112014.pdf
[54] https://www.imf.org/external/np/pp/eng/2016/040816a.pdf

Pay in an Irish Context

Given the extent to which increases in pay rates were a key driver in the expansion of the Exchequer pay bill in the run up to the crisis, much of the Irish context for pay has been detailed above. The analysis has highlighted that the pay of public employees has been managed through collective bargaining between the Government and the public service unions. For a long period of time collective bargaining was conducted within the social partnership model. This successfully achieved industrial peace but led to large increases in public sector pay and the significant widening of the public private pay differential which was estimated to have reached 34 per cent in 2006[55].

With the onset of the global financial crisis, the process of social partnership and national wage agreements ended. The level of centralised control intensified resulting in the introduction of a number of pay related reforms. The extent of this reform effort is highlighted in the OECD Survey on Managing Budgetary Constraints, the results of which are displayed below. The figure shows that on a comparative basis the range of pay related reforms in Ireland was higher than in other economies. These reforms included pay cuts, reductions in allowances and reductions in performance related pay and bonuses.

As outlined above, the IMF[56] has noted that 'what was also unusual [in the Irish experience] was the ability to get agreement on the need for wage reductions without significant industrial action by the public sector, something that was not as evident in other countries heavily affected by the effects of the economic crisis'. Perhaps a key reason for this was the industrial relations structures and arrangements in place in Ireland prior to the crisis. Without these, the successful negotiation of the substantial pay reductions across the whole of the public service would have been very challenging.

[55] Benchmarking, Social Partnership and Higher Remuneration: Wage Settling Institutions and the Public Private Sector Wage Gap in Ireland

[56] https://www.imf.org/external/np/pp/eng/2016/040816ab.pdf

Figure 16: Pay Related Reforms Implemented in Selected OECD Countries since 2008

		Type of Remuneration Reforms Implemented				
	Implementation of Remuneration Reforms Implemented in the Central Public Administration Since 2008	Reduction of Remuneration Specifically for Top-Level	Reduction of Remuneration for All Staff	Reduction or Abolition of Allowances	Reduction in Performance Related Pay / Bonuses	Pay Freeze
Austria	N					
Belgium	Y					
Canada	Y			✓		
Czech Republic	Y					✓
Estonia	Y			✓	✓	✓
Finland	N					
France	Y					✓
Germany	Y					
Greece	Y	✓	✓	✓		✓
Hungary	Y	✓		✓	✓	✓
Ireland	Y	✓	✓	✓	✓	✓
Italy	Y	✓			✓	✓
Korea	Y					✓
Mexico	Y	✓				✓
Netherlands	N					
New Zealand	Y					
Norway	N					
Poland	Y				✓	✓
Portugal	Y		✓	✓	✓	✓
Slovak Republic	Y			✓		✓
Slovenia	Y		✓	✓	✓	✓
Spain	Y		✓	✓		✓
Sweden	Y					
Switzerland	N					
United Kingdom	Y				✓	✓

Source: 2014 OECD Survey on Managing Budgetary Constraints: Implications for HRM and Employment in Central Public Administration.

The recovery in the economy and improvement in the public finances in the last number of years have facilitated the managed unwinding of some pay related reforms in addition to an increase in public service staffing. Net of PRD, this has led to a 10.8 per cent increase in the Exchequer pay bill between 2015 and 2017.

The recent growth in the pay bill highlights the need for future increases to be managed sustainably. This is likely to be best achieved within an overall fiscal framework and by continuing to promote an open and transparent approach to pay. Positive steps have been taken in this respect with the establishment of the Public Service Pay Commission whose role is to advise Government on remuneration policy for the public service.

The first report of the Commission, published in May 2017, set out an evidence base for informing the managed unwinding of the FEMPI legislation by considering comparisons between public private pay and pensions, issues of recruitment and retention in the public sector, and security of tenure. The report was considered by Government in the context of the Public Service Stability Agreement (PSSA) 2018 – 2020[57] which is now in effect. More recently, the Pay Commission has been engaged in a more detailed assessment of recruitment and retention issues across the public service. Its latest report, which is due for completion by end-2018, seeks to establish in the first instance whether, and to what extent, a difficulty exists in terms of recruitment and retention for specific groups/grades/sectors of the public service and where a difficulty is identified, to examine the full range of causal factors[58].

Looking to the future, the Pay Commission will have an important role in advising the Government on public service remuneration policy. As highlighted in the Commission's terms of reference, the key areas of its work will include:

- Providing objective analysis on the appropriate pay levels for identifiable groups within the public sector;
- Comparing appropriate rates for identifiable groups with prevailing private sector/market rates. This should have regard to evidence on recruitment and retention trends in respect of each group;
- Comparing appropriate rates for identifiable groups within the public service with their equivalents in other jurisdictions, particularly where internationally traded skillsets are required, having due regard to differences in living costs; and
- Providing objective analysis on the appropriate pay levels for officeholders' pay and pensions.

The evidence base that will be provided through this work will be an important feature of the landscape for public sector remuneration into the future.

[57] http://www.per.gov.ie/en/public-service-pay-policy/public-service-stability-agreement/
[58]https://paycommission.gov.ie/minister-donohoe-updates-cabinet-on-next-phase-of-work-by-public-service-pay-commission/#more-480

Workforce Planning

A third element of the analytical framework proposed by the IMF relates to the range of issues that can be considered in the context of workforce planning. In a broad sense, this relates to the ability of Government to influence the level and composition of public service employment in response to economic factors, demographics or technological change in order to ensure efficient and cost effective service delivery.

As set out above, the approach to pay rates taken by the Government, through the PSSA 2018-2021, has ensured a level of certainty in one element of the Exchequer pay bill over the medium term. Reflecting the other key element of the pay bill, public service staff numbers, it is important to analyse how approaches to workforce planning have been structured in recent years and what systems have been utilised to ensure that the staffing element of the pay bill is organised to ensure ongoing sustainability and to increase productivity in the delivery of public services.

Appropriate workforce planning that is linked to available resources and rigorous evaluation, and which ensures that there is flexibility in the approach to staffing levels, is important because, in its absence, governments are often restricted to measures such as attrition-based employment reductions and limiting new hiring. While the latter approaches were utilised in Ireland and elsewhere over the crisis period, many of the best practice approaches highlighted by the IMF[59] have also been or are currently in place in Ireland. The fact that countries introduced emergency measures in the crisis period in addition to already having more structural approaches to reform in place reflects both the extent of the crisis but also the challenge of managing the pay bill more generally.

Structural Approaches to Reform

IMF research suggests that the system of Government employment is an important element in ensuring that there is flexibility and efficiency in service delivery. For example, systems that promote position based employment[60], which include fixed-term or task-based contracts, open recruitment at all levels, and promotion based on merit and performance, are emphasised as best practice as they facilitate greater flexibility in workforce deployment when compared with career based systems. While elements of the latter can be seen in the Irish experience, approaches aligned to position based employment have become more prevalent in Ireland, having developed initially in the context of social partnership.

[59] https://www.imf.org/external/np/pp/eng/2016/040816a.pdf

[60] This type of system also promotes professionalisation of the workforce. Professionalisation can have a range of benefits including increasing dedicated skills, e.g., economics, accountancy, HR, etc. it may also have the potential to increase unit costs.

Other factors influencing effective workforce planning, including the flexibility of adjusting employment and flexibility in staff management, are also reflected in the Irish experience. The social partnership agreement following the Programme for Prosperity and Fairness, 'Towards 2016', addressed these areas in the context of public service modernisation. For example, the agreement provided for public service management to have the discretion to redeploy staff/posts, not just within the same location but also within defined areas agreed at the level of the sector or organisation[61]. Moreover, for the civil service, the agreement emphasised the establishment of the Public Appointment Service (PAS) and the opportunities that created to modernise recruitment practices, and the introduction of a Performance Management and Development System (PMDS) as an essential tool for managing performance.

These and other initiatives reflect many of the important factors highlighted by the IMF and show that systems and arrangements for effective workforce planning have been introduced over the years. However, the context for this period of modernisation is important to note and reflects a combination of strong economic growth and increasing tax revenues over a prolonged period which facilitated increases in the pay bill in return for agreement on reform/modernisation measures.

Workforce Planning in the Crisis Period

The global financial crisis and its impacts on the Irish economy were such that the workforce planning measures introduced in the period leading up to it were, *on their own*, insufficient to deliver the necessary adjustments in the pay bill in order to support the recovery in the public finances. More blunt instruments were required as a response to the crisis to supplement more structural reforms.

Further reforms were instigated in the crisis period to support the broader reform effort, including the redeployment of more than 12,000 staff across the public service in addition to the establishment of the Department of Public Expenditure and Reform and with it the development of Civil and Public Service Reform Plans. These plans have provided roadmaps for reforms to workforce planning across the public service. For example, the first Public Service Reform Plan, published in 2011 and framed in the context of the economic crisis, included an action plan on public service numbers, workforce planning and redeployment of staff in order to reduce numbers while protecting service delivery. This included a consultation with Departments to identify workforce planning and skills requirements in order to maintain and develop organisational capability.

[61] https://www.taoiseach.gov.ie/attached_files/Pdf%20files/Towards2016PartnershipAgreement.pdf

The second Reform Plan, introduced in 2014, focussed on securing these reforms. It also called for more open recruitment, increased staff mobility across the public service, a focus on performance management and increased investment in staff training and development.

Box 2: OECD Review of the 2014-2016 Public Service Reform Plan

A recent OECD review of the 2014-2016 Public Service Reform Plan found that the Plan was by and large successful in terms of completing the majority of the activities it set out. The report notes that implementation of the Plan created a public service wide approach to reform, increased the awareness and visibility of reform efforts, established a reporting framework for greater accountability and created networks to learn from departmental good practice.

The report also states that the connection between reform and expenditure in the Plan could have been stronger and more explicit. While there was positive work to develop medium-term expenditure ceilings and the Comprehensive Reviews of Expenditure, a stronger focus on outcomes would require closer alignment between public service reform and expenditure in the future, with performance information generated via spending reviews, performance budgeting procedures or other evaluations used to inform reform achievements in the sectors.

Importance of Workforce Planning in the Future

There are a number of reasons why effective workforce planning is important for the management of the Exchequer pay bill going forward. Clearly, the ability of the Government to adjust the size and composition of the public service is important to achieve service delivery objectives and to enhance productivity across the public service. However, there are also more specific reasons why a focus on workforce planning is important.

In Ireland, changes in demographics are accounted for within the medium term expenditure framework. Indeed, research from the Irish Government Economic and Evaluation Service (IGEES)[62] has provided an evidence base for recent budgetary decisions to account for demographic change in sectors such as Health and Education. As the demographic profile changes in the years ahead a key issue will be how workforce planning arrangements respond to this challenge to ensure that the composition of employment in the public service is appropriate and that it supports sustainability in the pay bill.

[62] http://igees.gov.ie/wp-content/uploads/2015/02/Demographic-Paper-Final-101016.pdf

Increasing service delivery in critical areas requires careful workforce planning to ensure the availability of adequately skilled staff. This is important for a range of reasons including the long term liability associated with hiring new staff, to ensure that the grade composition across the various sectors of the public service is aligned to the services being delivered and to ensure that the State achieves value for money from its investment in additional staff.

Moreover, as we look to the future, the approach to workforce planning across the public service will also have to consider the potentially significant impacts of technology both in terms of the automation of service delivery but also in terms of the need to upskill staff to ensure that the public service is in a position to harness the potential benefits of technological development as it occurs. Further to this, as highlighted above, workforce planning should not be conducted on the assumption that it is appropriate for staffing to continue to increase across all areas of the public service. In sectors where the demand for public service delivery falls, where technology can be utilised to a greater extent, and/or where administrative tasks can be increasingly automated, the need for additional staffing may be reduced and the composition of staff in certain sectors may need to develop to reflect this.

Finally, workforce planning needs to facilitate an allocation of resources that produces better outcomes and enhanced productivity across the public service. This is a key theme of the new Public Service Reform Plan, *Our Public Service 2020*, which highlights the need to move the focus of reform to outcomes. Action 13 of the Plan seeks to mainstream strategic workforce planning in the public service with a Senior Human Resource Management Leadership (SHRML) group leading on the implementation of this action and developing mechanisms on how to link HR policy and practice to strategic organisational priorities. Reporting to a Public Service Leadership Board, this group has the potential to become a catalyst for the delivery of enhanced workforce planning that contributes to better outcomes across the public service.

Annex 1 – Quality Assurance Report

Quality assurance process

To ensure accuracy and methodological rigour, the author engaged in the following quality assurance process.

- ✓ Internal/Departmental
  - ✓ Line management
  - ✓ Spending Review Steering group
  - ✓ Other divisions/sections
  - ☐ Peer review (IGEES network, seminars, conferences etc.)
- ☐ External
  - ☐ Other Government Department
  - ☐ Steering group
  - ☐ Quality Assurance Group (QAG)
  - ☐ Peer review (IGEES network, seminars, conferences etc.)
  - ☐ External expert(s)
- ☐ Other (relevant details)