**Challenges for the**

**Irish Public service**

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Thank you for the invitation to speak today.

If we thought the public sector was facing major challenges 12months ago with the prospect of further pay cuts and the onslaught about the supposed bloatedness and excesses of the public sector, then I think the next three months are almost going to be worse, both internally in terms of the reforms and changes that will be negotiated and worked through and more seriously, in terms of the looming debate on the composition of the upcoming Budget.

In this upcoming Budget, some of the media will have up in bright lights that public sector workers will have be been protected at the expense of the lowest paid workers who will be targeted to generate additional income tax revenue and social welfare recipients, who will be once again hit by harsh cuts. And these headlines would be entirely justified, after all public sector workers with permanent posts have by and large secure employment, were it not for the inconvenient fact that public sector workers have already had an actual gross pay cut of close to 12%, on a salary of say €50,000, imposed upon them and that three fifths of the total public sector work force are not high earners but earn less than €40,000 per year.

Without doubt, the Croke park agreement is going to come under some dreadful pressure over the coming weeks and while some within the Union movement argued that the agreement didn’t deliver enough, in the outside world, the argument will be forcefully put forward that the agreement simply went too far.

A line of argument will be peddled that public sectors workers have been shielded from the worst of the crisis, yet, when we compare reductions in pay in both the public and private sector, we clearly see that the claims of mass cuts of 15% or 20% in the basic pay of private sectors workers have been grossly exaggerated. I don’t at all doubt that cuts of this magnitude have been imposed, but it is false to suggest that this have been widespread across the economy. For months, many lamented the lag in CSO pay data and complained that the small reductions in the private sector found by CSO were in some way an underestimation. Yet, pay studies from IBEC and other human resource companies consistently showed that the actual scope of cuts to basic pay was confined to 30% of firms and that pay freezes were the norm rather than the exception. This past Friday, the CSO released their pay data up to and including the first quarter of this year and showed that for the private sector overall, there was a reduction of 4.7% in weekly earnings over the past five quarters. However, this was not evenly distributed amongst workers with managers and professionals the least affected with an average 4.2% cut, whereas production, transport and other manual workers suffered a 9.7% reduction in gross weekly pay.

So getting back to the challenges that face the public services, I think the greatest job of work will be to communicate and demonstrate that in exchange for the commitments on pay in the Croke Park deal that real reform is happening. There have been some great improvements in service delivery in some areas of the public sector over the past number of years, such as in the Passport office, in the Revenue Commissioners, in the Dept of Social Protection, yet I believe these have not been well communicated to the general public. Similarly, I think there is an onus on those Unions involved to communicate that in order for change to happen, it is not just a question of the workers coming in on a Monday morning and transforming their mode of operation, changes to information technology, staff training and other structural changes all have to happen, in order to make these reforms work.

Over the past 24months, a belief has taken hold that the public services are part of the problem, rather than a part of the solution to this country’s economic recovery. When we arrived at the stage where the State could no longer afford the public sector in its current form, not because it was too expensive, but because tax revenues plummeted by 33% over a two year period, the obvious reaction was to cut, cut, cut.

Yes, Government spending did increase in real terms by 66% during the period 2000-2008 and there was some daft spending and Government generated waste, particularly with the formation of a number of government agencies and the farming out of advisory work to private consultancy. But if we put this general increase in context, Irish public spending per capita at €15,470 in 2008 was still only 5th across the EU 27, behind the Netherlands, Finland, Sweden, Denmark and Luxembourg.

With regard to the Government response to the public finances crisis to date, 71% of the fiscal consolidation over the past 3 budgets has been put on the shoulders of the public sector and I think we can all be certain that this ratio of cutbacks to tax raising efforts is likely to be preserved in the upcoming budget! The Government’s claim that it wishes to protect services and not repeat the mistakes of the 1980’s has been made a nonsense of, particularly in the community sector where cuts to community programmes have had a devastating impact on the range of services that can be delivered and the number of persons that can be employed to deliver them.

If there is one agency or part of the public service that could be instrumental in the effort to bring about a broad based and far reaching economic recovery, it is Fás. 41% or 191,551 of those on the live register at the moment were previously employed as plant and machinery operatives or in the craft professions and of these, four fifths are over the age of 25. At the height of the boom, we knew that well over a quarter (28%) of those employed in construction did not have formal education beyond the junior certificate and while this does not account for those who would have gone on to train under an apprenticeship, we know now that for many of these people, men in particular, that the paths into higher education to upskill or retrain are not as open to them as it might be for others who have lost their jobs in this crisis. Yet, rather than standing tall as a force for hope to the many who are jobless, the state training body has been castigated due to the sins of a few and a dreadful failure of internal systems of accountability and responsibility. It is dreadful that these goings on have assisted in the caricature of a lazy, inefficient and bloated public service and are a far remove from the excellent work of the many trainers and instructors on the ground.

There is no doubt that improvements need to be made, that greater diversification of courses is required and that the Fás organisation needs to be rebranded. We expect the services sector to account for the bulk of net job creation when and if the economy does begin to recover and while the support services and administration activities sector has been very badly hit with a 28% drop in the number of jobs in the sector over 2008 and 2009, we expect future demand for administration and accounting skills to be very strong. I don’t think it is unfair to say that Fás was renowned for its construction related courses, but it now needs to seriously develop programmes designed for the services and other sectors. However, our great fear now is that with the reform of Fás, the Government will push for the creation of a skills agency which would hollow out the direct training provision element of the organisation.

The lack of imagination and short-sightedness that has characterised the Government attitude in using its public services to assist in the economic recovery to date has been seen most vividly in the kite flying that has been going on with regard to the Semi state companies. While some may expect that the recommendations are a foregone conclusion and that Colm McCarthy will lead the charge for the sale of the family silver to rescue the public finances, ultimately I believe that the establishment of the review group should in theory be a good thing.

It should force us to discuss and justify the ongoing provision of the services and the infrastructure that some of these semi state companies deliver, it should afford us the chance to dispel some the myths that have become cemented into the public mindset in terms of pay and if we have any sense, it should provide the opportunity to develop and flesh out our proposals for how the semi states can assist in the economic recovery of the country.

For a number of those on the Right, the net subsidy to our semi state companies, €387.5m in 2008, represents an intolerable cost burden, particularly when there are private bus companies and television corporations chomping at the bit, and to those semi states that actually do generate substantial profits, the charge is made that revenues are inflated by the regulatory system and that these in turn have cross subsidised international activity.

In fact, because of Government policy to open up the electricity market and to reduce the ESB’s market share, the ESB incurred losses on its customer supply division in 2008 and 2009. Yes, the selling off of power stations in Ireland has conferred substantial gains to the semi state company but it must be highlighted that 41% of last year’s after tax profit within the ESB was not generated here in Ireland, but was made abroad. The reality is that there is an element of double standards in the attitudes towards semi state companies. On one hand, people point to overseas activity as evidence of SOE’s going beyond their original remit and that these parts of the company should be sold off, but we wouldn’t expect medium or large private companies in Ireland to survive in the domestic market if they didn’t diversify into foreign markets to sustain its base both at home and abroad. It is difficult to think of any one single company that is dominant here, who doesn’t have a base outside- even our largest grocery company has established across the border!

About 5years ago, the ICTU developed proposals for a State holding company, which envisaged the transfer of assets of the existing semi states into a centralised company, independent of the Dept of Finance and the relevant line Departments. The State holding company would leverage equity investment by private pension funds or others, while retaining majority control of the semi state companies. In effect, it was intended to greater corporatize the existing semi state companies into fully commercial operations while ensuring their retention in public ownership. In the context of this review of the semi state companies, these proposals are now particularly apt in that they would ensure greater uniformity in the governance and oversight of these companies and would allow more scope to leverage the assets of the semi states to borrow monies to put towards investment into much needed infrastructure.

I want to conclude briefly on the spectacle that awaits us over the coming weeks.

Few of us disagree that €3bn has to be found. My great fear is that the sum will have to be greater. The Government’s interest bill for the year was projected to be €5.1bn in 2010, but with the cloud of the banking crisis hanging over and the prospect of a government general deficit rising to 24%, depending on how the EU factor in the recapitalisations, this interest bill is now likely to be greater. To be fair to the NTMA though, while yields on Irish Government bonds on the secondary markets hit the all important 6% mark over the past wee and have been hovering above 5% for some time, the NTMA has managed to contain any increases in the yields to 5% in their last two bond auctions.

Significant increases in industrial production in the first two months of this year, along with a healthy pick up in retail sales during the Spring months seems to have buoyed the Government into forecasting that the economy will grow by 1% of GDP in 2010. After four consecutive months of declines in core retail sales and a marked slowdown in the pace of increase in industrial production up until July of this year, this forecast is now in doubt. Unless capital spending can be kept some 25% behind target as it is at the moment and Vat revenues remain ahead of projections, then the general government deficit will rise above €18bn.

The Government’s fiscal consolidation strategy was built on the expectation that the Irish economy would grow on the back of export growth, by 3.5% next year and an average of 4% in the years thereafter to get us through this public finances crisis and bring the general government deficit down to 2.9% by 2014. When we look at the present performance of our trading partners, these projections now appear fanciful. The US economy continues to falter with the bulk of the job increases there generated by public employment in preparation for the national census there next year, whereas German export growth was more muted in July after posting strong increases in May and June, reflecting the great uncertainty that still surrounds expectations of growth on both sides of the Atlantic. Unless we see a marked change in the Government’s strategy to where it attempts to give more support to domestic business activity and to broadening the Irish tax base, then my fear is that the challenges for the public services are only going to become greater.