

The Cost of the Public Service

Central Expenditure Evaluation Unit

**The CEEU is a unit of the Irish Government Economic and
Evaluation Service (IGEES)**



Summary

The period since 2008 has seen significant changes in the size and cost of the Public Service. The purpose of this paper is to explain these changes by providing an overview of the policy measures that have been taken on public service pay, pensions and numbers, an analysis of their impacts, and an insight into the counterfactual under alternative policy approaches.

The scale of the fiscal crisis that began in 2008 led to the first permanent cut in public service pay rates in the history of the State – in total the cost to the Exchequer of public service pay has reduced by more than €3bn over the period. Counterfactual analysis shows that if successive Governments had not intervened the total exchequer cost of public service pay and pensions for 2013 would have been in the order of €24bn – c. €7 billion higher than the actual cost.

However, the industrial relations process has also yielded structural reforms in work practices and conditions - which may in the long term have a greater legacy than the pay cuts by enabling a change to a more effective, adaptive and productive public service. A phased reduction in staffing levels has progressed hand in hand with reform of the Public Service. Significant work practice reforms have been a material factor behind the maintenance of service levels – for example protocols whereby vacancies have been filled by redeployment of staff across the Public Service have provided considerable flexibility to respond to the changing needs of citizens, while reducing localised inefficiencies in staffing levels. Some 12,400 staff have been redeployed to end December 2013. Other changes to employment conditions introduced over the period have included standardisation of annual leave, modernisation of sick leave policy and an increase in number of hours worked per employee.

Throughout this period, although overall staff numbers have reduced by 10%, the protection of frontline services has been a key consideration. Despite the fiscal pressures the number of medical/dental and health and social care professionals has actually increased over the period. Staffing reductions in the Education sector since 2008 have been predominantly located in the third level sector and support staff – with the numbers of primary and secondary teachers

increasing slightly over the period. The policy measures which were put in place from 2000 on with regard to special educational needs have been preserved.

The final part of the picture is how the pay and pensions bill is expected to develop over the next three years and beyond. During the period covered by the Comprehensive Review of Expenditure, choices will need to be made to ensure that the Public Service continues to balance the effective delivery of public services and Government policy with sustainability and affordability into the future. A key challenge will be to attract and retain a skilled workforce for the future, setting pay rates that are broadly competitive with those elsewhere in the economy, while taking into account the benefits of public service employment and the Exchequer's ability to pay.

This paper has been carried out by the Department of Public Expenditure & Reform's Central Expenditure Evaluation Unit (CEEU), which is a part of the Irish Government Economic & Evaluation Service, in accordance with the provisions of the Public Spending Code. It does not necessarily reflect the policy position of the Government or the Minister for Public Expenditure and Reform.

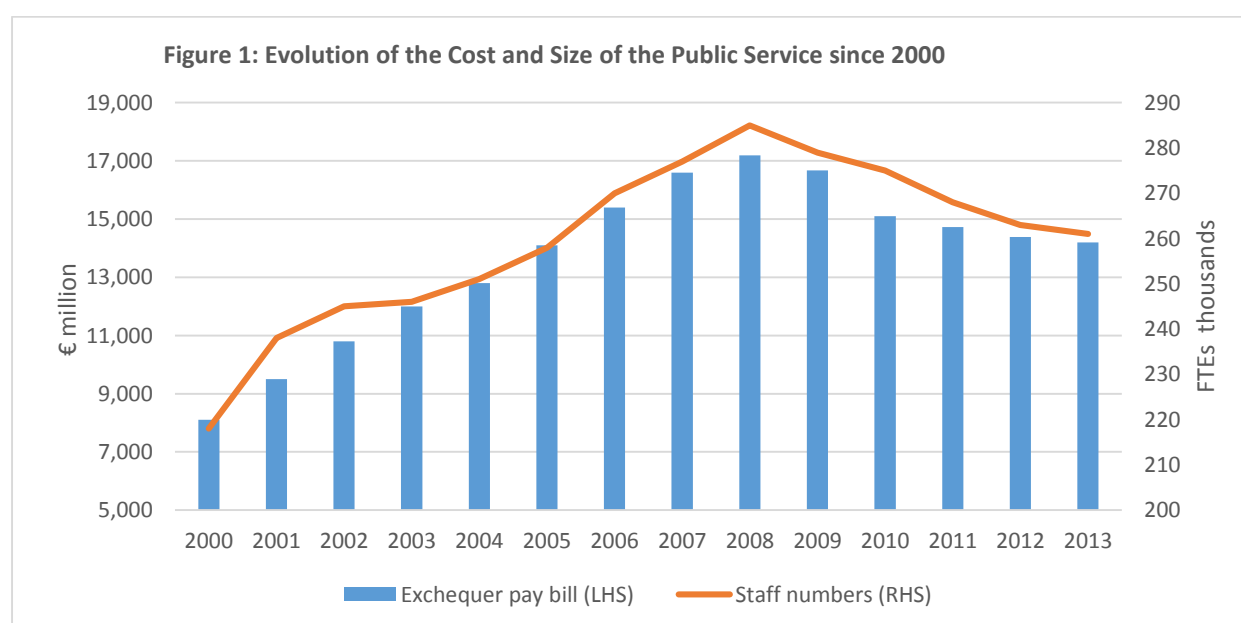
1 Introduction

The relationship between public expenditure and role of the State has evolved in Ireland over time. In broad terms, the role of the State in Ireland - and consequently the scale of public expenditure to support that role - has expanded greatly over the course of 50 years or so, as has been the case in most modern democracies. The State today is either the sole or primary provider or funder of health care, education, welfare support, policing, economic infrastructure, economic regulation and consumer protection; and underpins safety standards across a broad range of activities (building, transport, utilities, food, medicine etc.) It is also a major investor in enterprise, the community and voluntary sector and other key areas of the economy such as agriculture and tourism.

It is in this context that the size and the cost of the Public Service needs to be assessed and balanced against what is considered optimal, affordable and sustainable into the future. This paper assesses the policy measures taken on containing the pay bill and size of the Public Service in Ireland since 2008, driven by fiscal necessity and underpinned by a clear commitment to reform. It also looks at how the pay bill might have developed if different policy choices had been made, and it considers the likely pressures over the next three years.

2 Background

2.1 Historical context – The first decade of the century



2.1.1 Staffing Pressures

The numbers working in the Public Service increased by 73,000 or 30% between 2000 and 2008. Part of this increase can be explained by demographics - the overall population rose by 18% over the same period (from 3.8 million to 4.5 million), leading to an increased demand for public services (See Annex 1 for detail) – particularly in the Health and Education sectors and for the Local Authorities. A 2008 OECD report¹ noted that even after this period of high growth the size of the Irish Public Service workforce was relatively low compared with other OECD countries.

Much of the increase in staffing over the period is explained by policy decisions to improve the level of public services – particularly in the areas of Health and Education, which account for more than 75% of the total increase in staff.

In the Health sector, the number of health and social care professionals almost doubled over the period 2000 to 2008 (see Annex 3). This partly reflects a policy emphasis on care in the community – supported by professionals, and a move away from institutionalisation in the areas of mental health and disability. There was also a sizable 42% increase in the number of doctors and dentists. Numbers working in management and administration rose by 27%.

In the Education sector, more teachers were hired to reduce class sizes, bringing the primary level pupil teacher ratio down from 20.4:1 in the school year 99/00 to 16:1 in the school year 07/08. At secondary level the ratio went from 19.1:1 to 13.07:1 over the same period. In addition, a large number of special needs assistants were hired to ensure that children with special education needs could be facilitated within the mainstream primary education system. For example, in 1999 there were 1,652 learning support teachers and 300 special needs assistants (SNAs) – by 2007 this had increased to 7,673 learning support teachers and 9,000 SNAs. These policy measures have been preserved - at the end of 2013, there were 10,700 learning and resource teachers and 10,745 SNAs in place².

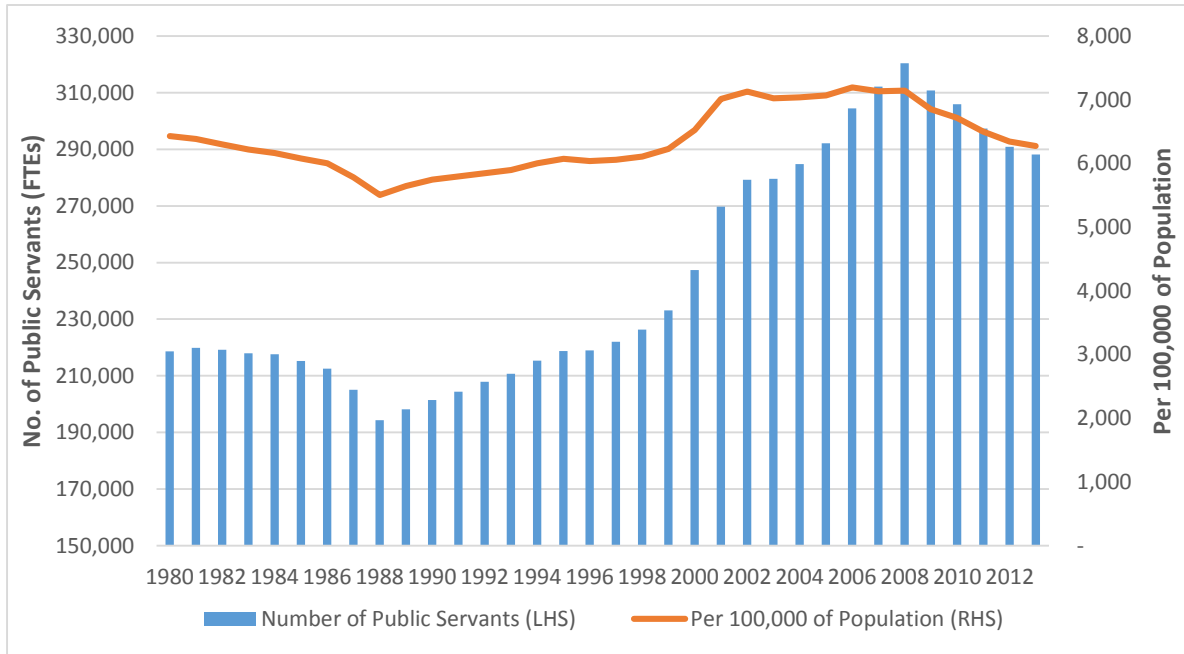
Overall, there has been a reasonably consistent relationship between the size of the Public Service and overall population size for at least the past thirty years – as illustrated in Figure 2 below. Since the 1980s, the population is estimated to have increased by 35% while the

¹ "Ireland: Towards an Integrated Public Service" OECD Public Management Review 2008

² Annual Report of the Department of Education & Skills 2013

number of public servants has increased by almost 32%. It is notable that the ratio of public servants to total population is almost the same in 2013 as it was in 1980.

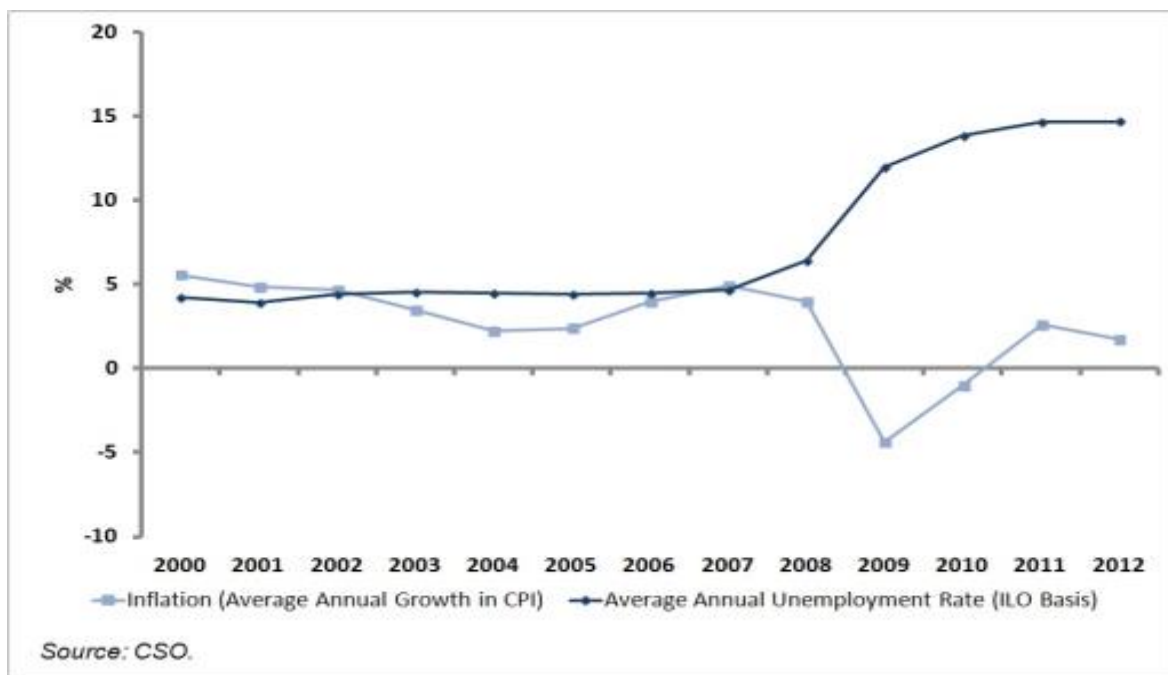
Figure 2: Influence of demographics



2.1.2 Wage Pressures

In addition to demographic pressures, a tight labour market, driven by growing domestic demand, put upward pressure on wage rates.

Figure 3: Inflation and Unemployment since 2000



Rising wage rates in the overall economy were followed by rises in the rate of pay of public servants both through general pay rounds and through special bargaining – in particular the benchmarking exercise which was conducted in 2001³, with the objective of linking pay increases of particular grades with jobs of comparable size in the private sector. Benchmarking was very much a response to the tight labour market at the turn of the century and to concerns that the Public Service was losing competitiveness in recruiting and retaining competent employees compared with the private sector.

2.2 Onset of Recession

The context changed radically in late 2008 when the Irish economy entered a very sudden, deep and prolonged recession, with GDP falling by 7%⁴ in one year (2009). Tax revenues fell from €41bn in 2008 to €32bn in 2010⁵. A sharp increase in the average annual unemployment rate from 4.7% for 2007 to 13.9% for 2010 meant that payments to jobseekers doubled in a two year period – from €2bn in 2008 to €4bn in 2010⁶. At the same time, the September 2008 banking crisis led to substantial Government support of the Irish banking system. As a

³ With reviews in 2007 and 2008.

⁴ CSO

⁵ Finance Accounts.

⁶ Department of Social Protection Statistical Information on Social Welfare Services, 2008 and 2010.

consequence of the above developments, the general Government balance went from balance in 2007 to a deficit of just under 31% of GDP in 2010 (inclusive of one off banking related costs).

2.2.1 Overview of Policy Response

Urgent and material reductions in expenditure levels – in addition to changes to the tax regime - were needed and were taken in response to this grave decline in the fiscal position. As part of this effort, measures were taken to reduce the Public Service pay bill – both in terms of pay rates and the numbers employed. As a result, by 2013 total annual gross voted expenditure had been brought down from €62.4 billion in 2008 to €54.6 billion in 2013, with €3.3 bn of the annual savings attributable to a reduction in the annual pay bill of almost 20%.

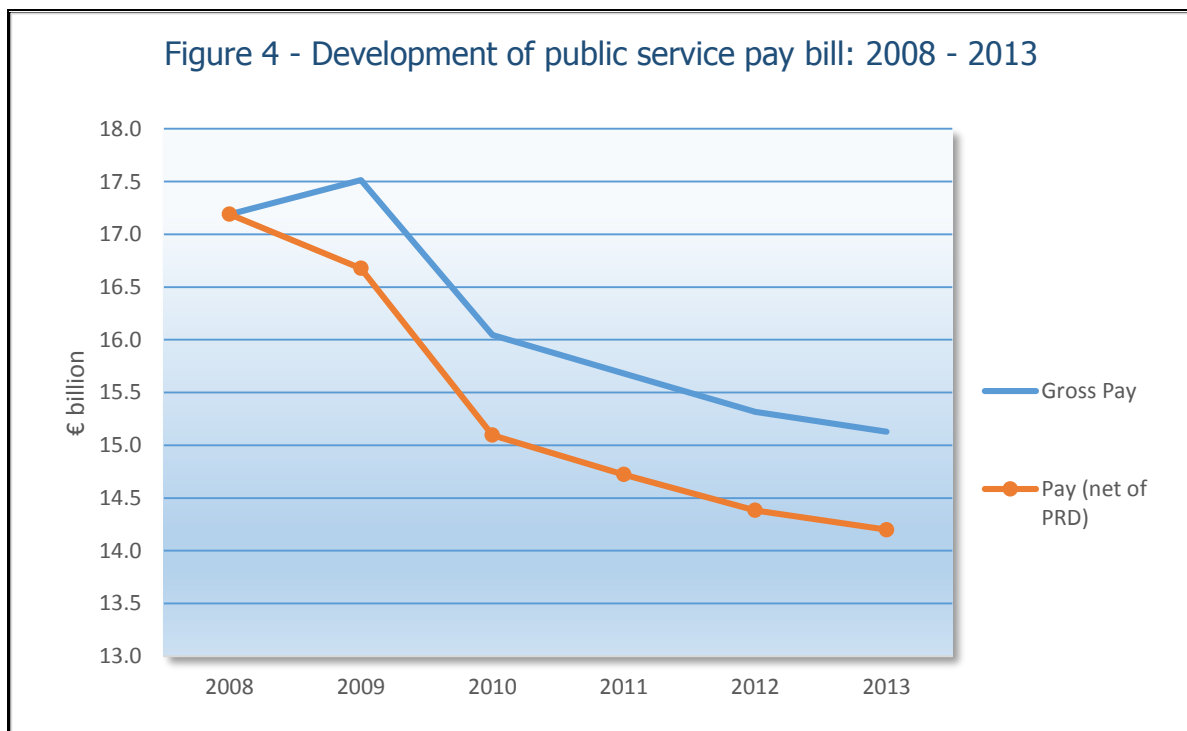


Figure 4 above illustrates the scale and impact of the measures taken – the steep fall from 2008 to 2010 shows the effect of the Pension Related Deduction (PRD) and pay cut introduced by the two Financial Emergency Measures in the Public Interest (FEMPI) Acts in 2009. (See Annex 2 for a list of all of the FEMPI legislation that has been enacted since 2009). Further savings over the period have been driven by a 10% headcount⁷ reduction following the

⁷ Measured as Full Time Equivalentents (FTEs).

introduction of a moratorium on recruitment in 2009, reductions in premium pay and further pay reductions for higher paid public servants introduced in 2013.

In addition to the reductions in the rates of pay, significant reforms have been made with respect to work practices in the Public Service. Changes to employment conditions introduced over the period have included standardisation of annual leave, modernisation of sick leave policy, an increase in number of hours worked per employee, changes in work practices, and a change in redeployment policy. These are significant because they facilitate improved productivity and as such have supported continued provision of essential public services over the period when Public Service headcount has been reduced.

Table 1 shows that the reductions in the annual Public Service pay bill were swift and deep – amounting to more than €2 billion after just two years. Staffing reductions increased over the period – as the progressive implementation of reform measures yielded efficiencies that allowed management to streamline staffing.

Table 1: Changes in gross Exchequer pay bill (net of Pension Related Deduction) and staffing levels: 2008 - 2013

	2008	2009	2010	2011	2012	2013	<i>Change over period</i>	
Gross pay bill	€17.2bn	€17.5bn	€16.0bn	€15.7bn	€15.3bn	€15.1bn	-€2.2bn	-12%
Pension Related Deduction (PRD)	€0.0bn	€0.8bn	€0.9bn	€1.0bn	€0.9bn	€0.9bn	€0.9bn	N/A
Gross pay bill after PRD	€17.2bn	€16.7bn	€15.1bn	€14.7bn	€14.4bn	€14.2bn	-€3.1bn	-17%
Appropriations in aid⁸	€0.1bn	€0.1bn	€0.1bn	€0.1bn	€0.0bn	€0.1bn		
Net pay bill	€17.1bn	€16.6bn	€15.0bn	€14.6bn	€14.4bn	€14.1bn		
Staff numbers (excl. Local Authorities)⁹	285,400	278,700	275,300	267,800	262,600	260,700	-24,700	-9%

Source: Department of Public Expenditure & Reform

Table 2 below places pay in the context of total voted Exchequer current expenditure, illustrating that as a result of the reductions made over the period, the proportion of current expenditure represented by pay has fallen over the period.

⁸Appropriations in aid are Departmental receipts which, with the agreement of the Dáil, need not be paid directly into the Exchequer, but which may be retained to defray the expenses of the Vote to which they refer. Appropriations in aid and net pay are shown in the table to facilitate reconciliation to the net pay numbers shown in the Exchequer accounts.

⁹ Excludes local authority staff, as these are not paid directly from the Exchequer. See Section 4.3.1 for total public sector FTEs.

Table 2: Exchequer pay bill expressed as a proportion of voted expenditure

	2008	2009	2010	2011	2012	2013
Gross voted current expenditure	€53.4bn	€55.7bn	€54.2bn	€52.8bn	€52.1bn	€51.1bn
Pay bill¹⁰	€17.2bn	€16.7bn	€15.1bn	€14.7bn	€14.4bn	€14.2bn
Pay bill expressed as a % age of gross current expenditure	32%	30%	28%	28%	28%	28%
Capital expenditure	€9.0bn	€7.3bn	€6.4bn	€4.5bn	€3.8bn	€3.4bn
Total voted expenditure	€62.4bn	€63.0bn	€60.6bn	€57.4bn	€56.0bn	€54.6bn

Source: Department of Public Expenditure & Reform

Pay policy also impacts on the Public Service pension bill (*which amounted to €2.8 billion for 2013*). Because the pension of most retirees in the period under review is based on final salary, decreases in rates of pay have also resulted in decreases in average pension rates. (Note there have been some exceptions to this due to “grace period” agreements, see Section 5 for more details). Direct decreases were also applied to all pensions in payment under FEMPI legislation. Accordingly, this paper will also analyse the changes in public service pension costs since 2008 in Section 5.

3 Changing Pay and Conditions in the Public Service

3.1 Overview

The scale of the fiscal crisis that began in 2008 led to the first permanent cut in public service pay rates in the history of the State¹¹. The reductions in pay rates have been comprehensive – affecting all public servants - and progressive – the rates at which both the pension related deduction and the pay cuts were applied were graduated, so that the pay of low earners was least affected.

Table 3 below illustrates the effect of these pay reductions on the salary scales of various public service workers.

¹⁰ Net of PRD

¹¹ There was a one year reduction to Civil Service rates of pay in 1933.

Table 3: Affect of pay reductions on salary scales

	Pre- FEMPI (2008)		Post PRD and Pay Reductions		Total % Reduction	
	Min	Max	Min	Max	Min	Max
Taoiseach's Pay	Single Point	€285,583	Single Point	€168,063		41.15%
Principal PPC	€90,702	€112,191	€73,239	€89,164	19.25%	20.52%
HEO PPC	€49,007	€62,210	€43,348	€54,340	11.55%	12.65%
EO PPC	€32,179	€51,054	€29,339	€45,053	8.83%	11.75%
Staff Nurse	€31,875	€46,541	€29,086	€41,295	8.75%	11.27%
Garda	€29,792	€48,695	€27,347	€43,089	8.21%	11.51%
CO PPC	€24,397	€39,558	€22,734	€35,482	6.82%	10.30%

Source: Department of Public Expenditure & Reform

The speed with which the fiscal position of the State deteriorated meant that the 2009/2010 pay reductions were made unilaterally, under Financial Emergency Measures in the Public Interest (FEMPI) legislation. However, subsequent actions have been taken within the industrial relations framework under two overarching agreements: The Public Service Agreement 2010-2014 (the Croke Park Agreement), and the Public Service Stability Agreement 2013-2016 (the Haddington Road Agreement).

This industrial relations process has yielded structural reforms in work practices and conditions which may in the long term have a greater legacy than the pay cuts by enabling a change to a more effective, adaptive and productive public service. Areas of reform include standardisation of annual leave, modernisation of sick leave policy, an increase in number of hours worked per employee, redesign of work process and service delivery methods, and a change in redeployment policy. These reforms have been critical to the realignment of the size of the Public Service, which is analysed in more detail in Section 4, yielding further savings for the State.

Table 4 below, which is taken from the CSO quarterly survey of average weekly earnings, shows the effect that the changes to working hours and premium pay in the Haddington Road Agreement and the 2013 FEMPI pay cuts on higher earners has had on average hourly pay by sector.

Table 4: Change in average hourly pay by sector following FEMPI paycuts and Haddington Road Agreement

Public sector ¹² sub-sector	2013 (Q2)	2014 (Q2)	Annual change	
	€	€	€	%
Civil service	26.94	25.22	-1.72	-6.4
Defence	23.49	22.79	-0.70	-3.0
Justice	30.37	30.59	+0.22	+0.7
Education	38.82	38.14	-0.68	-1.8
Regional bodies	23.82	23.39	-0.43	-1.8
Health	26.88	25.55	-1.33	-4.9
Semi-state	28.03	27.53	-0.50	-1.8
Total public sector	29.39	28.48	-0.91	-3.1
Total public sector excluding semi-state bodies	29.62	28.60	-1.02	-3.4

Source: CSO

The differences in average pay by sector is relevant when considering the realignment of the Public Service set out in Section 4 below.

¹² This paper addresses the public service – the subset of the public sector which does not include commercial semi-State bodies. However, Table 4 is produced from the CSO quarterly survey which covers the public sector as a whole.

3.2 Policy Measures

Box 1 below sets out the policy measures taken in the area of pay rates and conditions

Box 1: Policy interventions with respect to pay and conditions

October 2008 - Introduction of Pay Freeze: When the deterioration of the fiscal position became apparent in 2008, one of the first steps taken was to introduce an 11 month pay freeze until 1 September 2009¹³. It was agreed at that time that this pay freeze would be followed by increases of 3.5% with effect from September 2009 and 2.5% with effect from June 2010 – however, these increases did not happen.

March 2009 – Pension Related Deduction: In March 2009 the pension related deduction (PRD) was introduced under the Financial Measures in the Public Interest (FEMPI) Act 2009. Although not technically a reduction in gross pay, the amount of the PRD is deducted at source and returned to the Exchequer, so in effect it reduces the cost of the pay bill. The PRD rate was graduated, so that higher rates were applied to higher earners, but the average deduction was 7% of total salary. The PRD has yielded savings of more than €900 million per annum for the Exchequer in each full year since its introduction.

January 2010 – Comprehensive Paycut for all Public Servants: The deepening of the financial crisis over the course of 2009 meant that further pay bill savings were required, and a second FEMPI Act, enacted in December 2009, introduced a comprehensive pay cut which became effective on 1 January 2010. This graduated pay cut yielded savings of c. €1.2bn of the €1.6 bn total reduction in the pay bill for that year (the remainder being attributable to a decrease in the number of staff).

June 2010 - Croke Park Agreement – This agreement provided a framework for the introduction of changes to achieve efficiencies and savings in all sectors. These included revised protocols which facilitated redeployment across the Public Service, commitment to the redesign of work processes and service delivery, and improved performance management.

May 2013 - Haddington Road Agreement – This agreement introduced measures whereby public servants have extended their time at work by an additional 15 million hours per annum for no additional pay, producing savings through increased productivity and lower overtime and agency costs. It also provided for further reform in the areas of performance management, redeployment, work-sharing, workforce restructuring, paid leave arrangements and flexitime.

July 2013 – Reductions in Pay and Premium Payments: A further reduction in pay for those earning more than €65,000 was introduced in July 2013 (as part of the Haddington Road Agreement) under the FEMPI Act 2013. It took the form of a graduated pay cut (from 5.5% to 10%) which will yield full year savings of c. €0.2bn. The Act also provided for a suspension of incremental progression for specified time periods¹⁴

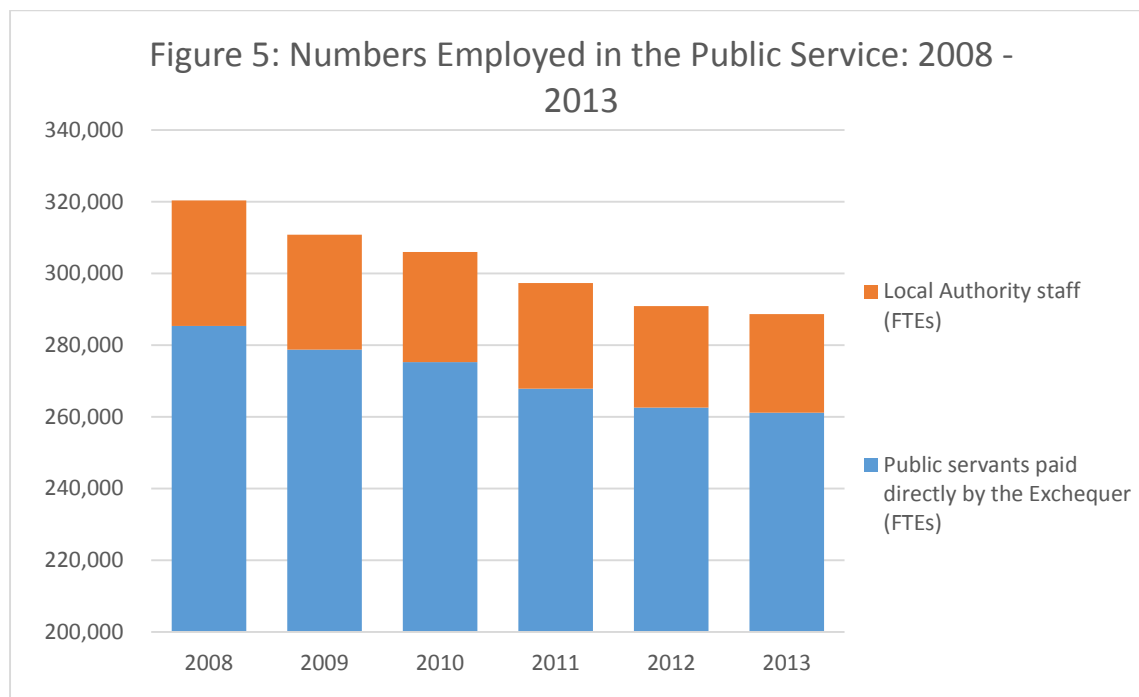
¹³ Towards 2016 – Review and Transitional Agreement 2008-2009, published on 1 September 2008

¹⁴ Periods varied depending on pay level.

4 Realigning the Size of the Public Service

4.1 Policy context

At the same time as pay rates were going down, measures were being taken to decrease the size of the Public Service, leveraging the opportunities for efficiency improvements offered by public service reforms. These measures affected the numbers across the entire Public Service, including areas such as the Local Authorities that did not draw pay directly from the Exchequer. The impact of these measures was a reduction of 10% in the number of Public Servants¹⁵ over the period 2008 to 2013 - from 320,000 to 288,000 at the end of 2013. This is illustrated in Figure 5 below.



The preceding period had been one of consistent growth in staffing levels, as outlined in Section 2. Accordingly, at the onset of the fiscal crisis the first step taken in this area was to stop hiring staff – by putting in place a moratorium on recruitment and promotion across the Public Service in March 2009. Importantly, the Moratorium has allowed some flexibility for the filling of critical posts so that sectoral management can respond appropriately to pressures

¹⁵ Expressed as full time equivalents (FTEs)

and, in particular, arrangements for the Health and Education sectors have been modulated to ensure that key services are maintained insofar as possible.

The Moratorium has proven to be a powerful tool in the reduction in staffing levels. Although it was first introduced as an emergency measure, it became more targeted in 2010 when a new Employment Control Framework (ECF), setting multi-annual headcount ceilings for each area of the Public Service, was put in place¹⁶. This multi annual framework has required management to rationalise posts in a controlled way over the period.

This process of phased reduction in staffing levels has progressed hand in hand with reform of the Public Service. Significant work practice reforms have been a material factor behind the maintenance of service levels – for example protocols whereby vacancies have been filled by redeployment of staff across the Public Service have 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. A good illustration is the Department of Social Protection which experienced a large and rapid increase in its client base at the beginning of the financial crisis, with the number of jobseekers doubling in a two year period. This necessitated an increase in staffing levels – which was largely met through redeployment. The more recent work practice reforms arising from the Haddington Road Agreement in areas such as roster arrangements and standard number of hours worked have the potential to yield significant future productivity benefits.

4.2 Exit Mechanisms

Reducing headcount by attrition alone – i.e. by not replacing departing staff – was not considered sufficient, given the urgency of the fiscal crisis and the desire to accelerate reform to deliver a leaner, more efficient public service, and therefore other exit mechanisms were introduced. These primarily targeted areas where staff had become surplus to requirements (mainly from back office and support areas and management and administrative grades).

¹⁶ There was already an ECF in place in the Health Sector.

4.2.1 Accelerated Retirements

There were two early retirement schemes (i.e. targeted at staff below the minimum full retirement age) introduced over the period:

- 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. The number of people who left the Public Service under this scheme was c. 1,000.
- A second, more targeted early retirement and voluntary redundancy scheme was introduced for the HSE in 2010.

However, by far the most significant driver of accelerated retirements appears to have been revised expectations among public servants about future benefits. The two notable spikes in retirements occurred in 2009 and in 2012 in response to the FEMPI provisions, in particular whereby the pensions of public servants who retired on or before 29 February 2012 would be based on pay levels prevailing before the introduction of the pay cut. It should be noted that this primarily relates to a cohort who would otherwise have retired within a reasonably short period.

4.2.2 Targeted staff reductions

The State's commitment to protect frontline and priority services, the fact that by their nature reform efficiencies do not accrue uniformly across the different sectors, and evolving public needs meant that there was a need for more targeted reductions in certain areas. With a commitment made in the Croke Park Agreement that there would be no compulsory redundancies, the additional mechanisms set out below were also used to address staff surpluses in specific areas.

- **Incentivised Career Break:** The incentivised career break scheme was a mechanism which allowed staff to leave the Public Service for a three year period and receive up to €12,000 p.a. It increased flexibility by allowing management to temporarily reduce staffing levels – based on business needs – at a relatively low cost. About 1,000 people left under the scheme.
- **Voluntary Early Retirement and Voluntary Redundancy in the Health Sector:** Targeted voluntary redundancy and voluntary early retirement schemes were offered

to selected categories of staff in the Health sector in 2010. Under these programmes, more than 1,600 FTEs left the public health service.¹⁷

- **Voluntary Redundancy Outside of the Health Sector:** In late 2012, the Government introduced voluntary redundancy in certain targeted sections of the Public Service where there continued to be staff surpluses. Some 800 staff have departed under this scheme to date – the majority (600) coming from the Local Authorities.

4.3 How is the fall in staffing levels distributed across the Public Service?

4.3.1 Overview

Table 5 shows that the reductions in staffing have been applied right across the Public Service, with only the frontline areas of Education and Health not experiencing double digit percentage reductions. Overall staffing levels have fallen by 10% in the period.

Table 5: Change in staffing levels by sector

Sector	2008	2013	Decrease over the period	
			Amount	Percentage
HSE	110,000	100,000	-10,000	-9%
Education sector	95,000	91,600	-3,400	-4%
Civil service	41,000	36,100	-4,900	-12%
Justice	15,400	13,100	-2,300	-15%
Non-commercial State agencies	12,700	10,200	-2,500	-20%
Defence sector	11,300	9,800	-1,500	-13%
Exchequer funded staff	285,400	260,800	-24,600	-9%
<i>Local Authorities</i>	<i>35,000</i>	<i>27,500</i>	<i>-7,500</i>	<i>-21%</i>
Total public service	320,400	288,300	-32,100	-10%

Source: Department of Public Expenditure & Reform

See Annex 3 for further prior period analysis.

Note: In order to facilitate a meaningful comparison between 2013 and 2008, the 2008 numbers have been adjusted to reflect functional transfers that took place subsequently, involving 1,000 Community welfare officers from the HSE to the Civil Service in 2011, 300 youth protection staff from Justice to the Centre for Young Offenders (captured under NCSA) in 2012 and 700 FAS staff previously counted under NCSA to the civil service in 2012. Accordingly, the 2008 Civil service numbers are 1,828 higher than actual, NCSA numbers are 393 lower than actual and the 2008 Health and Justice numbers are 1,000 and 300 lower, respectively.

¹⁷ First Progress Report of the Public Service Agreement Implementation Body.

While Local Authority staff are not paid directly from the Exchequer pay bill, the 21% reduction in Local Authority staff over the period has yielded significant savings for the Exchequer by way of reducing the required level of general Exchequer financial support to the Local Authorities.

Section 4.3.2 below provides a more detailed analysis of staffing reductions by sector. Rationalisation is a strong theme – for example, there has been material rationalisation of the number of State agencies. Such structural changes will continue to deliver efficiencies after this period of consolidation has ended.

The same can be said for the changes in work practices and management structures which have resulted in a c.20% decrease in numbers working in management and administration in the Health Service Executive (HSE). It is also notable that the improved flexibility offered by the revised redeployment protocols has allowed for the transfer of staff across the Public Service in response to changing public needs. Finally, alternative approaches to service delivery are being used to maintain services– for example the outsourcing of the proposed Jobpath programme by the Department of Social Protection.

4.3.2 Sectoral Analysis

Health: The protection of frontline services has been the key theme in the Health Sector since 2008. Table 6 below shows that more than half of the staff reductions has been in the area of management, administration and general support.

Table 6: HSE – Change in staffing profile 2008-2013

	2008	2013	Change over period	%
Medical/dental	8,100	8,300	200	3%
Nursing	38,100	34,200*	-3,900	-10%
Health & social care professionals	15,000**	15,900	900	6%
Other patient & client care	18,200	16,800	-1,400	-8%
Management/administration and general support	30,600	25,200	-5,400	-18%
Total HSE	110,000	100,400	-9,600	-9%

Source: Department of Public Expenditure & Reform

* 2013 number includes 410 graduate nurses recruited under the Haddington Road Agreement

** number has been restated to reflect the subsequent transfer of community welfare officers to DSP in 2011.

The delivery of hospital services has been prioritised, since the Government came to office the number of staff delivering hospital services has consistently remained above 48,200 or half of the total health sector workforce.

The exit schemes over the period primarily targeted non-frontline staff, and this has been a factor in a change in the workforce profile in recent years. Clinical staff as a percentage of total employment increased from 71.8% to the current rate of 74.8%. This change in mix has also impacted on average pay.

Education: Staffing reductions in the Education sector since 2008 have been predominantly located in the third level sector and support staff – with the numbers of primary and secondary teachers largely stable over the period. Table 7 below shows that the numbers of primary teachers actually increased marginally, albeit by less than the relative increase in pupil numbers – the number of primary and secondary pupils increased by 8% over the period, as shown in Table 8 below.

Table 7: Education - analysis by sector

	2008	2013	Change over period	%
Primary teachers	32,000	33,000	1,000	3.1%
Special needs assistants	10,600	10,700	100	0.7%
Secondary, community and comprehensive teachers	28,300	27,800	-500	-1.9%
Third level grades	20,900	17,400	-3,500	-16.6%
Support staff	3,200	2,700	-500	-15.6%
Total education sector	95,000	91,600	-3,400	-3.6%

Source: Department of Public Expenditure & Reform

The policy measures which were put in place from 2000 on with regard to special educational needs have been preserved. At the end of 2013, there were 10,745 SNAs and 10,700 learning and resource teachers in place.¹⁸

¹⁸ Annual Report of the Department of Education & Skills 2013.

Table 8: Education - enrolment of fulltime students by level

	<i>2000</i>	2008	2013	Change since 2008	%
First level	<i>444,310</i>	486,444	526,422	39,978	8.2%
Second level	<i>354,819</i>	335,123	362,847	27,724	8.3%
Post leaving certificate courses	<i>24,337</i>	29,967	35,524	5,557	18.5%
Third level	<i>122,395</i>	139,134	164,863	25,729	18.5%

Source: Department of Education

As students progress through the education system, the relationship between number of teachers and number of students becomes less linear. There has been significantly more scope in the third level sector to increase staff productivity by way of reforms such as changes in work practices and increased working hours.

Civil Service: The decrease in staffing levels for the Civil Service is broken out in Annex 4. The trend has been reasonably consistent across Government Departments and Offices. Annex 4 shows that Social Protection and Finance (now Finance and Public Expenditure & Reform) are the only two Departments that have experienced staffing increases (albeit modest ones) over the period, in both cases explained by significant expansion in their work.

For instance, there were 403,000 people on the Live Register at the end of 2013, compared to 160,000 in September 2008, and the Department of Social Protection has managed this huge increase in its customer base with a marginal increase in its overall staffing. It has done this by leveraging as much as possible the increased efficiencies offered by reform initiatives and by making extensive use of the new redeployment protocols to replace retiring staff – thus absorbing spare capacity from other areas of the Public Service.

Justice: The main development in overall Garda numbers in recent times has been a move towards civilianisation of administrative posts, which has involved reducing the number of administrative posts held by trained Gardaí. That ongoing process, which is being replicated in other specialised areas of the Public Service – including in the Prison Service – is delivering financial savings and operational efficiencies.

Defence: The 13% decrease in Defence sector staffing arose through a reduction in the number of Permanent Defence Force Members in the context of the re-organisation of the Defence Forces – including barrack closures and Brigade rationalisation.

Non Commercial State Agencies: The NCSA's have experienced the largest proportional decrease. In addition to the reform measures which are common across all of the sectors, the Government has also undertaken an agency rationalisation programme which will yield annual savings of over €20 million when fully implemented.

Local Authorities: Much of the workforce recruitment in the Local Authorities in the years prior to 2008 was based on fixed-term contracts, reflecting the project nature of some of the work. Therefore, the number of temporary contract workers fell precipitously from 2009 onwards, as shown in Table 9 below. This reflects both the cessation of discretionary projects and the fact that staffing had increased prior to 2008 with respect to services in support of the elevated levels of construction. The subsequent reversal meant that much of this increased staffing was no longer needed.

Table 9: Local Authorities – change in staffing profile

	2008	2013	Change over period	%
Permanent Posts	31,800	26,700	-5,100	-16.0%
Temporary Posts	3,200	800	-2,400	-74.8%
Total Local Authorities	35,000	27,500	-7,500	-21.3%

Source: Department of Public Expenditure & Reform

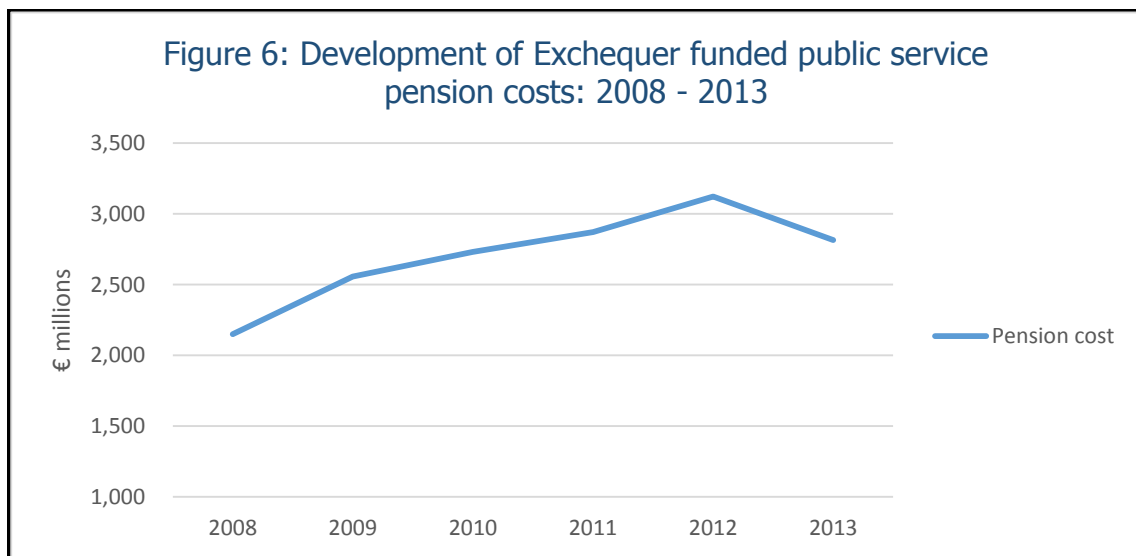
In tandem with these changes in staffing levels, Local Authority structures have also been rationalised and reformed, including the adoption of shared services and external service delivery.

5 Managing the Cost of Pensions for Public Servants

5.1 Overview

In looking at movements in the overall public service pension bill over the period the story is one of cost containment rather than cost reduction. This is because the number of pensioners increases each year, due to the demographic profile of the Public Service – and so the only available policy options are with respect to the rate of payment. It is also important to note that movement in the pay bill is only one driver of pension costs – other factors such as survival rates for pensioners also need to be considered.

Figure 6 below shows how the cost of Exchequer funded public sector pensions has developed. As noted in Section 3 above with respect to pay, Local Authority pensions are not directly funded from the Exchequer. However the measures set out below also apply in that sector.



For most public servants there is a window of up to five years within which they can choose to retire. This means that overall annual pension bill cost patterns can be disrupted in years where there is a higher than average number of retirees. This is primarily due to the cost of the one-off lump sum payments to which Public Servants are entitled. For example, in 2012 there was a higher than average number of retirees due to the expiry of the “grace period”

and consequently total lump sums paid amounted to c. €550 million, almost double the normal annual level of c. €300 million.

In addition to the pension related deduction that was discussed in Section 2, Public Servants also pay an ongoing pension contribution, and between €500m and €550m is received by the Exchequer each year with respect to that contribution.

5.2 Policy measures

5.2.1 Pensions in payment

The FEMPI 2010 Act introduced the Public Service Pension Reduction (PSPR), which came into effect on 1 January 2011. The 2010 Act introduced an income-graduated reduction applied to each gross annual public service pension in excess of €12,000, amounting to an average reduction of 4% to pensions in payment before 29 February 2012. Further reductions were applied to pensions of €32,500 and over from 1 July 2013, under the 2013 FEMPI Act. Both these measures are together expected to yield full year savings of c. €125m.

Pensions which came into payment after 29 February 2012 are based on final salary, and so are based on the reduced public sector remuneration rates effective from 1 January 2010. See section 4.2.1 for an explanation of the 2012 grace period phenomenon whereby the pensions of Public Servants who retired on or before 29 February 2012 were based on pay levels prevailing before the introduction of the 2010 FEMPI pay cut. A second grace period was introduced in 2013 for staff who had been subject to the 2013 FEMPI pay reduction for higher earners. This grace period is scheduled to expire at the end of June 2015.

5.2.2 Future pension costs

Significant policy changes have also been made to contain future pension costs. The Public Service Pensions (Single Scheme and other Provisions) Act 2012 was enacted in July 2012. This facilitated the introduction of a new single pension scheme for all new entrants to the Public Service from 1 January 2013. Although there are no savings to date from this change, it will drive considerable future pension savings¹⁹, mainly attributable to the following features:

¹⁹ Based on the EU guidelines for calculating the accrued liability for public service occupational pensions.

- career average earnings are used to calculate benefits (final salary was used previously)
- post retirement pension increases are linked to CPI (increases were linked to increases in pay previously); and
- the retirement age has increased.

6 What is the counterfactual?

In order to fully understand the effect of the policy interventions that have been made since 2008 it is helpful to consider the counterfactual – i.e. what would have happened if different choices had been made. Accordingly this paper sets out two counterfactuals.

6.1 Counterfactual 1

The first Counterfactual looks at how the pay bill would have developed if no interventions had been made on public service pay and numbers after 2008 – i.e. if staffing levels had continued to rise as they had in the previous 5 years and if increases granted under wage agreements in force at the time had taken effect. Although this may seem unrealistic in light of the fiscal deterioration, it is useful because it illustrates how responsive the pay bill is to relatively modest (2.5% per annum) increases in staffing and pay rates. Table 10 below shows the Public Service pay bill for 2013 would have been almost 50% higher if trends prior to 2008 had continued. The 2013 pension bill would also be higher – whilst the 2009 and 2012 spikes in numbers retiring would not likely have happened under this scenario, pension rates and therefore costs would have increased when serving staff received pay increases.

Table 10: Counterfactual 1: no policy interventions

	2008	2009	2010	2011	2012	2013
Counterfactual 1						
Total Gross Pay	€17.2bn	€18.1bn	€19.3bn	€20.0bn	€20.5bn	€21.0bn
Total Pension	€2.1bn	€2.4bn	€2.6bn	€2.8bn	€2.9bn	€3.1bn
Exchequer funded staff (i.e. excl. Local Authority staff)	285,400	292,500	299,800	307,300	315,000	322,900
Actual						
Total Gross Pay (Net of PRD)	€17.2bn	€16.7bn	€15.1bn	€14.7bn	€14.4bn	€14.2bn
Total Pension	€2.1bn	€2.6bn	€2.7bn	€2.9bn	€3.1bn	€2.8bn
Exchequer funded staff (i.e. excl. Local Authority staff)	285,400	278,700	275,300	267,800	262,600	260,700

Assumptions:

- Public service numbers had grown by an average of 2.5% per annum from 2003 to 2008, and it has been assumed that this growth rate would have continued in the period 2008 to 2013.
- Counterfactual 1 assumes that the two pay increases agreed as part of “Towards 2016 – Review and Transitional Agreement 2008-2009” (viz: 3.5% with effect from 1 September 2009 and 2.5% with effect from 1 June 2010) were paid. It assumes that no further pay increases are made after this.
- In the Counterfactual it has been assumed that there is no pension related deduction, as this measure was introduced in 2009 as an intervention to reduce the cost of the pay bill.

6.2 Counterfactual 2

The second Counterfactual looks at what would have happened if the unprecedented step of permanent reductions in public service pay had not been taken – but pay was instead frozen at 2008 rates. It assumes that the staff numbers decrease as per the actual case. This is the more realistic counterfactual, as freezing pay combined with staff numbers reduction is the traditional approach to achieving pay savings, and was used by many employers in the private sector who do not have access to the instruments deployed by successive Governments. Notably, this counterfactual scenario also would have yielded a pay and pensions bill €2.1 billion higher in 2013 than the actual total.

Table 11: Counterfactual 2: pay freeze and reduced numbers

	2008	2009	2010	2011	2012	2013
Counterfactual 2						
Total Gross Pay	€17.2bn	€17.5bn	€17.2bn	€16.8bn	€16.3bn	€16.2bn
Total Pension	€2.1bn	€2.6bn	€2.7bn	€3.0bn	€3.2bn	€2.9bn
Exchequer funded staff	285,400	278,700	275,300	267,800	262,600	260,700
Actual						
Total Gross Pay (Net of PRD)	€17.2bn	€16.7bn	€15.1bn	€14.7bn	€14.4bn	€14.2bn
Total Pension	€2.1bn	€2.6bn	€2.7bn	€2.9bn	€3.1bn	€2.8bn
Exchequer funded staff	285,400	278,700	275,300	267,800	262,600	260,700

Assumptions:

- Assumes pay frozen at end 2008 rate.
- It has been assumed that there is no pension related deduction, as this measure was introduced in 2009 as an intervention to reduce the cost of the pay bill.
- The actual decrease in numbers has been used

6.3 Summary

The counterfactual analysis shows that if successive Governments had not intervened the total Exchequer cost of Public Service pay and pensions for 2013 would have been about €24 bn – c. €7 bn or 50% higher than the actual cost. The measures actually taken to realign the size of the public sector resulted in some increases in the pension bill in the earlier years, as people retired earlier than they might otherwise have done, but these increases were short-term in nature, and have been more than offset by the effect on the pension bill of no pay increases over the period (together with the other pension cuts outlined in Section 5 above).

The second counterfactual shows that reducing staff numbers and freezing pay would have yielded reasonable savings – however, in the absence of the pay reductions which were made under FEMPI legislation, the cost of Exchequer pay and pensions for 2013 would have been about €2 billion higher. On a cumulative basis, the cost to the Exchequer over the period would have been more than €9 billion higher – with further additional costs for the Local Authorities.

7 Future Pressures

The period since 2008 has seen significant changes in the size and cost of the Irish Public Service. Reforms in work practices and conditions delivered under the framework of the public service agreements have resulted in a leaner, more flexible and adaptive public service.

The final part of the picture is how the pay and pensions bill is expected to develop over the next three years and beyond. The substantial reductions in public service pay and pensions were based on a series of Financial Emergency Acts. Those Acts must be reviewed by the Minister for Public Expenditure and Reform on an annual basis, to confirm their continued necessity in the prevailing economic and fiscal circumstances. The legal position regarding paysetting in the Public Service will have to be addressed as part of arrangements concerning remuneration for the Public Service for the future. Furthermore, the Haddington Road Agreement is due to expire in 2016, and in accordance with that Agreement, certain of the pay reduction measures are due to unwind.

During the period covered by this Comprehensive Review of Expenditure choices will need to be made to ensure that the Public Service continues to balance the effective delivery of public services and Government policy with sustainability and affordability into the future. A key challenge will be, in attracting and retaining a skilled workforce for the future, setting pay rates that are broadly competitive with those elsewhere in the economy, while taking into account the benefits of public service employment and the Exchequer's ability to pay.

The purpose of this paper is to inform those choices by providing an overview of the policy measures that have been taken on public service pay, pensions and numbers, an analysis of their impacts, and an insight into the counterfactual under alternative policy approaches.

Annex 1: Change in population over the period (in thousands)

Age Group	2000	2008	2013	Increase since 2000
0-14	828	913	995	20%
15-64	2,537	3,088	3,041	20%
65+	425	484	549	29%
All Ages	3,790	4,485	4,585	21%
Live Births	55	75	72	31%

Source CSO

Annex 2: Financial Emergency Measures in the Public Interest – List of Instruments

Instrument	Main provisions
Financial Emergency Measures in the Public Interest Act 2009	Provided for the implementation of a pension related deduction, allowed public bodies to reduce professional fees paid by them to external service providers, made changes to the early childcare supplement and the farm waste management scheme.
Financial Emergency Measures in the Public Interest (No. 2) Act 2009	Provided for reductions in public service pay with effect from 1 January 2010.
Financial Emergency Measures in the Public Interest Act 2010	Provided for a further reduction to the remuneration of members of the Government. Provided for a reduction to the pensions of retired public servants.
Financial Emergency Measures in the Public Interest (Amendment) Act 2011	Provided for the reduction of Judicial pay and pensions. Provided for a further reduction of the pay of members of the Government
Financial Emergency Measures in the Public Interest Act 2013	Provided for a reduction in remuneration for public servants earning more than €65,000 and a further reduction to pensions in excess of €32,500

Source: Department of Public Expenditure & Reform

Annex 3: Breakdown of staff changes between 2000 and 2008

Sector	2000	2008	Change 2000-2008	
			Amount	Percentage
HSE (see below for breakdown)	81,500	109,900	28,400	35%
Education sector	67,800	95,000	27,200	40%
Civil service	34,000	41,100	7,100	21%
Garda Síochána	12,200	15,400	3,200	26%
Non-commercial State agencies	10,400	12,700	2,300	22%
Defence sector	12,200	11,300	-900	-7%
Exchequer funded staff	218,100	285,400	67,300	31%
<i>Local Authorities</i>	<i>29,000</i>	<i>35,000</i>	<i>6,000</i>	<i>21%</i>
Total public service	247,100	320,400	73,300	30%

Source: Department of Public Expenditure & Reform

HSE – Change in staffing profile 2000-2008

	2000	2008	Change 2000-2008	
			Amount	Percentage
Medical/Dental	5,700	8,100	2,400	42%
Nursing	29,200	38,100	8,900	31%
Health & Social Care Professionals	7,600	15,000	7,400	97%
Other Patient & Client Care	14,900	18,200	3,300	23%
Management/Administration and general support	24,100	30,600	6,500	27%
Total HSE	81,500	109,900	28,400	35%

Source: Department of Public Expenditure & Reform

Annex 4: Detailed analysis of civil service staffing changes

	2008	2013	Change 2008-2013	
			Amount	Percentage
Social Protection*	6,310	6,584	145	2%
Justice Equality & Law Reform**	4,605	4,186	-419	-9%
Agriculture	4,204	3,087	-1,117	-27%
Education & Skills	1,661	1,490	-171	-10%
Foreign Affairs	1,544	1,182	-362	-23%
Environment**	1,204	746	-458	-38%
Jobs Enterprise & Innovation	1,103	796	-307	-28%
<i>Finance</i>	<i>631</i>	<i>309</i>		
<i>Public Expenditure & Reform (PER)</i>		<i>332</i>		
Combined Finance and PER	631	641	10	2%
Transport	579	455	-124	-21%
<i>Health</i>	<i>514</i>	<i>345</i>		
<i>Children & Youth Affairs</i>		<i>137</i>		
Combined Health and CYA	514	482	-32	-6%
Defence	402	339	-63	-16%
Communications Energy & Nat Resources	288	248	-41	-14%
Taoiseach	233	178	-55	-24%
<i>Arts, Heritage & The Gaeltacht **</i>	<i>174</i>	<i>479</i>		
<i>Community, Rural & Gaeltacht Affairs</i>	<i>273</i>			
Combined Arts and Gaeltacht	447	479	32	7%
Total Government Departments	23,725	20,890	-2,963	-12%
Revenue	6,659	5,828	-831	-12%
Prisons	3,641	3,433	-209	-6%
Office of Public Works (includes industrial grades)	1,922	1,659	-263	-14%
Courts Service	1,098	933	-165	-15%
Central Statistics Office	847	614	-233	-28%
Property Registration Authority	684	518	-165	-24%
Oireachtas	441	390	-50	-11%
Chief State Solicitors Office	245	224	-21	-9%
Director of Public Prosecutions	197	186	-11	-6%
Valuation Office	158	123	-35	-22%
Comptroller & Auditor General	154	144	-10	-6%
Public Appointment Service	146	87	-60	-41%
Attorney General	128	129	1	1%
Shared Services	0	172	172	N/A
Other Offices	277	432	155	56%
Industrial grades (other than OPW staff)	692	356	-336	-49%
Total Offices	17,288	15,228	-2,060	-12%
Total civil service	41,013	36,118	-5,023	-12%

Source: Department of Public Expenditure & Reform

*2008 number has been adjusted to reflect the transfer of community welfare officers from the HSE and Fas Workers from the Education sector

** Some functions which were in Environment in 2008 are now in Arts, Heritage & Gaeltacht. Likewise, some functions which were in Community Rural & Gaeltacht are now in Environment and in Justice, Equality & Law Reform.

It should be noted that the table needs to be interpreted with some caution due to the transfer of functions between Departments that took place on the change of Government in 2011.