

Public Service Reform

Address by Paul Haran to the MacGill Summer School – July 2012

It is a real honour to be here today to discuss how we might drive the public service reform program forward to make an even greater contribution to Ireland's regeneration.

A challenge for me in addressing this topic is to strike a fair balance between on the one side recognising the valuable changes taking place and yet identifying the real opportunities that exist and the distance still to go.

Public service reform is one area where I feel insiders have a duty to be impatient with its pace and push out the envelope of change and critically, ambition.

Against this it must be accepted that the predicament we find ourselves in today means that more blunt instruments of policy may have to be adopted in the short term to ensure that we do not fail to deliver on our commitments under the Programme of Assistance with the EU, the ECB and the IMF.

First of all, the creation of the new Department of Public Expenditure and Reform and the appointment of its political and professional leadership is a major step forward in driving change. We now have a Minister and Department directly addressing and being held accountable for the reform agenda and by including expenditure in its remit we can be reassured that it has the clout to command the attention of the wider public service and that critically it can associate reform with expenditure management.

This new department has got down to work immediately and with gusto and both the range and pace of its reform programme is impressive dwarfing a decade or two of SMI type initiatives.

The changes in the top level appointments process offers us a greater chance of ensuring that a broader range of leadership skills will find its way into the top echelons of the civil service in particular and help avoid an excessive insider bias that can encourage group think.

A new emphasis on outputs is being developed and implemented and a more sophisticated approach to the estimates process, impact assessment,

performance management and value for money are also being implemented. And last week's Labour Court decision paves the way for a major recalibration of the sick leave arrangements in the public service.

Ultimately, I would have to strongly credit Government and the new Department at the macro level, in bringing expenditure under control and in ensuring that the public service is reducing in both size and cost.

I could go on but I am sure that others on this platform will be better positioned to detail the successes of the current approach.

I would like now to reflect on the considerable opportunity to further drive public service reform in Ireland to significantly enhance the wellbeing of our society – we must not become complacent with the reforms already done and pause: we must evaluate, redesign and press ahead

I have always been fascinated by what is one of the defining differences between the operation of systems of capitalism and communism: in that the former uses the market as the hidden hand in driving decision taking in a decentralised way while the latter depended on central planning by technocratic or bureaucratic elites.

I believe that we can use the public sector accountability system, as that hidden hand, to drive behaviour in the public sector and deliver a transformation in performance and service delivery in a similar way. If we can properly empower our public service leaders, agree rigorous and stretching targets for them and hold them fairly and publicly to account then we may ensure that their energies, knowledge and skill sets will be focused on delivery within prescribed budgetary allocations.

Doing this requires three overarching conditions:

- A formalised set of agreed results or output service targets;
- A transparent and effective accountability process;
- Empowerment of those charged with delivery

Let us look at these individually:

Agree Outputs

Building on the current arrangements the outcome of a rigorous estimates' process should be an allocation proposal containing real detail about both expenditure and targeted and SMART results that would be presented to the Oireachtas for approval.

Initial aspects of this are underway but I would suggest that greater ambition and detail is required in the chosen targets being proposed. Furthermore, it is essential that the annual outputs should be presented alongside the original target with greater clarity on what has been achieved or otherwise. [In the 2012 Estimates Volume, the 2011 outputs were presented against the 2012 targets and not against the targets (2011) against which they should be compared against]

Departments would need to bring greater clarity and wider options to the Minister on what outputs were possible within certain resource envelopes. Ultimately this information should become public so that society is aware of the choices being taken. While, it would of course be for the Minister to decide on the output selection, the Accounting Officer/Accountable Person should also have to sign-off on what they would commit to delivering – within the resource envelope - so that they could be held accountable for its delivery. This dynamic may not always be as simple as it might appear.

A Transparent and Effective Accountability Process

Developing on these reforms to the estimates process, we need to provide a full circle accountability loop including most importantly the C&AG's office in auditing the outputs statement and in supporting the evaluation by the relevant Oireachtas committee of each department's and office's annual report. This I believe is critical.

If statements of expenditure need to be audited – why shouldn't the statement of outputs? Which is more important? Traditionally, the C&AG was seen in a custodial role and the system was designed and evolved to protect the spending of public monies. However, while this oversight is important we need to demonstrate similar concern for safeguarding the delivery of services (or outputs) for the monies expended.

The current public accountability loop for the heads of departments and offices is very much centred on the annual report of the C&AG and their examination by the PAC. What I would like is that each department or office would be charged with producing an annual report comprehending both inputs and expenditure as we know it and also the outputs and impact

indicators. This would be a further development of the new enhanced estimates process. However, critically it should be audited by the C&AG and provide the basis for the holding of the leadership team to account.

To do this the C&AG would move away from the current process of providing a single comprehensive report by means of the two-volume report currently produced in the autumn of each year, nine months after the end of the reporting year. The second volume provides a catalogue of problems, so-called 'notes' that the audit uncovered during the year and provides the media with a focused and targeted knocking copy on the failings of the public sector; the so called red-meat report.

I believe that this current system of audit, centred on finding spending errors and failings and cataloguing them so conveniently in a single publication for our media, both distorts public sector behaviour internally and unfairly damages the image of the public sector externally by singling out errors without the context of the perhaps myriad successes of an organisation. Armed with this red-meat it is no surprise that the subsequent invigilation by the PAC of the accounting officer will often be driven by the so called '**note**' to the account. Innovative and driven public servants whose score is 10:1 will have a '**note**' and the PAC debate is often centred on such notes. Someone achieving a lot less, perhaps a nil-all score may escape scot-free.

The C&AG's remit is centred on spending, he or she cannot address the effectiveness of policy, nor indeed can the Accounting Officer when being examined by the PAC. Reviewing the effectiveness of policy, the relationship between outputs and outcomes, is not a trivial challenge and can trespass the current line between the public servant and the political leader of a department. However, we must all be concerned with understanding the effectiveness of policy and the move towards outputs and impact indicators is a useful step in this direction. I believe that Ireland would be better served by lifting the veil on this issue and not only empower our public servants to give a view on policy effectiveness but to demand of them an agreed set of outputs, services and impact indicators and require them to account for their delivery to their relevant Oireachtas committee through their audited annual account and its examination.

Again, I believe that the C&AG should audit this account and the audit should comprehend both the inputs (expenditure) and the outputs (services) and impact indicators. Any comments or notes of the C&AG should be contained within the cover of this report, so that failings can be

properly contextualised. This would impact on the current staffing and operation of the office of the C&AG.

I specifically mention reporting back to the relevant committee. This would have significant implications for the PAC and the other committees. I like to think of it as making every sectoral Oireachtas Committee, PAC like, as they would have the support of the C&AG's office in understanding what big issues exist within a department or office. I believe that the sectoral committees must be involved as they are the ones that firstly agreed the allocations and output statements for the organisation and the accountability loop requires that they are the ones that are reported back to. Furthermore, the sectoral committees are best empowered to critically examine the performance of an organisation, as they are the ones that work on both the strategy but also the legislation under the departments' remit.

Adopting this accountability change would address a number of ongoing challenges:

- It would bring a transformed level of attention to the outputs of the public sector and with that transformed level of attention; a hidden hand of accountability for results would drive the organisations behaviours and work;
- It would contextualise expenditure and help change the debate from one focused on the public sector as a cost to a more balanced one of cost versus service and impact;
- Most importantly it would radically transform the capacity of the Oireachtas to challenge and hold the Executive to account.

I for one believe that the members of the Oireachtas could step up to meet this new challenge and opportunity. Sadly many I know and respect would accuse me of naivety in this respect.

Empowerment

While addressing both the size and cost of the public service is a key priority I am concerned that the current centralised system of employment control, the so called ECF, has in my view led to real problems in the public service resulting at times in less than optimal outcomes. If we are to hold the leaders of public sector bodies to account then we need also to provide them with the greatest amount of freedom to deliver on their obligations within strict expenditure limits. I would urge the Department of Public

Expenditure and Reform to develop their control framework to provide enhanced flexibility within strict expenditure controls.

I note that the Department of Finance is recruiting more expertise to address the real challenges facing it; and other core agencies, such as the Central Bank, dealing with some of the immediate national challenges, have the clout to grow staff levels as necessary. However, what about the countless such cases across the public sector that do not have the clout to be heard and yet have similarly valid needs capable of being met within their expenditure limits?

Centralised systems of control create real problems on the ground whereby detailed cases have to be passed up and across the system to seek often relatively minor exclusions. If we centralise more aspects of the public sector we risk creating a bureaucratic gridlock where all service deliverers will have an excuse for not delivering.

Systems of centralised control often result in penny-wise pound-foolish outcomes. They can tie up effort and resources that could otherwise be directed as delivering outputs.

Perhaps the most perverse aspect of rigid central control systems is that they encourage people to game the system and that this gaming has a long corporate memory – those most hampered by the current control systems may be those who ran the most efficient organisations – those least impacted maybe those who learned to hoard resources.

Concluding Remarks

In 2004, I was struck during the debate about so-called decentralisation, by the lack of concern and respect that our political masters had for the work of the public sector. Perhaps much of the blame for this was ours.

Effectively what the decision and the political rhetoric around it communicated to me was;

- Our outputs didn't matter much insofar as the State could readily do without those outputs during the ensuing relocation;
- Our combined expertise and organisational capital was similarly held in very low stead;

- But perhaps most worryingly was the statement that if 5,000 didn't want to decentralise they shouldn't worry because they could stay in Dublin and the State would find jobs for them; something for them to do.

If we reflect on the failure to deal with the obvious redundancy requirement flowing from the creation of the HSE, and the commitment to employment in the Croke Park agreement, a common thread emerges whereby the State appears to accept that it is responsible for finding work for its employees. I understand that this is a very sensitive issue. But perhaps we have gone far too far in this respect. Most organisations find employees for the work that needs doing rather than the other way around.

Along with new employment control framework is a redeployment panel (the service has used these in the decentralisation process) whereby surplus staff can be redeployed to where they might be needed. It would seem to me as a member of society that I would prefer that if the person providing a service was the best person within reason that could be found to do that job rather than the best available or least bad from a redeployment panel.

Perhaps this is also constraining the ambition of those responsible for Quango culling. If the policy is to assimilate or amalgamate quangos then perhaps we will achieve a less radical outcome than eliminating them and making the subsequent staff redundant. Changing the governance arrangement alone would appear to me to be more of a fad than meaningful reform. However, there are and were valid reasons for putting in place independent agencies to undertake specific aspects of public policy, and I also recognise that some useful restructurings are taking place for good policy reasons.

Another change agenda item that would promote greater efficiency is eliminating the somewhat archaic distinction between the civil and public service. This creates rigidity in the public sector labour market and constrains artificially the fluid movement of staff between agents of the state and can impede rationalisation of agencies.

I would also like to see greater ambition brought to the creation of a senior executive service to manage the up-skilling and succession planning for our public sector. It is easy to understate the importance of growing the top leadership team during these times of cutbacks and yet the opportunity cost of not having the best leaders can be sizable.

Finally,

If we want to drive a radically different public service I would favour a model that had the following characteristics:

- Public sector leaders that had very significant control over their resources within tight budgetary constraints;
- These leaders to commit to challenging targets and to report annually on the delivery of these targets, which would be of a SMART nature (specific, measurable, attainable, relevant, and timely.).
- The C&AG would audit the annual reports of these organisations including their outputs and report on them to the Oireachtas.
- The relevant Oireachtas committee that agreed the estimates and output targets would examine the Accountable Person of the department or office on their annual report aided by both the Audit Opinion of the C&AG and the presence of the staff of the C&AG's office.
- A much more fluid labour market in the public sector characterised by a positive selection of the best people to undertake whatever challenges need to be addressed with normal pay and performance management systems operating.

Adopting such an approach could unlock an energy level that would transform our public sector.

By focussing the attention of our public sector leaders on delivering outputs we could see a step change in productivity.

By changing the accountability system we could recruit more leaders into the ranks of the reformers and innovators as they strove to deliver on challenging targets.

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