

Real structural reform of the Public Sector essential for Competitiveness

Unless Irish businesses become even more successful in selling on international markets we will not work our way out of our economic and fiscal difficulties. Our international competitiveness has improved but substantially more progress is needed.

The competitiveness focus affects virtually every aspect of the Irish economy and society. This includes the public service which has a direct and a significant impact on the overall competitiveness of the entire economy. It is the largest employer in the country. It provides essential services to businesses and private citizens alike. The costs of running the public service are also very considerable. We must maximise its performance and ensure the best possible value for money. Reforms, if they are to make real impact, will require imaginative and sometimes tough decisions and a willingness to embrace change.

Public service changes since 2008 have largely focused on reducing running costs by reducing employment numbers and pay. This has been important in meeting the fiscal targets. But there is a need, now, to move beyond relying on headcount cuts as the main driver. There is a risk that the cost savings from this approach will begin to taper off and that essential services may be reduced in scale to the point where perversely a public service with a lower pay bill, but also with reduced productivity and effectiveness, may lead to higher costs elsewhere and damage competitiveness and social provision. A clear-eyed focus on outputs and outcomes, a revised approach to budgets and a willingness to embrace contestability and choice are all needed to deliver the types of services that meet the needs of our citizens and businesses.

A focus on output and outcomes

A stronger output and outcomes focus is needed in the public service. Government departments, agencies and state sponsored bodies need to continuously monitor their performance against defined targets and outcomes and work towards specific goals and objectives. Greater emphasis on developing output and outcome targets is essential. Equally, improved measurement and monitoring of progress towards these targets is required as, indeed, is proposed in the Programme for Government. This process should include independent five year external reviews with expert international membership, of all Government departments and the major agencies. The results of these monitoring exercises should be published and Secretaries General and CEOs should be accountable for the outcomes.

Let the managers manage

If top managers are to be held accountable they should have the authority to manage and to deploy resources to the maximum effect. The present so-called “double lock” system of budgetary control

on departments and agencies is not a sufficient strategy for securing a more efficient and productive public sector. Under this system, departments and agencies are subject to overall spending limits but also have to secure permission, quite often on an individual case-by-case basis, for staffing changes from the Department of Public Expenditure and Reform. A more effective method of achieving cost reductions, while maintaining a focus on productivity would involve assigning (reduced) pay budgets to each state entity with a set of output targets. It would be up to each organisation to determine, while adhering to public sector pay guidelines, how to allocate and use resources to best meet these targets.

Contestability has a role to play

Service provision to or on behalf of the State should become more contestable. In areas of protected private professional services, we are belatedly (and at the prompting of the IMF/EU/ECB troika) grasping the nettle of putting strong competition policy at the heart of Ireland's economic recovery. Competition is a key driver of efficiency and innovation. The threat of the loss of market share stimulates more efficient provision. This is also relevant to the public service.

It is often seen as very difficult to ensure contestability in the provision of public services. Yet there are areas of public service where choice and contestability already exist. Education is one. Many parents can choose where they send their children to school. Capitation payments to schools and the application of teacher/ pupil ratios ensure that money follows the pupils. Successful schools gain pupils and increased Exchequer support. This applies even more strongly in third level education. In many areas of the country there is competition between schools and there is, of course, vigorous competition between third level institutions. Notwithstanding recent concerns about education standards (which the NCC shares) I believe that this competitive dynamic is one of the reasons why education outcomes are better than might be expected from our relatively lower public expenditure on education. The health sector, for example, may benefit from such an approach. If public health funding followed the user (as could be the case under the proposed Universal Health Insurance model) it should result in more efficient and improved health service delivery. Hospitals and health care providers would take a different view of citizens needing health services rather than at the moment approaching delivery with a predominantly rationing mind set. This process would reward good resource management by assigning budgets based on best practice and outcomes.

The IMF/EU/ECB Programme of Financial Support for Ireland emphasises the need for structural reforms across a range of areas of the Irish economy. In response to the Programme, however, Ireland should not undertake reform solely to satisfy the terms and conditions set out by the troika. Instead, we should seize the opportunity to continue to deliver structural reforms (underpinned by greater accountability and transparency) that can lead to long term prosperity, recognising that such an approach is essential for Ireland – benefiting citizens and businesses and helping to restore Ireland's international reputation. Reform of the public service, certainly offers such potential.

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The National Competitiveness Council published its annual policy report, *Ireland's Competitiveness Challenge 2011* on Thursday 12th January. The report which outlines policies to address weaknesses in Ireland's competitiveness performance is available at www.competitiveness.ie and www.forfas.ie.