



**SECRETARY GENERAL WATT'S APPEARANCE BEFORE THE**

**COMMITTEE OF PUBLIC ACCOUNTS**

**THURSDAY 8<sup>TH</sup> DECEMBER, 2011**

**OPENING REMARKS**

Thank you, Chairman.

I would like to thank the Committee for giving me the opportunity to make a short opening statement.

I am happy to be here in my capacity as Secretary General of the new Department of Public Expenditure and Reform. The Department and this Committee share the same goals and you can be assured of our support and co-operation in your important work.

**Establishment of the Department**

As the Committee will appreciate, the establishment of the Department required a very significant effort. A number of functions transferred from the Department of Finance and the Taoiseach's Department. In addition new functions were established to address commitments in the programme for government. As you are aware, the legislation required to give effect to these changes was extensive.

In overall terms, the Minister for Public Expenditure and Reform now has responsibility for the management of gross voted expenditure, the annual

estimates process, general sanctioning powers in relation to expenditure, and policy matters relating to the appraisal, review and evaluation of expenditure. In addition, the Minister for Public Expenditure and Reform has responsibility for public service management and reform, including industrial relations and public service modernisation.

Our department was formed with the following three key objectives:

- To manage public expenditure to more sustainable levels;
- To manage a significant programme of public sector reform; and
- To support the Government in its wider political reform agenda.

The mission of the Department is to achieve the Government's social and economic goals by ensuring the effective management of taxpayers' money and the delivery of quality public services that meet the needs of citizens.

In the five short months since our Department was formed, working with Minister Howlin and the Government, we have delivered on a wide range of issues. For example, we have

- Established a new management team in the Department, with external recruitment
- Managed overall government spending within the parameters set by Budget 2011
- Delivered the Jobs Budget
- Participated in several Troika reviews of the programme for Ireland

- Worked on a new pay policy for senior public servants and office holders
- Developed legislation to significantly reduce future Public Service pension costs
- Reformed the Top Level Appointments Service, including an external chair and more outside members
- Changed the terms that apply to Secretaries General on retirement;
- Worked with Government on the future of state assets including a decision to sell a minority stake in the ESB
- Developed and published the Government's Public Service Reform Plan in mid-November.
- Made significant progress on the development of proposals on the provision of a range of shared services
- Prepared a review of capital priorities which was published
- Managed the Comprehensive Review of Expenditure process
- Managed the estimates process and published the Book of Estimates this week
- Developed a new eGovernment Strategy for the public service which will be published next year

These have been achieved with the considerable effort and dedication shown by the staff in our Department. I would like to acknowledge and thank the staff for the commitment they have shown in the delivery of the Programme for Government.

## **Minute of the Minister**

Following the establishment of the Department and the transfer of functions from the Department of Finance, responsibility for the “Minute of the Minister” in the context of PAC reports is now with us.

At mid-July 2011, there were five Minutes outstanding with a total of 108 recommendations all relating to the 30th Dáil. Since that time there has been a concentrated effort in the Department to complete this work and replies have issued in respect of 4 of the 5 reports.

74 of the recommendations have been responded to in full; the 34 remaining refer to the report on the 2008 and 2009 Appropriation Accounts, received in July 2011. This response will issue shortly.

You will be aware that the Committee’s Secretariat met with Government Accounting officials in June 2011 and again in October to discuss the process around the PAC Reports and the Minutes, and to consider proposals to improve timeliness and relevance. I think that this process has been useful for both sides and, if the members agree, there is a value in its continuing.

At this stage I am pleased to say that all reports received prior to July 2011 have been responded to and that, as I mentioned above, the remaining response to the Committee’s report on the 2008 and 2009 Appropriation Accounts will be submitted shortly.

## **Public Service Reform**

The Committee has been hearing about the Public Sector Reform agenda. Budgetary reform is a key element of this and I think will have implications for how we spend and account for public money.

As announced by Minister Howlin this week we need to modernise our approach to budgeting. This year's Comprehensive Review of Expenditure was important in this respect. I would point to two key themes that were set out earlier this week. The first concerns the need to evaluate public spending more rigorously. The second relates to the role of Committees of the Oireachtas.

On the question of evaluation: one of the lessons from the Comprehensive Review has been how much good quality analytical work can be undertaken by the public service when there is a clear mandate to do so, and a clear timeframe within which to deliver results. This week, our Department has released all of the background CRE documents for public inspection. I think they show a serious and conscientious application to the process across Departments and Offices generally. In some cases, the standard of evaluation has been very high.

The challenge for the public service is how to harness this energy and this commitment, so that the CRE is not just a once-off exercise. We need to maintain the momentum, and ensure that public spending is subjected to review and evaluation on a continual basis.

There are processes that exist at present, notably the VFM & Policy Reviews that have been around in some shape or form since the 1990s. These reviews have been gaining some traction over recent years, and some of these reviews have yielded very useful results. In general however, the Reviews have fallen short of their initial ambition, with only a limited coverage in terms of overall spending.

So I am pleased that the Government has agreed to reform this area entirely. As part of the expenditure reforms announced this week, a new VFM Code is being introduced, and it allows for a much more focused approach to conducting expenditure evaluations, which will tie in more closely with the work of the Dáil Committees. I should add that our approach in this area is influenced, in part, by the experience of other countries. The Government itself stated that the Comprehensive Review of Expenditure drew heavily upon the Canadian experience of “Program Reviews” in the 1990s. What is interesting is that the system in Canada has since evolved from major, once off reviews into what are called “Strategic Reviews”, with an ongoing process of evaluations, and continuous re-assessment of the priority that should be afforded to different spending programmes. That, broadly speaking, is the type of model that we are now moving towards in Ireland.

And this relates to the second broad theme I would like to discuss briefly, namely the enhanced role for the Oireachtas and its Committees.

There is a range of budgetary reform measures outlined in the Comprehensive Expenditure Report. The reforms fall under about 5 broad headings, and I will not go into them all today. However, they all share a common theme, and that is the enhanced set of tools, and a broader set of opportunities, for the Dáil and its Committees to be involved in the business of expenditure policy.

There have been a number of Reports over the years from the Oireachtas on this topic. The Public Accounts Committee itself produced a very thorough report in 2005 on reforming the Estimates process, calling for the entire process to be brought forward so that parliamentarians could input their views and perspectives before the Estimates are settled later in the year. The Joint Oireachtas Committee on Finance and the Public Service produced another major report about a year ago, calling for re-formatting of the Estimates so that costs and outputs could be seen against each project or programme.

These recommendations, and more, are now being acted upon. To begin with:

- We have published expenditure ceilings for each Department not just for 2012, but also for 2013, with indicative upper ceilings also in place for 2014. This means that Oireachtas Committees, particularly the sectoral Committees, will be in a position to engage with Ministers from the outset of 2012 on how their future Estimates should be prioritised.

- Moreover, we are now introducing performance budgeting on a general basis, after a successful pilot exercise earlier this year. So when the 2012 Estimates are referred to the Dáil Select Committees for discussion early in the New Year, Committee Members will be able to question Ministers and their senior managers about performance targets, and about what is being achieved, rather than just what is being spent.

To conclude on this, I would like to emphasise one of the points I mentioned a moment ago. I referred to “opportunities” for the Oireachtas to get involved more fully. What I can claim is that we have laid a solid foundation, and the Minister is anxious to hear the views of Oireachtas members about how the system can be made better.

Our Department is taking the lead on public service reform. But reform is everybody’s job, in every Department, and in every institution. I look forward to working with this Committee, and listening to this Committee, about how the reform process can be kept on track.

**Turning to the items on the agenda today:**

#### **Vote 7 – Superannuation Vote**

The forecast Gross outturn on the Superannuation Vote for 2011 is around €424 million.

There is an upward trajectory for retirements over the decades ahead. Next year is projected to show a spike in retirements as civil servants



are expected to retire before the end of the grace period, after which their pensions will be based on the lower cut salary. The provision for 2012 is accordingly showing a 14 per cent increase over the 2011 Estimate as a result of the 1,400 expected retirements next year.

Over the longer term, the costs of pensions will rise significantly. Expenditure by 2022 is projected to be over €640 million, a rise of over 50 per cent over the 2011 level. The number of Civil Service pensioners is estimated to reach around 28,000 by 2022.

Meeting these pension costs will be challenging. The Government has introduced a number of legislative changes to address these challenges including:

- The Public Service Pensions (Single Scheme) and Remuneration Bill 2011;
- The Public Service Pension Reduction;
- The reform of TLAC severance provisions for Secretaries General;
- And a range of other measures affecting public servants, especially after the grace period ends on 29 February 2012.

## **In relation to chapter 10: Performance Management and Development:**

I welcome this chapter and its findings.

We carried out an extensive review of PMDS over 2010 and concluded, from feedback, that PMDS is not seen as an effective tool in the management of performance.

I will outline in a moment the reforms that we have already introduced in relation to performance management in the Civil Service but I want to put them in the context of broader reforms in HR being delivered by my Department and HR units across the Civil Service.

There is no doubt that we face significant challenges and the public service of tomorrow will be a much leaner organisation. We know that to deliver excellent public services with fewer resources we need our workforce to be talented and skilled; to be innovative and responsive; and to perform to the highest levels.

In response to this challenge of how 'we do more with less', the effective deployment and management of our primary resource – our people - is more important than ever.

In order to address this challenge and to help shape a more efficient Civil Service we have established a HR Policy Directorate in the Department. This Directorate is introducing fundamental reforms aimed at improving the way the Civil Service is resourced and managed. Key deliverables will include:

- Workforce Planning- to ensure that we deploy existing staff optimally, manage corporate memory loss, and identify the skill gaps to allow targeted, well focused recruitment over the medium to long term.
- Senior Public Service - underpinning the need for reform across the public service is the need for strong leadership. We have established a Senior Public Service to promote a more integrated public service and strengthen the leadership capacity of the public service.
- Reform of Performance Management – following the 2010 evaluation my Department has developed a comprehensive approach to the reform of PMDS and is working closely with Civil Service management and unions to deliver this reform.

Some of the key criticisms that emerged as part of our review of PMDS include:

- the process is overly bureaucratic with an emphasis on form filling;
- a lack of consistency and fairness of standards for performance and ratings (i.e. perceived as too many high ratings);
- a failure to deal with underperformance;

In response, our Department has taken the initiative and is working with HR units to strengthen management capability across the Civil Service. Earlier this year my Department developed guidelines and

training material on the 'Management of Underperformance'. Over 100 staff from HR units were trained on the new guidelines and related HR policies such as the disciplinary policy. Departments are now expected to train their own line managers on the management of underperformance.

While the initial focus of the reform of PMDS has been on simplifying and streamlining the process, I accept that we need to do more. Phase 2 changes to PMDS will be focussed on looking at how the distribution of ratings across Civil Service Departments can be improved and how fairness and consistency across Departments can be strengthened. We will be bringing forward proposals on how to address these issues in 2012.

### **Chapter 18: Central Government Accounting**

I welcome the C&AG's comments in Chapter 18 on Central Government Accounting matters. The recommendations make an important contribution to shaping the policy and guidelines for accounting and financial management in the central government area.

I am happy to say that these recommendations are being implemented as part of the expenditure reform agenda. Progress includes:

- the agreement of a revised procedure with the Revenue Commissioners regarding accounting for Vehicle Registration Tax;

- In relation to State Cash management, a circular consolidating the requirements for Grants and Grants-in-Aid issued to all Government Departments and Offices in December 2010.
- The policy in relation to unmatured liabilities is under review, taking account of the wider context of estimate reform, including the development of a medium term expenditure framework. In particular, new incentives for responsible budgetary management - notably the provision for carryover of unspent current funds from one year to the next - will have a positive impact in this area.

I share the C&AG view that all Accounting Officers need to ensure that arrangements are in place to effectively record all transactions, produce accurate accounts and facilitate a prompt and efficient audit. With this in mind, and taking account of the concerns expressed by the Chair of the Committee on this issue, a circular has issued to all Government Departments and Offices outlining the requirements for the *'Timely Production and Submission of Accounts of Bodies and Funds audited by the Comptroller and Auditor General'*.

## **Conclusion**

As a Department we are looking forward to working with the Committee and I am happy to answer any questions.

Thank you.

