



**IRISH CONGRESS OF TRADE UNIONS**

**PUBLIC SERVICES COMMITTEE**

**SUBMISSION**

**TO**

**PUBLIC SERVICE  
BENCHMARKING BODY**

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## **PUBLIC SERVICES COMMITTEE**

### **SUBMISSION TO THE BENCHMARKING BODY**

#### **CONTENTS**

<b>ITEM</b>	<b>Page</b>
Executive Summary	3
1. Introduction	9
2. Traditional Basis for Determining Public Service Pay	9
3. Origins of the Benchmarking Process	11
4. Benchmarking – New Features	13
5. Status of the Benchmarking Body	13
6. Terms of Reference of Benchmarking Body	15
7. Research on Overall Levels of Pay	18
8. Research on Pay and Jobs in Private & Public Sectors	19
9. Technical Aspects of Job Surveys	21
10. Reward Systems	23
11. Recruitment, Retention & Motivation	29
12. Supporting Modernisation of the Public Service and Change	30
13. Equity between the Public Service and the Private Sector	32

<b>ITEM</b>	<b>Page</b>
<b>14. Underpinning Competitiveness</b>	33
<b>15. Cross Sectoral Relativities</b>	35
<b>16. Internal Relativities</b>	35
<b>17. Conditions of Employment</b>	36
<b>18. Reference Point for Comparison with the Private Sector</b>	43
<b>19. Relevant Third Party Recommendations</b>	45
<b>20. Transparency</b>	49
<b>21. International Comparisons</b>	49
<b>22. Scope of the Private Sector</b>	50

#### **APPENDICES**

1. Terms of Reference for Public Service Benchmarking Body	51
2. Performance-Related Pay in Public Service – OECD Report	53
3. Professor Roche Paper	59
4. Public Service Superannuation	60

**Public Service Benchmarking Body**  
**ICTU Public Services Committee Submission**

**Executive Summary**

**Introduction**

The ICTU PSC submission addresses the ground rules that should apply to the work of the PSBB but does not go into the details of cases that will be made by unions in respect of public service grades and categories examined by the PSBB and are relevant to the issues covered below in Equity between the Public Service and the Private Sector (Page 32), Internal Relativities (Page 35) and Relevant Third Party Recommendations (Page 45).

**Background to the Second Benchmarking Exercise (pages 9-13)**

Prior to 1987, the pay of public service “marker grades” was determined by direct comparison with private sector workers who did equivalent work or work of equal value. Other public servants tended to have their pay determined by reference to these “marker grades” through a system of specific or general sectoral and cross-sectoral pay linkages and relativities. The system was generally considered to be fair to public servants and taxpayers although, because different bodies determined the pay of “marker grades” at different times, inconsistencies arose. These were difficult to justify objectively and were destabilising in industrial relations terms. There were also occasional claims from non-marker grades for increases above those granted to their “marker grade”.

The Programme for Competitiveness and Work (PCW) allowed local bargaining to secure increases above the general increases allowed in the deal. These reviews were not based on comparisons with the private sector. This set off a chain of demands based on relativities, which was accompanied by enormous industrial relations problems and had a capacity to repeat itself indefinitely. It became clear that it was impossible to set the pay of one group of public servants in isolation from others.

There was also widespread dissatisfaction among public because private sector pay was drifting well above norms set in the national agreements, PCW outcomes for some public servants were far less favourable than others, and some public servants already had a means of determining their pay by reference to the private sector.

The Programme for Prosperity and Fairness (PPF) established the benchmarking process to resolve these issues by setting pay with reference to the private sector. A single body would make pay recommendations for all grades and categories at the same time and using the same information, with recommendations supported by objective research on pay and jobs in the private sector and public service. The first PSBB report had the effect of “severing all previous pay links and establishing new absolute levels of pay” for grades comprehended in the benchmarking process. The pre-Benchmarking problems described above would reassert themselves if the benchmarking process collapsed.

### **Status and Terms of Reference of the Benchmarking Body (pages 13-17)**

The PSBB is a body brought into existence by an agreement between the parties to the PPF and subsequent national partnership agreements. It is not a standing public service body with an existence independent of the parties. It is, therefore, required to work within the parameters set by the parties, i.e., the Department of Finance and other public service employers on the one hand and the ICTU Public Services Committee on the other. The terms of reference for the second benchmarking exercise are fundamentally similar to those of the first exercise, and are set out in full in Appendix 1 to this submission.

### **Research on Overall Levels of Pay (page 18)**

Overall pay rates in different sectors are relatively meaningless unless they take account of the occupational make-up of those sectors. Comparisons of CSO figures for average industrial earnings and average earnings in the public service do not take account of the occupational make-up of the sectors. Revenue data on income levels does not distinguish between different sectors and could not be used for the PSBB's purpose. An examination of the actual jobs carried out by public servants under review with reference to the position of actual jobs in the private sector is required, rather than a theoretical construct across the two sectors that has no relevance to the task of the PSBB.

### **Research on Pay and Jobs in Private and Public Sectors (pages 19-20)**

It is essential that the PSBB undertake research into the pay and jobs of each of the categories under review, together with research on the pay and jobs of private sector staff, to establish and "price" the private sector jobs that are comparable with the public service jobs under review. This should cover current pay levels and pay movements over time in order to address the relative fall in pay positions over time, which will likely feature in union submissions.

The PSBB should be guided primarily by information secured in its own research to avoid comparisons based only on similar titles or superficially similar roles. As far as possible, the PSBB should use the same range of employments to draw up comparisons for all grades and categories and should focus on large employments, which are likely to have a complete range of comparable jobs and are themselves more likely to be similar to the public service and compete with it for recruitment purposes. Employers selected for comparison should be "good employers" since the Public Service itself should be a "good employer" in the sense that while it may not pay the highest rates of remuneration it should be among those that pay somewhat above the average, in line with the Priestly Commission definition of a "good employer."

### **Technical Aspects of Job Surveys (pages 21-22)**

The purpose of the PSBB's job surveys is to identify jobs in the private sector that are comparable with jobs in the public service. The ICTU PSC supports the approach taken by the PSBB in the first exercise, when it developed its own job evaluation scheme and undertook its own confidential survey after concluding that "publicly available and privately held information on salaries in the private sector did not meet the requirements of the Body as set down in the terms of reference." The PSC also supports a similar approach to factors and weighting applied in the PSBB's job evaluation scheme, although the factor of "complexity" needs to take account of the consequences of a person's actions as well as complexity in the normally understood sense. The overall pay levels in a grading structure also have to make sense and the PSBB's terms of reference specifically recognise that internal relativities come into play here.

### **Reward Systems (pages 23-28)**

All public service pay increases are dependent on the implementation of modernisation and change set out in national agreements.

The introduction of performance-related pay systems is unlikely to be viable in the public service, which lacks the systems required to implement them. Performance-related pay would result in the break-up of national pay scales, could be incompatible with the public service ethos, and would be completely unacceptable to the PSC. It is not the role of a third party, including the PSBB, to recommend changes to the pay system, which, if they were to be considered at some stage, would have to be negotiated between the parties to existing agreements.

There are too many variables outside the control of staff to make performance-related pay viable at the level of Government Departments or equivalent public service bodies. It is also questionable whether performance-related pay would be viable at team or group level. There is a mixed experience with individual performance-related pay in other public administrations.

A 2005 OECD report into *Performance-Related Pay Policies for Government Employees*, found that implementation was complex and difficult and that performance pay had little value as a means of motivating public servants to enhance service quality. It said that many studies had concluded that performance-related pay had a limited – and sometimes negative – impact on performance and that the key argument in favour of performance-related pay was that it had a side effect of facilitating other managerial and organisational change.

The introduction of the Civil Service Performance Management and Development System (which is summarised in paragraph 10.11 of this submission) is currently achieving managerial and organisational change, rendering performance-related pay entirely irrelevant to our circumstances, even by the standards one of its chief proponents, the OECD. The adaptation or wider introduction of the Civil Service PMDS would have to result from direct negotiations between the parties and could not be introduced by a third party such as the PSBB.

Any system relating pay to performance could not be a replacement for general rounds of pay increases or exercises such as benchmarking. The PSC urges caution on the PSBB as regards any changes from the principle of incremental structures.

### **Criteria – Recruitment, Retention and Motivation (page 29)**

It is facile to suggest that pay rates are adequate unless the public service is unable to recruit staff. The real issue is whether the public service can attract, and retain its fair share of the “brightest and the best.” This requires pay rates to be, and remain, competitive with the private sector as shown by fair comparison. Similarly, motivation of staff requires that they believe they are being paid on the basis of fair comparison. In essence, recruitment, retention and motivation are part and parcel of the application of the fair comparison principle.

### **Criteria – Supporting Public Service Modernisation and Change (pages 30-32)**

The ICTU PSC is committed to the provision in the public service pay agreement that commits the parties to public service modernisation and change, but sees no role for the PSBB in seeking to link specific major changes to the implementation of its recommendations. The first report of the PSBB concluded that it was not practical to do so as it “would require the Body to assess the position in regard to flexibility, change and modernisation for each particular employment throughout the public service.”

It met its requirement to contribute to public service modernisation, set out in the terms of reference, by strongly recommending that the implementation of its pay awards should be made conditional on the implementation of agreed modernisation, change and flexibility, including areas identified by the PSBB. Under Sustaining Progress, detailed modernisation requirements were subsequently agreed for each part of the public service and payment of all pay awards, including benchmarking adjustments and general increases, were made conditional on independent verification that public servants and their unions has co-operated with them.

The PSC cannot see how the Benchmarking Body could seek, as part of its recommendations, to introduce specific change measures as there is no way in which the Body could effectively devise specific programmes of change in all the sectors of the Public Service. Fundamentally, the next phase of the Public Service Modernisation Programme will be a matter for the parties to address and not something for the Benchmarking Body to seek to introduce in a specific way by means of its recommendations.

### **Criteria – Underpinning Competitiveness (pages 33-34)**

The first report of the PSBB made it clear that its recommendations were based on a belief that “the public service should not lead the private sector in matters of reward” and that no private sector claim should arise from the Body’s recommendations. Given the current robust exchequer position, the PSC does not see the competitiveness criterion as being in any way limiting on the PSBB.

### **Criteria – Cross Sectoral Relativities (page 35)**

Sustaining Progress reiterated that “cross-sectoral relativities are incompatible with the benchmarking process,” although the terms of reference for the first benchmarking exercise recognised that “in practice, wide variations would be unlikely to emerge between the various sectors in the pay of common groups such as clerical and administrative staff, engineers and technicians.” The PSC supports a similar approach in this exercise. Neither should the PSBB should be feel constrained against maintaining pay relationships if this would be a reasonable outcome in terms of reference to the private sector and other relevant industrial relations considerations in particular circumstances. There are some categories where it may be more appropriate to relate pay to staff doing similar work in another sector than to staff within a sector.

### **Criteria – Conditions of Employment (pages 36-42)**

The recommendations of the first PSBB report explicitly took account of public service conditions of employment like security of tenure and pensions arrangements.

Given that there is full employment in the economy, any value attached to security of tenure in this exercise should be very small indeed. Furthermore, a series of legislative changes have been enacted in the public service in recent years with the stated purpose of equalising public servants’ tenure arrangements with those of employees generally.

The Commission on Public Service Pensions reported in 2000 after five years of exhaustive examination from the point of view of costs, sustainability, and comparisons with the private sector and public services abroad. It came to the view that the basic pension structures and benefits should be retained, with some refinement for new staff.

The first benchmarking body made a deduction from the initial pay rates suggested by the comparison between the public and private sectors to account for differences in pensions. This is a logical approach to the issue, provided there is a clear difference involved. A study of data available suggests a “new entrant” public service pension rate of just under 15% of salary, taking account of both employer and employee contributions. This does not take account of the recent public service pension age changes, enacted in 2004, which the Commission on Public Service Pensions estimated would reduce the general “new entrant” public service pension rate by 2% and more for others. Taking account of all categories, it is reasonable to estimate the overall reduction in the new entrant rate at between 2.5% and 3% - say 2.7%.

The PSC has also used available pension calculator tools to estimate the required contributions over a working life to produce a particular pension benefit at age 60, and to compare that contribution to that required to produce the same amount at age 65. This also suggests the new entrant rate should be significantly reduced to take account of the increase in pension age, although it is difficult to be precise about the figure.

On the basis of the Commission’s report, then, the overall pension cost of a new entrant would be 12.3% of pay if there were a funded public service pension scheme. The staff contribution would be in the order of 5% of pay and the net cost to the exchequer in the order of 7% of pay. This cost has to be seen in the context that the Public Service must be a “good



employer”. Recent Labour Court findings on the introduction of pension schemes in the case of employers that could not be classed as “good employers” have set employer and employee contributions at 5% of pay – a 2% difference in employer contributions in organisations that, by definition, cannot be regarded as “good employers.” This suggests that the quantum of any deduction made by the PSBB in respect of pensions for the groups within its remit should be nil.

The value of a private sector pension based on an accrual rate of 1/60<sup>th</sup> per year of service can be more favourable than a public service scheme where the benefit is based on an annual pension based on an accrual rate of 1/80<sup>th</sup> per year of service plus a lump sum. In addition, the effect of co-ordination of Public Service Pensions with the Social Insurance System has had the effect of reducing the cost of occupational pensions.

### **Reference Point for Comparison with the Private Sector (pages 43-44)**

There is likely to be a spread of private sector pay comparisons and the appropriate reference point for public service pay is in the range between the median and upper quartile of comparable private sector rates. This would ensure that public service employers were “good employers” and that the public sector did not lead the private sector in pay terms, in line with the principles established by the Priestly Commission.

### **Transparency (Page 49)**

There is a need to balance the need for greater transparency with the need to ensure the confidentiality of sources of private sector information and the necessity to ensure that the PSBB report is final and not the basis for further argument and debate. It might be possible to publish certain findings in summary form to illustrate the basis for the recommendations without breaching confidentiality. The PSBB should write its report with an eye to finality.

### **International Comparisons and Scope of the Private Sector (Pages 49-50)**

In general terms, the PSC cannot see that international comparisons would be of value to the benchmarking process in terms of setting rates, although there may be particular categories that operate in wider labour markets than the Irish State.

The “private sector” should include the commercial semi-state companies.

# **IRISH CONGRESS OF TRADE UNIONS**

## **PUBLIC SERVICES COMMITTEE**

### **SUBMISSION TO THE BENCHMARKING BODY**

#### **1. Introduction**

- 1.1 The Public Services Committee of the ICTU (PSC), as the national party on the trade union side to the Benchmarking Process, is making this initial submission to the Benchmarking Body in order to set out its views on the “ground rules” which should apply to the work of the Benchmarking Body.
- 1.2 This submission sets out the general comments of the Committee on the approach which the PSC considers the Body should take to a number of general issues with which it will have to grapple.
- 1.3 This submission does not go into details of the cases which will be made by the affiliated Unions in respect of the grades and categories which are to be examined directly by the Benchmarking Body as that will be a matter for the various Unions to deal with in their own submissions.
- 1.4 A copy of this submission is being supplied to the Official Side.

#### **2. Traditional Basis of Determining Pay in the Public Service**

- 2.1 Traditionally, comparison with the Private Sector has been the fundamental basis for determining the pay of Public Servants in Ireland.
- 2.2 This principle has been accepted by both the Government and Unions as being one which is both rational and fair. It ensures that Public Servants are paid in line with employees elsewhere in society for doing equivalent work or work of equivalent value. Public Servants see this as “fair”. Equally, it is fair to the taxpayer since it means that taxpayers are funding the pay of Public Servants on a basis which society has already determined is appropriate in the Private Sector.

- 2.3 Up to the time of the establishment of the first Benchmarking Exercise, this principle had been applied in two fundamental ways:
- (a) general increases in pay under national agreements which applied in the Private Sector also applied to Public Servants (in the intervals between periods covered by National Agreements, agreements were made between the Public Services Committee of the ICTU and the Official Side (i.e. the Public Service Employers) covering Public Servants generally which were based on equivalent pay movements in the rest of the economy);
  - (b) special reviews of the pay of individual grades or categories by reference to equivalents in the Private Sector also took place, in addition to general increases, from time to time.
- 2.4 These special reviews were undertaken on foot of claims by individual trade unions which were processed through the normal machinery (either Labour Relations Commission/Labour Court or Conciliation and Arbitration, as appropriate) or, alternatively, as a result of special Commissions, Tribunals etc. established to deal with particular categories of workers.
- 2.5 Whichever way special reviews arose, trade unions made comparisons between the pay of the particular grades or categories under review and the Private Sector, either by comparing movements in pay over a period or by making direct current comparisons. In addition to denying any basis for a claim, pointing to the Exchequer position at any given time and other such arguments, Employers also, from time to time, made their own comparisons, either in terms of pay movements or direct current comparisons.
- 2.6 The sources of information relied upon by trade unions were generally other trade unions, though some efforts were made on occasion to conduct more widespread research on the position in the Private Sector by the engagement of consultants for this purpose. In general Public Service Employers relied on information supplied by other employers, or employer bodies. Needless to say, since the material on the comparisons outside the Public Service would have been prepared separately, and in a partisan manner, by the two sides, there were frequently wide discrepancies between the two sets of material.
- 2.7 The bodies charged with responsibility for determining pay levels, whether Labour Court, Public Service Arbitration Boards or Special Tribunals/Commissions, were thus confronted by a very difficult task because they were required to deal with considerable conflicts in evidence in terms of facts as well as having to come to reasonable judgements on the substantive issues.
- 2.8 The description given above relates to the process by which “marker” grades had their pay determined. These “marker” grades included categories such as the Civil Service grades of Clerical Officer, Executive Officer, Assistant Principal and Principal and Civil Engineers. Some of these were much more significant than others in terms of the “run-on” effects.

- 2.9 A “marker” grade was a grade which had its pay determined by direct comparisons with outside employments.
- 2.10 Other categories tended (though not at all times) to have their pay determined by reference to these “marker” grades through a system of pay linkages and pay relativities which spread throughout the entire Public Service, crossing sectors and occupations. Some of these linkages and relationships were very specific, others were of a more general nature.
- 2.11 Because the traditional way of determining the pay of “marker” grades involved various different bodies dealing with isolated claims at different times and in different economic circumstances, there was a capacity for the system which had developed to produce inconsistencies in results which were difficult to justify objectively and were, of their nature, destabilising in industrial relations terms.
- 2.12 In addition, some of the grades which were not “marker” grades on occasion made claims (after a “marker” grade had had a special pay review) which sought to secure the adjustment which the “marker” grade had achieved **plus** an additional amount. This was a concept which became known as a “special special” increase. By definition, of course, it was an option open only to grades which were not “marker” grades. It was also, of course, very destabilising in industrial relations terms.

### 3. **Origins of the Benchmarking Process**

- 3.1 The system of pay determination set out above last applied before the current series of National Programmes commenced in 1987.
- 3.2 Subsequently, the National Pay Agreements associated with the various National Programmes before the Programme for Prosperity and Fairness (PPF) did not make provision for special reviews of pay for public servants by reference to conditions in the Private Sector, in addition to the general increases provided for in the National Agreements.
- 3.3 Under the terms of the Programme for Competitiveness and Work (PCW) in the Public Service, there was provision for “local bargaining” at the level of particular employments which was utilised by Trade Unions to secure pay adjustments over and above the terms of the General Increases available under the National Agreements but these reviews were not based fundamentally on the position in the Private Sector.
- 3.4 Notwithstanding the position which applied generally in the Public Service, which precluded reviews of pay of particular categories by reference to the Private Sector, there were some public service employees whose pay continued to be determined by reference to the Private Sector. These were those covered by the Review Body on Higher Remuneration in the Public Service and craft workers in the Public Service, as well as General Operatives outside Dublin Corporation whose pay was determined in turn by reference to the pay of the craft workers.

- 3.5 In the lead-up to the negotiations on the Programme for Prosperity and Fairness (PPF), there were a number of factors which came together and which led to a very strong demand on the trade union side for a provision in the new Programme which would enable reviews of pay to take place in the Public Service by reference to conditions in the Private Sector:
- a considerable amount of evidence that pay in the Private Sector was drifting well above the levels which would be suggested by the norms set by the National Agreements which led to demands by members for a review of pay by reference to the Private Sector
  - the problems faced by some Unions which were faced with situations where they had secured much less favourable terms under the PCW Restructuring Agreements than certain others had secured and who sought an immediate pay adjustment (which subsequently materialised as the 3% “Early Settlers” adjustment) and a provision for a system of pay reviews as a solution without which it would not have been possible to reach agreement on a new National Programme;
  - the need to ensure that the Public Service could recruit, retain and motivate the high quality staff needed to deliver the level of services expected by the public both in terms of quality and quantity;
  - the fact that some categories of Public Servants had a means of determining their pay by reference to the Private Sector – see 3.4 above.
- 3.6 In addition, of course, both sides were confronted with the results of the experience of the PCW Restructuring process which had reviewed the pay of the different groups of Public Service at different times and using different procedures and on what was described as a “sectoral” basis despite the fact that there were also “cross-sectoral relativities” in existence which made independent sectoral negotiations impossible and, in any event, without any acceptance on the part of Public Service Unions generally that distinct sectoral negotiation was an acceptable process.
- 3.7 Individual categories of public servants brought pressure to bear and, if the pressure was sufficient, this produced results for them. This then set off demands by other Public Servants for similar treatment by reference to “relativities” (whether real or otherwise) across the Public Service involving one category of Public Servants after another with a capacity for the process to repeat itself indefinitely.
- 3.8 The result was that it produced a situation where Public Service Pay was in the process of developing a life of its own, in an environment of enormous industrial relations troubles and, ironically, widespread dissatisfaction amongst most Public Servants.
- 3.9 Both the Government and the Public Service Unions realised that this was an unsustainable situation which could not continue. It was clear, for example, that it was impossible to set the pay of one group of public servants in isolation from others.

- 3.10 The establishment of the Benchmarking Process was the means found to resolve these issues in the PPF.
- 3.11 It is also clear that a collapse of the Benchmarking process would lead to a situation where the circumstances which preceded Benchmarking would re-assert themselves with a re-institution of the problems attendant on those circumstances.

#### 4. **Benchmarking – New Features**

- 4.1 While the Benchmarking Process is not different, in principle, from the basic approach taken in the past, it has important features which are novel.
- 4.2 Firstly, the parties recognised that it was important that the whole exercise would be supported by objective research on pay and jobs in the Private Sector and the Public Service which would form a firm foundation for the work of the Body in coming to conclusions. This was in sharp contrast to the procedure which had applied in the past where the whole issue of basic information on comparisons was much more haphazard.
- 4.3 Secondly, the fact that a single body was to come to an assessment on the rates of pay of all Public Servants at the same time and against the background of the same information in terms of conditions in the Private Sector should make for a much fairer and more comprehensive approach as between the different grades and categories than was possible under earlier procedures. It also provided a solution to one of the obvious lessons of the 1990s – that the pay of any group could not be settled in isolation.

#### 5. **Status of the Benchmarking Body**

- 5.1 The Public Service Pay Agreement concluded in the context of the First Module of Sustaining Progress stated:

*The parties are agreed that the benchmarking exercise under the PPF was an important initiative in developing a better system of pay determination in the public service. The parties agreed that this process is an appropriate way of determining public service pay rates in the future. Importantly, the process allowed for an evaluation of public service jobs and pay as compared with the private sector. It was accepted when establishing this process that cross-sectoral relativities were incompatible with such an approach and the parties agree that such relativities no longer apply and that as stated in the Report of the Public Service Benchmarking Body “The Body’s recommendations on remuneration of the benchmarked grades have the effect of severing all previous pay links and establishing new absolute levels of pay of each of those grades.”*

*Over the period of this agreement, the parties will engage in consultations, in the light of the experience of the benchmarking exercise, in relation to matters such as:*

*the terms of reference of a further benchmarking exercise;*

*the modus operandi of a further benchmarking exercise; and*

*the establishment and timescale of a further exercise.*

*These issues will be settled in the context of the discussions on whatever arrangements on pay and conditions are to be put in place on the expiry of this agreement.*

5.2 The Public Service Pay Agreement concluded in the context of the Second Module of Sustaining Progress stated:

15.1 *As stated in the first Public Service Pay Agreement under Sustaining Progress the parties agreed that the benchmarking exercise under the Programme for Prosperity and Fairness was an important initiative in developing a better system of pay determination in the public service. The parties are also agreed that this process is an appropriate way of determining public service pay rates in the future. Importantly, the process allowed for an evaluation of public service jobs and pay by reference to comparable jobs across the economy. It was accepted when establishing this process that cross-sectoral relativities were incompatible with such an approach and the parties agreed that such relativities no longer apply and that as stated in the Report of the Public Service Benchmarking Body “The Body’s recommendations on remuneration of the benchmarked grades have the effect of severing all previous pay links and establishing new absolute levels of pay of each of those grades”.*

15.2 *In the first Public Service Pay Agreement under Sustaining Progress the parties committed themselves to engage in consultations in relation to the terms of reference, modus operandi, establishment and timescale of a further benchmarking exercise.*

15.3 *The parties have agreed that the Benchmarking Body will commence the next benchmarking review in the second half of 2005 to report in the second half of 2007.*

15.4 *The parties will review the operation of the first benchmarking exercise and consider ways in which, having regard to the experience gained, the process can be improved and streamlined. The parties consider that the Body should seek to ensure the optimum level of transparency consistent with the efficient and effective operation of the benchmarking process.*

15.5 *The membership of the Benchmarking Body and its terms of reference will be agreed between the two parties not later than July 2005. Prior to the establishment of the Body the parties will agree on the list of grades to be reviewed by the Body.*

15.6 *Under the Programme for Prosperity and Fairness the rates of pay for the craft grades and the related non-nursing and general operative grades outside of Dublin were set by a parallel benchmarking process. The arrangements in relation to the next parallel benchmarking process will also be the subject of discussions between the parties to be concluded not later than July 2005.*

15.7 *Matters concerning the implementation of the outcome of the benchmarking processes will be discussed by the parties in the context of discussions on whatever arrangements on pay and conditions are to be put in place on the expiry of this Agreement.*

5.3 The Body is, therefore, not a standing Public Service Body with an existence independent of the Parties. Rather, it is a body which has been brought into existence by an agreement made between the parties to the Agreement.

5.4 It is, in effect, a “Third Party” created by the parties to the agreement to implement a task which the parties have agreed upon between themselves. As with any other *ad hoc* Third party which the parties to an industrial relations process create, the Benchmarking Body does not, therefore, have a “life of its own” such as a Commission appointed by Government to examine a particular issue but is, rather, a body like an other industrial relations Third Party which is in the hands of the parties and is required to work within the parameters set by the parties – in this case, the Department of Finance and the other Public Service Employers on the one hand and the Public Services Committee of the ICTU on the other.

## 6. **Terms of Reference of the Benchmarking Body**

6.1 The Terms of Reference of the Benchmarking Body are set out in Appendix 1 to this submission.

6.2 Fundamentally they are similar to the Terms of Reference used in the first Benchmarking exercise carried out in 2000 to 2002.

6.3 The first two paragraphs are introductory and indicate that the Body is asked to produce a Report containing recommendations on the pay rates for the grades specifically referred to the Body in the second half of 2007.

6.4 The Operational Provisions of the Terms of Reference may be broken down as follows:

### (a) Research

- (i) research into overall public service and private sector pay levels;
- (ii) research on the pay rates of particular occupational groups (such as clerical/administrative staff and technicians) and other identifiable groupings (such as graduate recruits);



- (iii) as part of this process carry out research into existing roles, duties and responsibilities of jobs in the public service and the private sector with a view to establishing which jobs in the private sector can be compared with those jobs in the Public Service which are to be the subject of the Benchmarking Body's remit;
  - (iv) research on the overall pattern of pay rates in the private sector and employments across a range of type, size and sector;
  - (v) research on the way reward systems are structured in the private sector.
- (b) Criteria to be applied by the Benchmarking Body
- (i) the need to recruit, retain and motivate staff with the qualifications, skills and flexibility required to exercise their different responsibilities;
  - (ii) the need to ensure ongoing modernisation of the public service;
  - (iii) the need to ensure equity between employees in the public service and the private sector;
  - (iv) the need to underpin Ireland's competitiveness and develop our economic prosperity on a sustainable basis
  - (v) Cross sectoral relativities are incompatible with the operation of benchmarking: in practice, wide variations would be unlikely to emerge between the various sectors in the pay of common groups such as clerical and administrative staff, engineers and technicians;
  - (vi) Within each sector, internal relativities would be a relevant criterion but traditional or historical relativities between groups in a sector should not prevent the Benchmarking Body from recommending what it considers are appropriate pay rates on the basis of existing circumstances;
  - (vii) regard should be had to differences between the public service and the private sector, and between the various public service groups within the remit of the Body, in working conditions, the organisation of work, perquisites, conditions of employment and other relevant benefits including security of tenure and superannuation benefits.
- (c) Relevant Third Party Recommendations since the last Report
- (i) the Body is asked to consider any issues arising from any third party recommendations concerning benchmarking and any group on List A since the Body's first report, including, specifically, Labour Court Recommendations Nos. 17526 and 17805.

(d) Transparency

- (i) the Body is asked to seek to ensure the optimum level of transparency consistent with the efficient and effective operation of the benchmarking process.

6.5 Each of these issues is considered separately in the following sections.

7. **Research on Overall Levels of Pay**

- 7.1 It would be desirable to identify the value this would have for the operation as an exercise separate from the research mentioned below.
- 7.2 In this respect, it is necessary to bear in mind that overall pay rates in different sectors are relatively meaningless without taking account of the occupational make-up of the different sectors. To take an example, if one were to compare the average pay levels of a company in a low skill assembly operation which employs a small number of management/administrative staff and a substantial number of general operatives of an unskilled sort with those of a company which is engaged in the production of computer software which has a substantial number of highly skilled systems analysts and some skilled marketing staff, the result will be that the average pay of the first group will be much lower than the second group. Other than proving the obvious, it is an exercise which has no meaning.
- 7.3 For example, the figures published by the CSO for Average Industrial Earnings are not relevant as a basis for comparison with Average Earnings in the Public Service since the occupational make-up of the groups of employees going to compose the two figures is so wildly different.
- 7.4 The PSC would have reservations about the use of some sources of data which are published. For example, the Revenue data on income levels does not distinguish between different sectors and there would be some doubts on the trade union side as to its reliability given the basis on which it has been composed. In any event, it is difficult to see how it could be used for the purpose in hand.
- 7.5 In any event, the fundamental task of the Body is, as mentioned above, to produce a Report containing recommendations on the pay rates for the grades specifically referred to the Body in the second half of 2007. This, necessarily, requires that the task is to examine the *actual jobs* carried out by these grades by reference to the position of employees in the Private Sector and not some theoretical construct across the two sectors which has no relevance to the actual task of the Body.

8. **Research on Pay and Jobs in Private & Public Sectors**

- 8.1 The PSC considers that it is essential that the Benchmarking Body should arrange for research into the Pay and Jobs of each of the categories referred to it.
- 8.2 The Body should also arrange for research into the pay and jobs of Private Sector Employments.
- 8.3 This Research should cover current pay levels and also pay movements over time. While the former is likely to be the most significant factor in assisting the Benchmarking Body in coming to an assessment, the latter will also be of considerable significance since it will seek to address the issue of a relative fall in pay position over time which is likely to be a feature of submissions to be made by Unions to the Body.
- 8.4 The ultimate objective of these exercises should be to seek to establish the jobs in the Private Sector which are comparable with the various grades/categories in the Public Service which are within the remit of the Body with a view to “pricing” same for purposes of coming to its recommendations, while also taking into account the issue of a fall in position relative to other employments.
- 8.5 While the PSC would have no objection to the Body’s seeking access to information from bodies such as the IMI/Inbucon surveys, IBEC, CIF, professional bodies and recruitment agencies, it considers that the Body should be guided primarily by information secured by its own research on pay and jobs in the private sector and the public service as there is a danger that reliance on other data would not be compatible with the requirement in the terms of reference that the Body should avoid comparisons based only on similar titles or superficially similar roles between the two sectors. However, information from the other sources might be of some use in identifying salary movements over time.
- 8.6 It is also important, given the genesis of Benchmarking, that, as far as possible, the same range of employments should be used to draw up comparisons for all of the grades/categories which are within the remit of the Body. It would defeat the purpose of the establishment of the Body if different employments were used for different grades/categories.
- 8.7 As regards the type of companies in the private sector to be surveyed, while the PSC accepts that the terms of reference enjoins the Body to examine a wide range of employments, it considers that, having regard to the fact that Public Servants all work in large organisations, it is more than likely that a more complete range of comparable jobs are likely to be found in larger employments and larger organisations are, themselves, more likely to be similar to the Public Service in any event.
- 8.8 It is also vitally important that the employers selected for comparison should be “good employers” since the Public Service itself should be a “good employer” in the sense that while it should not be among those who offer the highest rates of remuneration, it should be among those who pay somewhat above the average as stated in the Priestly Commission – see Section 18.7 below.

- 8.9 The PSC would take the view that, within the context of the previous paragraph, there should be no particular bias in favour or against using comparisons from companies in different sectors of the economy, whether in manufacturing or services, whether exposed directly to external competition or otherwise.
- 8.10 However, it is very important to bear in mind that the Public Service is in competition with larger employers for recruitment purposes and, indeed, within that cadre of larger employers, some sectors such, as financial services, are, in reality, much more likely to be of significance than others.

## 9. **Technical Aspects of Job Surveys**

- 9.1 The PSC would see the basic purpose of surveys of jobs in the Private Sector and the Public Service as being to identify jobs in the Private Sector which are comparable with jobs in the Public Service.
- 9.2 There is no single “right” way in which such surveys can be conducted.
- 9.3 The First Benchmarking Body had the following to say, in general terms about Job Evaluation (Page 8 of the Report):

*Central to the success of this benchmarking exercise is the capacity to understand and measure the range of work across the entire public service and to compare this in a consistent and rational manner with work and reward in the private sector. Well-established job evaluation methodologies exist; however, the scale and the complexity of the benchmarking task required the Body to develop its own job evaluation scheme. In doing so, it drew on contributions from nine leading human resource consultancies. Using this method, the Body examined the work of a total of 3,994 individual jobs in the public service. Publicly available and privately held information on salaries in the private sector did not meet the requirements of the Body as set out in the terms of reference. The Body, therefore, undertook its own confidential salary survey as part of its corresponding research into pay and jobs in the private sector in respect of 3,563 jobs covering 46,351 employees.*

- 9.4 The Report of the First Body goes into the way in which it dealt with the Job Evaluation process in some detail.
- 9.5 The Public Services Committee is supportive of the approach taken by the Body on that occasion in developing its own job evaluation scheme for the reasons stated in that Report. In addition, the use of a number of different consultancies (whose work was co-ordinated and supplemented by the internal consultancy team and the project team from the Body’s own secretariat) was a sensible and effective means of ensuring that inconsistencies were kept to a minimum. The Committee would support the same approach on this occasion and, indeed, the use of the same consultants.
- 9.6 The PSC recognises, of course, that the choice of factors used in the job evaluation system and the weightings which are attached to them will, obviously, produce significantly different results. Thus, for example, if manual effort is given a high weighting and level of responsibility is given a low weighting, a job survey of a particular job will give a completely different “score” to the result which would be applied if the weightings for these factors were reversed.
- 9.7 The Report of the First Body dealt extensively with these issues and explains the approach it took when developing the Job Evaluation System it used. In addition, it sets out the factors which applied in the Body’s job Evaluation scheme.

- 9.8 The actual weightings attached to the various factors are not mentioned in the Report of the First Body. This had been the subject of discussion with the parties during the work of that Body and the consensus arrived at was that it was sensible for the body to take responsibility for the system to be used in its totality. In addition, it was agreed that publication of actual weightings would not add anything to the Report, could become a source of dissension and lead to attempts to “pick-over” the report and re-open the Report which could result in the entire process unravelling.
- 9.9 In general, the reaction of the parties to the approach taken by the First Body on Job Evaluation was positive and, accordingly, the PSC would urge the Body to take a similar course in this exercise. One point which was raised was that the issue of Complexity needs to take account of the consequences of a person’s actions as well as complexity in the normally understood sense.
- 9.10 Another aspect of Job Reviews is how one relates the assessments arrived at for individual grades on List “A” to the overall position of grades in hierarchical grading structures. The overall pay levels in a grading structure have to make sense and the issue of internal relativities which is specifically recognised in the terms of reference has to come into play here.
- 9.11 It has to be recognised, in this context, that some submissions are likely to attach considerable significance to internal relativities.

## 10. **Reward Systems**

- 10.1 Performance-Related Pay applies only to a relatively small number of the most senior staff within the scope of the Review Body on Higher Remuneration and this has been introduced only in recent years. In addition, it is generally accepted that there are not the systems required to support the implementation of such a system.
- 10.2 The impact of Performance-Related Pay Systems would result in the break-up of national pay scales and would be completely unacceptable to the PSC. In addition, PSC has serious doubts as to whether such systems are truly viable in the Public Service.
- 10.3 In the event that some change in pay systems were to be considered at some stage, an essential feature would have to be that the parties themselves would negotiate any such change in order that they would be in a position to deal with all of the issues which would arise; make sure that they were both “comfortable” with the changes; had an opportunity to “prepare” both line management and staff for the change and could take account of concerns raised by both in the negotiation process. This process is not capable of being carried out by a Third Party (except, perhaps, by way of assisting the parties in negotiations) and is certainly not a role which the Benchmarking Body could take on given the scope and nature of its role and its remoteness from a direct negotiation process of the sort described.
- 10.4 Within the range of changed pay systems, the PSC recognises that there are a number of theoretical possibilities:
- Performance-Related pay at the Level of the Public Service as a whole.
  - Performance-Related Pay at the level of a Government Department (or similar body in other sectors)
  - Performance-Related Pay at the Level of the Group or Team
  - Individual Performance-Related Pay
- 10.5 Since the Public Service Pay Agreement concluded in the context of Partnership 2000 (1997), there has been a connection between Public Service Modernisation and Change and pay increases. This connection has been made progressively stronger so that, in Sustaining Progress, the connection is such that all pay increases (both Benchmarking adjustments and general increases) under that agreement are dependant on implementation of the detailed Programme of Modernisation and Change set out in the Programme and the implementation process is subject to independent verification.
- 10.6 Performance-Related Pay at the level of Government Departments, or equivalent bodies elsewhere in the Public Service is a nonsense in the view of the PSC. The number of variables entirely outside the control of staff is such that it would have no meaning. In addition, since it would necessarily result in the break-up of national pay scales, it would be completely unacceptable to the PSC.



- 10.7 Performance-Related Pay at the level of the Group/Team or a Government Department (or equivalent) has not been a feature of pay in the Public Service.
- 10.8 It is questionable as to whether Performance-Related Pay Systems at these levels is really viable in the Public Service. Many Public Servants do not really work in Groups/Teams and, even where they do, there is endless scope for argument over the scope of such Teams/Groups. In addition, since it would also necessarily result in the break-up of national pay scales, it would be completely unacceptable to the PSC.
- 10.9 The experience of other public administrations with Performance-Related Pay Systems at the level of the individual is mixed.
- 10.10 A Performance Management and Development System (PMDS) is being implemented in the Civil Service at the moment and it is intended that some appropriate such systems are to spread to all other sectors of the Public Service. This system is intended to be used to measure and improve Performance and, in the case of the Civil Service, is integrated fully with Human Resources policy and processes, including assessment systems.
- 10.11 In essence, the Civil Service model may be summarised as follows:
- (a) the entire process is grounded in the Departmental Strategy Statements required under the Public Service Management Act of 1997;
  - (b) these Strategy Statements are translated into operational programmes in the form of Business Plans which are then broken into sub-plans for Divisions and Sections until, eventually, the functional plans cascade down through the system to provide the basis for the roles of individual jobs;
  - (c) from that, role profiles are developed which set the concrete objectives and key deliverables of the job and then identify the competencies needed to do the job successfully;
  - (d) in that context, training, coaching and other self-development measures to deal with any gaps that exist in competencies are identified so that the combination of role profile, objectives, competencies and development measures makes up the personal performance plan for the individual jobholder;
  - (e) the appraisal of performance includes a day-to-day monitoring and coaching as well as a more formal interim review and a formal annual assessment process;
  - (f) the annual assessment is carried out by reference to the performance plan mentioned above and results in a rating for each individual;
  - (g) this rating is used to determine whether the annual increment should be paid or otherwise, whether or not a person should be considered eligible for assignment to a Higher Scale (a number of grades have two salary scales as an integral part of the pay system of the grades – a Standard Scale and a Higher Scale), and whether or not a person should be regarded as being eligible for promotion;

- (h) in addition, the output from the PMDS in the form of the annual assessments forms the basis for promotion assessments.
- 10.12 The basic agreement on the introduction of PMDS in the Civil Service was made in 2000 and was implemented over a period subsequently. The embedding of the Personnel Policies in PMDS was agreed in mid-2005 and is to be fully effective in 2007.
- 10.13 While PMDS is still relatively new (particularly in respect of the direct connection with Personnel Policies), it is already clear that the changes it has wrought are very significant indeed. It is not too much of an exaggeration to say that, from a position where the roles of at least some managers and staff were “fuzzy” or vague and not necessarily related to the high level goals of the organisation, PMDS has given rise to changes in terms of the organisational framework and effective management in that it has produced a clarity of roles and functions for both staff and managers at all levels in the organisation. It has also had a significant effect on improving job-satisfaction resulting from the clarity of roles and enabling staff to see their role in the overall scheme of things. In addition, the process of role profiling, setting performance targets and assessments has necessarily involved a considerably enhanced level of communication between managers and staff in a structured way which can only be of benefit to all concerned.
- 10.14 The essential key to the success of PMDS is the role of management. If the commitment of Management to PMDS remains strong, then staff will continue to believe that it has a real meaning and will support it. At the same time, it is still in its infancy, relatively speaking, and will need time to be bedded down fully. Indeed, it is more than likely that it will require adaptation in the light of practical experience.
- 10.15 As mentioned above, any such system would, however, have to be introduced as a result of direct negotiations between the parties and is not capable of being introduced by a Third Party such as the Benchmarking Body.
- 10.16 While it is clear that any Performance-Related Pay system would require a robust performance assessment system, the opposite is not true. In other words, it is not the case that Performance Management necessarily requires performance-related pay.
- 10.17 There are also considerable questions which can be raised about the compatibility of performance-related pay with the Public Service ethos which (rightly) places such a large emphasis on fairness and equity in its dealings with citizens and, as part of that culture, inevitably values the same qualities within the Public Service itself. In addition, the practical problems associated with performance-related pay should not be underestimated.
- 10.18 A recent Report by the OECD<sup>1</sup> on Performance-Related Pay in the Public Service is very interesting in this respect. The Executive Summary is attached at Appendix 1 to this submission.

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<sup>1</sup> Performance-related Pay Policies for Government Employees, OECD, June, 2005

10.19 The reason that this Report is interesting is because of its candour, coming as it does from an Organisation which has, through its Public Management Service (PUMA), expended a considerable effort in proselytising Performance-Related Pay in the Public Service.

10.20 Firstly, it states that the “introduction of performance pay policies occurred in the context of the economic and budgetary difficulties faced by OECD member countries from the mid-1970s”. These are circumstances which do not apply in Ireland to-day.

10.21 Secondly, the Report states that, while performance pay may be an appealing idea,

*“the experiences reviewed in this study indicate that its implementation is complex and difficult. Previous OECD studies on the impact of performance pay at the managerial level concluded that many of the schemes had failed to satisfy key motivational requirements for effective performance pay, because of design and implementation problems, but also because performance assessment is inherently difficult in the public sector ...Performance measurement in the public sector requires a large element of managerial judgement. The notion of performance itself is complex, owing to the difficulty of finding suitable quantitative indicators and because performance objectives often change with government policy. **Many studies have concluded that the impact of PRP on performance is limited, and can in fact be negative.**”*  
(Emphasis added)

10.22 It goes on to state:

*“Evidence cited in this book indicates that the impact of PRP on motivation is ambivalent: while it appears to motivate a minority of staff, it seems that a large majority often do not see PRP as an incentive. While base pay as it relates to the wider “market” is important, supplementary pay increases for performance are a second-rank incentive for most government employees, especially those in non-managerial roles. Job content and career development prospects have been found to be the strongest incentives for public employees. PRP is unlikely to motivate a substantial majority of staff, irrespective of the design.*

10.23 Going on further, the Report states:

*Despite such cautions, the interest in performance pay has continued unabated over the past two decades. This paradox arises from the fact that, despite the overall consensus on the types of problems raised by performance pay, PRP policies continue to be introduced on a large scale in many OECD member countries. There are few examples of public organisations having withdrawn their PRP policy. But the fact that organisations do not withdraw PRP is not necessarily a very good indication of its effectiveness, because the costs of doing so are a deterrent. However, one of the key reasons why PRP continues to be introduced on such a large scale across civil service systems, appears to be its role in facilitating other organisational changes.*

*It seems that, in the right managerial framework, the processes that accompany PRP have made such changes both possible and positive. When performance pay is introduced, there is a window of opportunity for wider management and organisational changes. These include effective appraisal and goal setting processes, clarification of tasks, acquisition of skills, creation of improved employee-manager dialogue, more team work and increased flexibility in work performance. Introducing PRP can be the catalyst that allows these changes to occur and, at the same time, facilitates a renegotiation of the “effort bargain” thus assisting in recasting the culture at the workplace. These dynamics have positive impacts on work performance. It appears that it is not through the financial incentives it provides that PRP can contribute to improving performance, but rather through its secondary effects, that is the changes to work and management organisation needed to implement it.*

10.24 The final quotation which the PSC wishes to highlight from the Report is the very last recommendation:

***PRP should be used, above all, as a stimulus and a lever for the introduction of wider management and organisational change, rather than solely as a motivational tool for staff. Pay for performance should be viewed essentially as a management tool. The objectives of PRP should be set accordingly.***

10.25 The issue then is what all of this means in the context of the Irish Public Service.

10.26 It seems clear that the basic thesis of the OECD Report can be summarised as follows:

- (a) Implementation is complex and difficult;
- (b) Performance Pay has little value, in itself, as a means of motivating Public Servants to enhance the quality of Public Services;
- (c) Many studies have concluded that the impact of PRP on performance is limited, and can in fact be negative;
- (d) The key argument in favour of PRP is that it has, as it were, a side effect of facilitating other managerial and organisational changes of the sort mentioned.

10.27 This is precisely what is being achieved in the case of the Irish Public Service by means of the introduction of PMDS with the result that Performance Pay is, in fact, even by the standards of the OECD, one of its chief proponents, entirely irrelevant to our circumstances.

10.28 An extract from an address by Professor Bill Roche, UCD, at the IPC/NPC Conference on “Working Together for Excellence in the Public Service” in Dublin on 5 March, 1998 is attached at Appendix 3 - it reaches much the same conclusion as that set out above.

- 10.29 A further point about any system of relating pay to performance - if it were to be feasible at all - is that it would not and could not be seen as a replacement for general rounds of pay increases, or exercises such as Benchmarking. It would have to be an add-on and financed separately as an addition.
- 10.30 The fundamental points as regards a system of relating pay to performance are thus:
- (a) can a system be devised which is sufficiently transparent and equitable that it will be acceptable to and command the confidence of staff;
  - (b) does it do anything (positive) for performance;
  - (c) would the Exchequer be prepared to pay the additional cost.
- 10.31 Overall, then, on reward systems, the PSC urges caution on the Benchmarking Body as regards any changes from the principle of incremental structures. The experience of other countries strongly suggests that such issues can only be approached with the most careful preparation, involvement and discussion if they are to produce acceptable and workable results of any value to either staff or the organisation. None of this is capable of being effected at the level of the Benchmarking exercise.

## 11. **Criteria – Recruitment, Retention & Motivation**

- 11.1 While the various trade unions will be making their own submissions to the Benchmarking Body on this issue, there are some general issues which need to be mentioned in this submission.
- 11.2 Firstly, the criterion refers to three factors - Recruitment, Retention and Motivation. They are separate and distinct issues.
- 11.3 There can be a belief which is to the effect that, unless the Public Service is unable to recruit staff, it is safe to assume that pay rates are adequate.
- 11.4 This is a truly facile position.
- 11.5 In recruiting staff, the Public Service necessarily has to meet standards of transparency. In turn, this means that the Public Service has to rely on open competitions for which all citizens who meet certain requirements are eligible. As a result, objective standards, whether educational or by reference to experience etc., have to be established to determine eligibility for these competitions. These standards are such that they are merely basic minimum requirements.
- 11.6 By definition, these minimum standards cannot ensure that the Public Service can secure a sufficient proportion of the quality staff it needs to enable it to carry out the many tasks which it is called upon to carry out for the community. This is true at any time but is even more acutely the case in the current relatively tight labour market.
- 11.7 In other words, the real issue is whether the Public Service can get its fair share of the “brightest and the best” in recruiting staff. If it cannot achieve this, then it simply be unable to achieve this target.
- 11.8 The same is true of retention. It is sometimes suggested that high levels of retention indicate that pay levels are adequate by reference to the Private Sector. However, this is a dangerous basis for pay policy since it would mean that one would ignore pay comparisons with the Private Sector until a mass movement out of the Public Service had taken place. In other words, wait for a crisis to develop. This is scarcely a sensible approach. It makes far more sense to ensure that pay rates are, and remain, competitive with the private sector as shown by fair comparison.
- 11.9 Thirdly, there is the issue of motivation. A basic motivator is that that staff can believe that they are being treated fairly in terms of pay. As mentioned above, a deeply ingrained position on the part of staff is that that means that they are paid on a level which is comparable with people doing jobs of comparable responsibility. This has been discussed adequately above but it is clear that fair comparison on pay, along with adequate prospects for career development through promotion are the key motivators for staff, as they are in terms of recruitment and retention.
- 11.10 In summary, recruitment, retention and motivation are not separate and distinct factors in looking at pay. Rather they are one and the same and the key issue so far as pay is concerned is that of fair comparison.

12. **Criteria – Supporting Modernisation of the Public Service and Change**

- 12.1 The issue which arises here is the role of the Benchmarking Body in handling this criterion.
- 12.2 As regards change generally, the PSC is, obviously, committed to the provision in the Public Service Pay Agreement which commits the parties to a Programme of Public Service Modernisation and Change.
- 12.3 However, the PSC cannot see a role for the Benchmarking Body generally which goes further than this in respect of major change. The PSC sees no role for the Body in seeking to link specific major changes to the implementation of its recommendations on pay. Any such proposal would require direct negotiations between the parties. Consistent with the view expressed elsewhere in this submission, the PSC does not see how a Third Party Body with such a wide remit could possibly do this as issues of this sort necessarily require detailed negotiation between the parties directly concerned in order to be effective.
- 12.4 The last thing which the Public Service needs (on both sides) is industrial relations problems generated by the report of the Benchmarking Body. The Body is seen as a “solution” or, at least, “part of a solution”. If the Benchmarking Body were to go down this road, then it would clearly be going away beyond the remit envisaged by the PSC.
- 12.5 The first Benchmarking Body, also had to handle this criterion.
- 12.6 In its report the first Body states that it would expect that Public Service Employers and Trade Unions would, “as a matter of course, work together in a partnership context to promote flexibility of working and to identify and eliminate practices which may tend to foster inefficient delivery of services. In this context, there are a number of initiatives which merit detailed examination and consideration at workplace level such as:
- (i) functional flexibility;
  - (ii) more broadly defined work assignments;
  - (iii) changes in working time arrangements;
  - (iv) team-working;
  - (v) increased employee participation in decision-making; and
  - (vi) broader job descriptions.”
- 12.7 The Report goes on to state:

**6.25** Under its terms of reference, the Body is required, when reaching its recommendations, to have regard to the need to ensure ongoing modernisation of the public service so that the public service can continue to adapt to necessary changes and to achieve greater efficiency and effectiveness. The Body agrees with the widely held view that flexibility and a willingness to adapt to change are hallmarks of successful organisations in all walks of life and in both the public service and private sector. It also believes that any comprehensive benchmarking exercise, now and in the

future, must take the issues of change, modernisation, flexibility and adaptability fully into account.

**6.26** The Body has made recommendations for pay increases across the public service. The context for these recommendations was set out in Chapter 2. A primary factor in the Body's considerations was the evaluation and comparison of the jobs and pay of public servants with comparable jobs and rewards in the private sector. In the majority of companies in the private sector, change is accepted as an essential and ongoing criterion of survival, growth and prosperity. In this environment, an increasing number of managements who do not provide the innovation necessary for growth and the concomitant requirement for change are held accountable for this failing. This should also be the case in the public service. It is the responsibility of management in the public service, no less than in the private sector, to lead and manage change just as it is the responsibility of employees to co-operate with modernisation and change.

**6.27** In this context, the Body considered whether it should link its recommendations on pay to specific changes in working practices. The Body, however, concluded that this was not practical because it would require the Body to assess the position in regard to flexibility, change and modernisation for each particular employment throughout the public service. Clearly, an exercise of this type was not envisaged when the Body was established and it is, therefore, outside the scope of the Body's terms of reference. Yet, those same terms require the Body to have regard to ensuring the ongoing modernisation of the public service so that it can continue to adapt to necessary change and to achieve greater efficiency and effectiveness.

**6.28** In seeking to discharge this responsibility, which the Body fully recognises, the Body notes that the parties to the public service elements of the PPF, as adjusted in December 2000, have agreed that one-quarter of any awards arising from the Body's Report are to be implemented retrospectively with effect from 1 December of 2001. The adjusted terms to the PPF also set out that *“the balance of any awards will be implemented on a phased basis, to be agreed between the parties, which takes account of the desirability of implementing the Benchmarking Body's recommendations as speedily as possible thereafter, the level of increases involved, any successor to the PPF which may be agreed between the social parties (or whatever other arrangements may be in place on the expiry of this Programme) and the need to respect any links which the Body might establish between levels of pay and other developments”*.

**6.29** It is within this context that the Body considers the issues of adaptability, change, flexibility and modernisation should be addressed. The Body is of the view that developments of this nature are necessary to allow the public service keep pace with good practice in the private sector. **The Body strongly recommends that implementation of its pay awards should be made conditional (apart from the one-quarter of any award to be implemented with effect from 1 December of 2001 as agreed between the parties) upon agreement on the issues at the appropriate local bargaining levels. It will be a matter for managements and unions/associations to determine the agenda for this local bargaining, but it is the firm expectation of the Body that real outputs will be delivered. Further, the Body recommends that an appropriate validation process be established to**



**ensure that agreements on issues such as adaptability, change, flexibility and modernisation are implemented in accordance with their terms. Finally, the foregoing conclusions are to be taken as integral parts of the recommendations on pay that follow in Chapters 7 to 11.** (Emphasis in original)

- 12.8 The principles enunciated by the first Benchmarking Body in the above quotation were taken as the point of departure for the negotiation of the Programme of Public Service Modernisation contained in Sustaining Progress which were expressed both in global terms across the Public Service as a whole and also dealt with each of the sectors of the Public Service.
- 12.9 In essence, this meant addressing the Management Side Agenda designed to improve the quality of Public Services both globally and in the various sectors.
- 12.10 As mentioned above, there was a direct connection agreed between the delivery of the agreed Programme of Public Service Modernisation and Change and **all pay increases** (both Benchmarking adjustments and general increases) under Sustaining Progress and the implementation process is subject to independent verification.
- 12.11 The PSC cannot see how the Benchmarking Body could seek, as part of its recommendations, to introduce specific change measures as there is no way in which the Body could delve, effectively, into all of the sectors of the Public Service to devise specific programmes of change. Fundamentally, the next phase of the Public Service Modernisation Programme will be a matter for the parties to address and not something for the Benchmarking Body to seek to introduce in any specific way by means of its recommendations.
- 12.12 The approach taken by the first Benchmarking Body was a sensible one in that it had the great merit of being effective.
- 12.13 The same course of action would make sense on this occasion as well.

13. **Criteria – Equity between the Public Service and the Private Sector**

- 13.1 In essence, this will involve adjusting pay rates in the Public Service to bring them into line with rates in the Private Sector.
- 13.2 This is at the heart of the entire Benchmarking exercise as this is what equity necessarily means, as explained in some detail above.
- 13.3 This will be a matter to be covered by the individual Unions in their submissions.

## 14. Criteria – Underpinning Competitiveness

14.1 The Public Service went through a very difficult period for several years from the mid-1980s onwards. This was caused by the very difficult Exchequer position which applied for many years at that resulted in a number of agreements which provided for smaller (or later) increases than applied in the rest of the economy. Indeed, its effects continued well after that period in that public service pay levels fell well behind those in the Private Sector and, in addition, the fact that the effective dates of the application of pay increases under National Programmes fell 6 months behind the general run of the Private Sector. While the Exchequer position was, fundamentally, a reflection of the general economic climate at the time, the experience of the PSC was that it was, first and foremost, the Exchequer's position which played the dominant role in the difficulties with which the PSC had to contend in those years.

14.2 By contrast, the current Exchequer position bears no resemblance whatsoever to that experience. The following quotation from the Stability Programme published with the Budget Statement for 2006 is indicative of the change:

*The projected budgetary position over the period 2006-08 is for a General Government budget deficit of 0.6% of GDP in 2006 followed by deficits of 0.8% in 2007 and 2008. The underlying (structural) budget balance, with a surplus of about ¼% in 2006 and averaging 0.2% for the period 2006-08, respects the terms of the Stability and Growth Pact, and is consistent with a medium-term objective of keeping the budget close to balance over the 2006-08 period. The debt-to-GDP ratio will be maintained at the second lowest in the euro area – around 28% for the forecast period – in line with the Government's long-term priorities outlined above. The market value of the assets of the National Pensions Reserve Fund is estimated to be 9.4% of GDP at the end of 2005.*

14.3 In viewing these figures, it is relevant to bear in mind that the actual out-turn for 2005 was significantly better in terms of the Exchequer Balance than had been forecast at the time of the Budget for 2005. An Exchequer deficit of €499 million was recorded in 2005. In the Budget for 2005, the projected deficit was €2,988 million.

14.4 In addition, it must be said that it seems reasonable to assume that the Government, in agreeing to the establishment of the Benchmarking process, was aware of the problem of pay rates in the Public Service being out of kilter with those in the Private Sector and wanted to find a way of dealing with this in a comprehensive way and accepted that pay costs would increase as a result.

14.5 The first Benchmarking Body had the following comments to make on this issue:

*6.12 Under its terms of reference, the Body is requested to have regard to “the need to underpin Ireland's competitiveness and develop our economic prosperity on a sustainable basis”. The Body's work has been conducted in accordance with its terms of reference within the wider context of the PPF which identified a number of aims and objectives. These included associated operational frameworks covering a range of issues and the development of an equitable relationship between pay in the public service and in the private sector.*

**6.13** *The PPF acknowledges that ‘the role of the public service remains a crucial one and, increasingly so, in relation to managing the many complex issues which are features of current economic and social development. The quality of the response of the public service to these challenging demands will be determined to a large extent by its efficiency and adaptability in the face of changing circumstances.’*

**6.14** *The cost, level and quality of public services, and the efficiency and effectiveness of their delivery all play key roles in the social and economic development of the national economy and in maintaining its international competitiveness. Specific developments in public services and their management are outlined in the operational frameworks of the PPF.*

**6.15** *The PPF acknowledges two fundamental requirements in relation to the future management of the public service, namely:*

- *that in the current Irish labour market context, it is important to ensure that public service manpower needs are capable of being met in such a way as to enable it to deliver the necessary quantum and quality of public services now and into the future; and*
- *that successful implementation of policies of continuous renewal and modernisation are vital.*

**6.16** *The Body’s approach to benchmarking addressed these fundamental requirements. It emphasised the importance of recruitment and retention strategy in the broader context of strategic approaches to personnel management. Specific measures are recommended to progress the public modernisation programme with particular attention to issues of flexibility, adaptability and change.*

**6.17** *It has been an overall concern of the Body that the public service should not lead the private sector in matters of reward. This principle is inherent in benchmarking, a central objective of which is equity between the public service and the private sector. It has also been a major element in the formulation, within the overall context of the PPF, of a cohesive overall set of recommendations on public service pay which has regard to the full range of considerations referred to in the Body’s terms of reference.*

**6.18** *The overall set of recommendations made by the Body meets a key objective of its terms of reference, namely: the establishment of equity in matters of reward between employees in the public service and the private sector. In this regard, there can be no basis for any follow-on claims from private sector employees arising out of the Body’s recommendations. Any such claims would have no justification. The Body is concerned that the emergence of claims of this nature would have a wide impact across the economy with serious implications for competitiveness, employment, and economic and social development.*

14.6 This was a sensible approach and, given the Exchequer position, the PSC does not see this criterion as being in any way limiting on the Benchmarking Body.

15. **Criteria – Cross Sectoral Relativities**

15.1 The provision in the Terms of Reference on this issue is as follows:

As was the case previously the Body should have regard to the agreement made under the *Programme for Prosperity and Fairness* and reiterated in *Sustaining Progress* that cross-sectoral relativities are incompatible with the benchmarking process.

15.2 In order to make sense of this, it is necessary to refer back to the following provision of the Terms of Reference of the first Benchmarking Body which contain the agreement mentioned in the current Terms of Reference. The relevant paragraph was as follows:

*Cross sectoral relativities are incompatible with the operation of benchmarking: in practice, wide variations would be unlikely to emerge between the various sectors in the pay of common groups such as clerical and administrative staff, engineers and technicians.*

15.3 The PSC has three points to make on this issue:

- (a) the Benchmarking Body should not feel itself constrained against maintaining a pay relationship between two categories engaged on different work in different sectors if it considers that the merits of the cases in terms of reference to the Private Sector (and other relevant industrial relations consideration in the particular cases) would suggest that this would be a reasonable outcome;
- (b) the Benchmarking Body would need to have very strong reasons to recommend changes in existing cross-sectoral pay relationships between groups whose pay and work is common (even if in different sectors) such as clerical and administrative staff, engineers and technicians since such disturbance would be more than likely to be disruptive in industrial relations terms;
- (c) there are some categories, given the nature of their work, where it might well be more appropriate to relate their pay to staff whose work is not dissimilar (even if in another sector) rather than to staff in their own sectors.

16. **Criteria – Internal Relativities**

16.1 Apart from the observation made at Paragraph 9.10 above, the PSC has no submission to make on this issue. It will be a matter to be covered by Unions in their own submissions.

17. **Criteria – Conditions of Employment**

- 17.1 The terms of reference require the Body to have regard to the differences between the public service and the private sector and between the various public service groups within its remit in working conditions, the organisation of work, perquisites, and conditions of employment and other relevant benefits, including security of tenure and superannuation benefits.
- 17.2 This is not new. The first Benchmarking Body had to have regard to the same factors. Indeed, it was not new then as it is a direct quotation from criteria set out for the Arbitration Boards established under the Public Service Conciliation and Arbitration Schemes.
- 17.3 In general, the PSC sees these issues as being ones which will need to be addressed by the Unions and Employers directly concerned.
- 17.4 It is relevant, however, to bear in mind that existing conditions of employment in the Public Service have been built up over very long periods of time and the PSC would consider that it would be unfair and unreasonable to attach any significant weight to them, one way or the other, in looking at the appropriate pay rates for jobs.
- 17.5 There are, however, two conditions of employment relating to the Public Service of a general sort which need to be addressed in this submission and which were specifically mentioned by the first Benchmarking Body in its report:
- (a) Security of Tenure; and
  - (b) Pensions.
- 17.6 As regards Security of Tenure, the first Benchmarking Body stated:
- 6.4 Most public servants have a significantly higher level of job security than private sector employees. A certain, but variable, level of protection is deemed necessary in many public services for the purposes of (i) ensuring stability in the planning and delivery of public services and (ii) demonstrating fairness and impartiality in day-to-day decision-making on service delivery. The Body concluded that this protection is of material benefit and, where relevant, account was taken of it in the Body's recommendations.*
- 17.7 The only comments that the PSC would make on this issue are:
- (a) Given the fact that there is full employment in the economy, any value attached to this factor has to be very small indeed; and
  - (b) There have been a series of legislative changes enacted in the Public Service in recent years which have a bearing on security of tenure in the form of weakening such tenure. In the case of the Civil Service, for example, the previous legislative regime in respect of the tenure of established Civil Servants was that they held office at the will and pleasure of the Government and a decision to dismiss an established Civil Servant required a specific

decision of the Government. The new legislative regime is that Civil Servants coming within the scope of the Benchmarking Body are generally subject to dismissal by the Secretary General of the Department in which they are employed and are subject to the provisions of the Unfair Dismissals legislation. (In the case of a small number of senior positions, this requires the approval of the Minister involved). The stated purpose of this change was to bring Civil Servants into a regime equivalent to employees generally.

17.8 On the specific issue of Pensions, it is important to bear in mind that the entire Public Service Pensions system was considered in depth by the Commission on Public Service Pensions which reported at the end of 2000 after almost five years of the most exhaustive examination and, having examined all aspects of the issue from the point of view of cost, sustainability, comparisons with the Private Sector and across Public Service abroad etc. came to the view that the basic structures and benefits should be retained (with some refinements for new staff).

17.9 The first Benchmarking Body had the following comments to make on this issue:

*6.3 The Body commissioned research into pension arrangements in the public service and private sector. Cost differences between the sectors were considered by the Body and taken into account in its recommendations on salary and pay levels.*

17.10 Clearly, then, the first Benchmarking Body made a deduction from the initial simple pay rates suggested by the comparison with the private sector to account for differences in pensions between the two sectors.

17.11 This would appear to be a logical way of dealing with the matter provided, of course, there is a clear difference involved. The only issue, then, is the quantum of the deduction (if any) to be made.

17.12 The Commission on Public Service Pensions calculated “new entrant” rates of contribution for Public Servants, expressed as a percentage of salary plus pensionable allowances. These “new entrant” rates were inclusive of staff contributions. In calculating the rates, the Commission noted that there were a series of assumptions which had to be made on actuarial issues and, also, on issues such as the actual benefit terms, the likely promotional experience, the age and salary at entry, different rates of withdrawal and differences in life expectancy.

17.13 The upshot was that, in respect of groups represented by the PSC in the context of Benchmarking, the “new entrant” rates varied from 8% to 24% of pay. That highest rate, however, applied only to the relatively small group in the Fire Service and arose mainly because the employees concerned were required to retire at an earlier age than the norm with an arrangement for increasing the value of some service for purposes of calculating pension. The lowest rate applies to non-established groups of employees in the Civil Service and the Local Authorities.

17.14 In the context of this submission, an effort has to be made to establish the overall “new entrant” rate for the those Public Servants represented by the PSC and coming within the purview of the Benchmarking Body (including those covered by the “Parallel” Benchmarking).

- 17.15 The point of departure for this was to take the new entrant rates shown in Table 6.8 of the Report of the Commission, excluding those not coming within the remit of the PSC and the remit of Benchmarking (and including those covered by the “Parallel” exercise). This results in the exclusion of the Military, Gardai and Health Consultants. The result is shown in Table 1 in Appendix 4.
- 17.16 Table 2 in Appendix 4 shows a simple average of the “new entrant” rates for each sector of the Public Service, both male and female. Thus, the figures shown for the Civil Service is a simple average of the “new entrant” rates for each of individual groups within the overall Civil Service Category, i.e. the simple average of the “new entrant” rates for Established Civil Servants, Prison Officers, Non-Established Civil Servants and Industrial Civil Servants, both male and female.
- 17.17 It is recognised that this is a very crude exercise since it takes no account of the numbers of people involved.
- 17.18 The PSC does not have available to it the numbers of people who fall into the individual categories shown in Table 1 in Appendix 4. However, there are figures available on broad sectors of the Public Service from the publication entitled “Exchequer Pay and Pensions” of the Department of Finance of May, 2005. These are shown in Table 3 in Appendix 4. These figures are more likely to be relevant than those shown for employees in the various sectors of the Public Service shown in the Report of the Commission on Public Service Pensions because the coverage of Pensions has been extended significantly (part-timers etc.) since the Commission’s Report was published.
- 17.19 Applying the figures in Table 2 to those in Table 3 gives an average “new entrant” rate of just under 15%.
- 17.20 It is recognised that this exercise is, itself, not accurate since the weighting is not accurate and it does not take account of changes in the various factors taken by the Commission in making its estimates.
- 17.21 It is relevant to point out, however, that the actual funding rates used by Eircom and An Post for their Superannuation Schemes are 15% and 15.1%, respectively expressed in the same terms as the “new entrant” rates above. (The Eircom rate was 13% but this was increased to 15% in 2005). These are particularly relevant as the pension schemes are identical to the Civil Service Scheme which they inherited from the time they were separated from the Civil Service in 1984 and they are stand-alone funded schemes.
- 17.22 This external evidence of other virtually identical schemes suggest strongly that the estimated Public Service “new entrant” rate of 15% mentioned above, albeit calculated crudely, is reasonably robust.
- 17.23 It seems, reasonable, therefore, to suggest that the Public Service Pension Scheme, as it was at the time of the Commission’s Report, would require a rate of contribution as a percentage of salary for the Public Service as a whole of the order of 15%, taking account of both employer and employee contributions.

- 17.24 However, this does not take account of the major changes in the minimum pension age introduced in 2004. Under legislation enacted in 2004, the minimum pension age for Public Servants on “Standard Terms” was increased from 60 to 65. In the case of teachers and psychiatric nurses, the minimum pension age increased from 55 to 65. (Since teachers had to have 35 years service if retiring before age 60, the *de facto* minimum retirement age could be a little higher, although pre-service training could count towards the calculation of the 35 year threshold).
- 17.25 The Commission on Public Service Pensions (Section 26.7.13 – 14) estimated that the change to a retirement age from 60 to 65 for Established Civil Servants would produce a reduction in the “new entrant” rate of 2%. It also estimated that the reduction in the “new entrant” rate in the case of psychiatric nurses would be 4.2%. The Commission did not publish figures for the effect of the increase in the minimum pension age for teachers but it is fair to assume that it would be close to that for psychiatric nurses. There were also some other categories where the pension age was increased from ages below age 60. The overall average reduction in the “new entrant” rate suggested by the figures mentioned in the Commission’s Report for specific groups is difficult to estimate but it would seem reasonable to put it at 2.5% to 3.0%, say 2.7%.
- 17.26 Another way of looking at the issue of increasing the pension age is to see what amount would be required to be contributed during the working life to produce a particular benefit at age 60 and to compare that contribution with that required to produce the same amount age 65. In this context, the PSC utilised some pension calculator tools available on web-sites.
- 17.27 In all cases, the example taken was a male born on 24 March, 1984 (i.e. 22 years of age).
- 17.28 In the case of the Irish Industry Federation Pension Calculator, the following figures were the result of querying the Pension Calculator:

Age:	22	22
Sex:	Male	Male
Retirement Age:	60	65
Monthly Contribution:	€500.00	€419.22
Capital Sum on Retirement:	€320,956	€320,956

- 17.29 In other words, in order to produce the same capital sum at retirement, a contribution of €500 per month required if the retirement age were 60 was reduced to €419.22 per month if the retirement age were increased to age 65. The latter amount is 83.8% of the former.



17.30 In the case of the New Ireland Insurance Pension Calculator the results were as follows:

Age:	22	22
Sex:	Male	Male
Retirement Age:	60	65
Monthly Contribution:	€500.00	€418.53
Capital Sum on Retirement:	€315,115	€315,119

17.31 In other words, in order to produce the same capital sum at retirement, a contribution of €500 per month required if the retirement age were 60 was reduced to €418.53 per month if the retirement age were increased to age 65. The latter amount is 83.7% of the former.

17.32 A similar query to the Bank of Ireland Pension Calculator produces an identical result as that shown in the New Ireland Pension Calculator.

17.33 It is clear, then that the amount of the “new entrant” rate of 15% mentioned at 17.23 above needs to be reduced significantly to take account of the increase in pension age since the Commission on Public Service Pensions reported in order to produce a current “new entrant” rate. It is more difficult to be precise about the actual figure.

17.34 Applying the result from the Irish Industry Federation Pension Calculator would suggest that the 15% rate for a 60 years of age pension age should be 12.58% (i.e. 83.8% of 15%), while the New Ireland and Bank of Ireland results would suggest a rate of 12.56%. The rate deduced from the Commission’s Report is 12.3%. This more likely to be accurate since it takes account of increases in the pension age from a level below age 60 to age 65 while the Pension Calculators are based on an increase of from age 60 only to age 65.

17.35 The figure taken here is that deduced from the Commission’s Report, i.e. 12.3%

17.36 This figure includes the staff contribution. The staff contribution is somewhat complicated. It is made up of 3% of gross pay plus 3.5% of “pensionable” pay. “Pensionable” pay is gross pay less twice the rate of Old Age Contributory Pension for a single person aged under 80. The amount of the actual contribution, as a percentage of gross pay therefore varies with actual pay.

17.37 Table 4 in Appendix 4 shows the actual staff contributions at varying rates of pay. The actual average basic pay in current terms is not known. It is fair to assume, however, a figure of the order of €45,000 p.a. across the Public Service with the result that the average staff contribution is of the order of about 5% of pay.

17.38 This suggests that that, if the Public Service had a funded Pension Scheme designed to produce the provisions of the Public Service Superannuation Scheme, the overall cost would be of the order of 12.3% of pay; that the staff contribution would be of the order of 5% and that the net cost to the Exchequer would be of the order of 7% of pay.

- 17.39 In looking at this figure, regard must be had to the fact that, as stated earlier, comparisons with the private sector should be based on “good employers”.
- 17.40 It arises from this that the comparison should not be with relatively poor employers.
- 17.41 In this context, it is relevant to bear in mind the experience on pensions under the Industrial Relations (Amendment) Act, 2001. This Act provides a procedure for resolving disputes where negotiating arrangements are not in place and it is not the practice of the employer to engage in collective bargaining negotiations in respect of the category of workers who are party to the trade dispute and the internal dispute resolution procedures (if any) normally used by the parties concerned have failed to resolve the dispute.
- 17.42 Under the legislation, if settlement efforts at the Labour Relations Commission are unsuccessful, the matter may be referred to the Labour Court. Where the Court is satisfied that the conditions have been met, the Court conducts an investigation of the issues in dispute. Following the investigation, the Court issues its Recommendation for the resolution of the issues in dispute.
- 17.43 Where the dispute remains unresolved after the issue of the Court’s Recommendation, the Union may apply to the Court for a Determination. Where an employer fails to comply with the terms of a Determination within the period specified in the Determination (or if no such period is specified, as soon as may be after the Determination is communicated to the parties), the Union may apply to the Circuit Court for an order directing the employer to carry out the terms of the Determination.
- 17.44 Given the nature of the circumstances in which cases come before the Labour Court under this legislation, the employments concerned could not be regarded as “good employers” and, of course, given the nature of the legislation, the Labour Court has to err on the side of being conservative in its determinations. In cases where pensions are an issue, the outcome has generally been the introduction of a pension scheme where both employer and employee contribute 5% of pay to the Scheme. (Some examples of the Labour Court Findings in these cases are set out in Appendix 4). It should be recognised, of course, that, since pensions were being introduced for the first time in these cases, it could be expected that the pension scheme would be improved over time, subsequently.
- 17.45 Thus, in a situation where, if the Public Service Pension Scheme were a funded scheme, the Exchequer would be paying about 7% of pay into the scheme, an employer who could certainly **not** be regarded as a good employer would be contributing 5% - a difference of 2%.
- 17.46 Since the comparison with the private sector for purposes of Benchmarking should, by definition, be with good employers, this would suggest that the quantum of the deduction to be made in respect of pensions in arriving at recommendations on pay for the groups within its remit should be nil.

- 17.47 Much has been written about post-retirement pension increases for public servants. It is important to recognise that, while the indexation arrangements in the public service can appear to be more favourable than in the private sector, the 60<sup>th</sup> based schemes in the private sector are increasingly more favourable due to increased longevity.
- 17.48 It should be noted that the public service lump sum and pension are supposed to equate to a simple pension based on 60<sup>th</sup>s but this is no longer the case. At maximum benefit, a person in the public service can get 120/240<sup>th</sup> annual pension plus 360/240<sup>th</sup> lump sum. In the Private Sector, on a 60<sup>th</sup> scheme, the maximum pension is 160/240<sup>th</sup>. As a result, an annual pension difference of 40/240<sup>th</sup> is taken as being the equivalent of a lump sum of 360/240<sup>th</sup> or a “trade” of pension for lump sum on the basis of 9 years purchase. Given increasing life expectancy, this is far too short. The matter was considered by the Commission on Public Service Pensions who showed (Appendix 11.1) that, at the time, Revenue would allow higher commutation factors than 9 to 1 – up to 15 to 1 for males aged 60 and 13 to 1 for Males aged 65 with higher rates for females. The Commission showed a table giving a comparison between a Consumer Price Index linked private sector pension with a 13 to 1 factor by comparison with a public service equivalent which showed that the private sector pension was higher than the public service pension for the first six years and was higher, on a cumulative basis, for the first 12 years. In looking at the issue, the Commission essentially offset the value of the public service indexation system against it. It would be illogical if the Body was to place a value on indexation and offset it against the size of a salary increase while ignoring the value of a 60<sup>th</sup> based schemes in the private sector.
- 17.49 A general point on public service pensions which is worth noting is the effect of the extension of Full Social Insurance cover to Public Servants who entered the Public Service from 1995 onwards. The Superannuation Scheme is integrated with Social Insurance Pensions so that, in summary, the pay on which the annual pensions of public servants is based is not actual pay but what is described as “Pensionable Pay” which is actual pay less twice the rate of Old Age Contributory Pension. Thus, for example, the “Pensionable Pay” of a public servant covered by full Social Insurance whose actual pay is €45,000 is €24,897 so that the maximum occupational pension (half of pay) in this case would be €12,449 and not €22,500. This has the effect of reducing pension costs significantly.
- 17.50 In looking at the issue of pay generally, the Benchmarking Body will, of course, need to take account of the perquisites available in the private sector in addition to basic salaries which are not available in the Public Service.

18. **Reference Point for Comparison with the Private Sector**

18.1 An issue which will arise for the Benchmarking Body is that, having identified appropriate comparable pay rates from the Private Sector, the next question which will need to be addressed is where the Public Service Pay rates should be pitched given that there will be likely to be a spread of such comparisons. The following is a simple illustration of the point at issue:

<b>Comparison Number</b>	<b>Private Sector Level</b>	
1	€100	Lowest
2	€103	
3	€105	
4	€107	Lower Quartile
5	€110	
6	€112	
7	€114	Median
8	€117	
9	€120	
10	€123	Upper Quartile
11	€127	
12	€131	
13	€135	Highest

18.2 Assuming that the pay of the Public Service group for which these would be appropriate comparisons was €80, then the Private Sector Comparison could be anything between €100 and €135.

18.3 Clearly, there has to be some rational way in which to determine which of these rates is the appropriate rate for comparison purposes as one could not randomly select some rate.

18.4 The point at issue here is, essentially, one of principle – what type of principle should inform the Benchmarking Body in setting Public Service Pay by reference to the Private Sector.

18.5 It seems to the PSC that it is clear that Public Servants have a right to expect that their pay should not be set by reference to the Lower levels of Pay in the Private Sector. Equally, while Public Servants might wish to be paid at levels which correspond to the higher levels of pay in the Private Sector, it would be difficult to maintain that they have a right to such treatment.

18.6 The appropriate reference point would be the range between the Median and the Upper Quartile. The logic for this is that Public Servants have a right to expect that their Employer will treat them as a “good employer” will treat his/her staff. By pitching the reference point between the Upper Quartile and the Median, the result should be that Public Servants should be so treated.

- 18.7 There is nothing new about this approach. It was the conclusion reached by the Royal Commission on the Civil Service in Britain in the mid 1950s (generally known as the “Priestly Commission” after its Chair). The underlying principles of this Report have consistently informed the approach to the determination of the pay in the Public Service. In its Report (para. 172) the Commission comments on a submission from the Treasury to the effect that Civil Service pay rates should be arrived at by striking a reasonable and fair average of the outside rates. The Commission states:

*“We do not share this view. We consider that the Civil Service should be a good employer in the sense that while it should not be among those who offer the highest rates of remuneration, it should be among those who pay somewhat above the average. Expressing the point in statistical terms we should say that if it were possible to obtain for any specific job a set of rates “representative of the community as a whole” which could be arranged in order from top to bottom, and with no complications such as we have described in this section, the Civil Service rate should be not lower than the median but not above the upper quartile.”*

- 18.8 It could be argued (and has been so argued by Public Service Employers in the past) that this is not a reasonable approach and that the appropriate reference point should be the median of the private sector comparisons. While the PSC would dispute such an argument at any time, it could be argued that this might have some validity in circumstances where the Exchequer’s financial position was parlous. This argument cannot be made now and there is no basis for arguing that the reference point should be other than between the Upper Quartile and the Median of the Private Sector Comparisons.
- 18.9 This is a major issue for the PSC. Any other approach will, necessarily, not answer the reasonable expectations of public service employees for fair treatment by comparison with the Private Sector and would be completely unacceptable to the PSC.

19. **Relevant Third Party Recommendations**

19.1 The relevant provision of the terms of reference reads as follows:

*The Body should also consider any issues arising from any third party recommendations concerning benchmarking and any group on List A since the Body's first report, including, specifically, Labour Court Recommendations Nos. 17526 and 17805.*

19.2 The background to the inclusion of this provision in the Terms of Reference for this Benchmarking Body is that, at the time of the negotiation of the Second Module of the Pay Increases under Sustaining Progress, the Public Services Committee made representations to the Official Side, at the behest of the Irish Nurses' Organisation, which sought that the terms of reference of the next benchmarking exercise would be expressed in such a way as to encompass the two Recommendations specified. Although the text is expressed in general terms, there are no other Third Party Recommendations involved.

19.3 As regards **Labour Court Recommendation No. 17,526**, the Recommendation states that it was a claim in respect of nursing staff for the (1) introduction of a 35 hour week (2) the payment of a shift premium appropriate to work patterns and (3) the introduction of a Dublin Weighting Allowance for all staff in Dublin.

19.4 The recommendation of the Labour Court in this case was as follows:

*The claims were lodged under the terms of the PPF and presented to the Public Service Benchmarking Body in accordance with that agreement. The Unions case is that as the Public Service Benchmarking Body chose "to make no comment either positive or negative in relation to any of the three claims" the Benchmarking Body did not consider them.*

*The Health Service Employers' Agency claims that it was advised by the Labour Relations Commission that the three claims had been referred directly by the Alliance of Nursing Unions to the Commission.*

*The employers argued that the claims were not properly before the Labour Relations Commission and that they were barred under the terms of the Programme for Prosperity and Fairness (PPF), which prohibited cost increasing claims. Their position was that the claims had been dealt with by the Benchmarking Body, the agreed body for dealing with such claims.*

*The Management Position:*

*The management position is that these claims are major cost increasing and are clearly precluded by the Industrial Peace and Stabilisation clause of the Programme for Prosperity and Fairness which states that:*

*"No cost increasing claims by Trade Unions or employees for improvements in pay and conditions of employment, other than those specifically provided for*

*in the PPF would be made or processed during the currency of the agreement".*

*In addition they claim that the new programme Sustaining Progress also specifies that there should be no major cost increasing claims and that only the pay terms provided for in the Agreement will apply.*

*The Union Position:*

*The Union position is that the three claims before the Court are unfinished business from the PPF. The claims were legitimately lodged under the terms of the PPF and were presented to the Public Service Benchmarking Body.*

*The Union argues that in the absence of any comment either positive or negative by the Benchmarking Body in relation to the claims, then the claims were not addressed.*

*They argue that if they are expected to observe procedures then these procedures should at least provide a response to their claims.*

*They further argued there is nothing in the National Agreement, which prevents a willing employer granting benefits to their employees where they accept a legitimate reason for doing so.*

*Comprehensive written and oral submissions were made by the parties. However, the Court before considering the submissions made in relation to the three claims, must address as a preliminary issue the case made by management that the claims are in breach of the PPF and are not properly before the Court, as they have already been assessed by the appropriate body, the Benchmarking Body.*

*Clause 6 of the PPF states as follows:*

*"It is accepted in the context of the agreement between the parties on the establishment of the Public Service Benchmarking Body that any outstanding claims or commitments in relation to pay, analogue or other reviews in what ever form by or in respect of any grade, group or category will be subsumed within the Benchmarking exercise and will be dealt with solely within that context".*

*It would appear from this clause that the only way these claims can be progressed is through the Benchmarking Body, and that this was done, in accordance with the relevant clause of the PPF.*

*It is accepted by both sides that submissions were made in relation to these claims to the Benchmarking Body, but there is a difference of opinion as to how the claims were treated by the Benchmarking Body. Management it would appear, believe the claims were considered, the Union view is that they were not considered.*

*The Court is faced with trying to second guess what the Benchmarking Body has done in relation to its consideration, as in a previous case before the Court. The Court would make the point that this issue could be resolved by a clarification from the Benchmarking Body as to whether they did consider these issues or not. However, as in the previous case this option does not appear to be available to the parties. The Court must therefore make a judgement on the operations of the Benchmarking Body.*

*The Court having examined in detail the relevant sections of the PPF and taking into account the work of the Benchmarking Body in so far as it is public, takes the view, given that there is no comment to the contrary, that the Benchmarking Body considered all the inputs submitted in relation to the various jobs it was considering.*

*In this context, again in the absence of any comment to the contrary, the Court must assume that the Benchmarking Body considered the submissions made in relation to the three claims in dispute in this case and took them into account when making its judgement.*

*Given the acceptance by the parties to the PPF that the only means of addressing any outstanding claims is through the Benchmarking process, that claims would be dealt with solely within that context, and the Court's judgement that the Benchmarking Body did consider the submissions made in relation to the matters in dispute, the Court does not recommend concession of the Unions' claim in this case.*

- 19.5 In the case of **Labour Court Recommendation 17,805**, the Recommendation states that the background was that the Department of Health and Children and Health Agencies employed Registered Mental Health Nurses (RMHN), Assistant Houseparent/Childcare Workers and Care Assistants in the provision of services to intellectually disabled persons. Following the report of the Benchmarking Body, and in the context of a previous Labour Court Recommendation, the Department and the Health Agencies had implemented pay increases to the social care professional grades in the intellectually disabled sector in February, 2002. The dispute before the Court concerned the pay differentials between the RMHN grade and the social care grades arising from the implementation of the pay increase.

- 19.6 The Recommendation of the Court in this case reads as follows:

*The claim before the Court is for the removal of the pay anomaly and the restoration of the pay differential between the Registered Mental Handicap Nurse and the Assistant Houseparent (with qualification/ Childcare Worker (with qualification) grade. An increase of 10.55% is sought (at the max of the scale) to restore the previous differential. The Unions are also seeking the application of a similar pay increase to all other line management nursing grades, working in the intellectual disability sector.*

*The Unions state that this anomaly arose due to the granting of pay increases to the Assistant Houseparent/Childcare Worker grade and that these increases have eroded "a long standing, well established and understood pay*



*differential" which previously existed. They maintain that these increases contradict the standard approach to grading structures within the public sector. The Unions take the view that notwithstanding the terms of the current national agreements, that this claim warrants special attention.*

*Having examined the oral and written submissions, the Court is satisfied that a formal pay "differential" did not exist between the two grades. However, the Court is satisfied that the RMHN grade had traditionally been paid more than the Assistant Houseparent/Childcare Worker grade and is now paid less than this grade. The Unions submit that the registered mentally handicapped nurses see this development as demoralising, insulting and belittling and as seriously undermining their position.*

*The Court notes the argument made by the HSEA relating to the report of the Public Service Benchmarking Body and the social partnership agreement Sustaining Progress, and appreciates their concern regarding the wider implications of this claim.*

*The Court notes that in the understanding reached between the parties at the conciliation conference on 3rd September 2003 both sides accepted that the report of the Public Service Benchmarking Body severed all pay links and established new absolute levels of pay of benchmarked grades. There was also an acceptance that any future benchmarking exercise (or whatever subsequent arrangements are put in place for determining public service pay) is the appropriate forum to examine the full position of the RMHN grade vis-à-vis other social care professionals. The Court also notes however, that this approach was rejected by the members of the three unions, and resulted in this claim, for the restoration of the pay differential, being referred to the Court.*

*Having given careful consideration to the written and oral submissions put forward by both sides, the Court is of the view that this claim cannot be dealt with outside of the established agreements and can see no other way in which this claim can be pursued other than in accordance with the terms of the understanding reached at the conciliation conference.*

*The Court does not believe that the matter in dispute can be dealt with outside of this process. However, the Court can appreciate that the individuals in this category feel very strongly that their position has been undermined by this development, whereby those who were paid less than them, are now paid more.*

*Accordingly, given the circumstances, the Court recommends that this matter be dealt with in accordance with the understanding reached between the parties at the conciliation conference on 3rd September 2003 and that it be given priority in this exercise.*

- 19.7 The parties directly involved will, no doubt, elaborate on the issue when they come before the Body.

## 20. **Transparency**

20.1 The terms of reference state:

*The level of detail to be provided by the Body in its report is a matter for the Body itself taking into account any confidentiality constraints and its own judgement on the level of detail that should be provided. However, the Body should seek to ensure the optimum level of transparency consistent with the efficient and effective operation of the benchmarking process, regarding the factors and their import, which the Body took into account in determining the appropriate pay levels.*

20.2 The translation of this statement into practice is very a complex issue for the Body to handle.

20.3 Indeed, if the parties had been able to be more specific about it, they would have been more specific.

20.4 It has to be recognised that transparency has to be balanced with the need to ensure confidentiality for sources of information from the Private Sector and the necessity to ensure that the Report of the Body should produce finality and not a further basis for argument and debate. It is also relevant to note that the *furor* which developed around the issue following the publication of the Report of the first Body was in sharp contrast to the reaction to the Reports of the Review Body on Higher Remuneration which published many similar reports over a long period of time.

20.5 The only practical suggestion which the PSC would make is that that it should be conscious of the need to address the issue in the format of its report and that, perhaps, it might be possible to publish certain findings in summary form that would illustrate the basis for its recommendations without breaching confidentiality. In addition, anything the Body says in its Report should be written with an eye to finality and should not be capable of being used by any party as a basis for further debate about the Body's Recommendations.

20.6 The PSC will be happy to engage with the Body on its work as time goes on to see if there are any further practical suggestions that can be made on the matter.

## 21. **International Comparisons**

21.1 In general terms, the PSC cannot see that international comparisons would be of any value in the Benchmarking process in terms of setting actual rates, though some Unions may wish to refer to pay relationships between different categories in other countries in their submissions. In addition, there may be particular categories where the Labour Market in which they operate is wider than the State.

21.2 The task of the Benchmarking Body is to recommend pay levels in the Public Service in the context of the Private Sector in Ireland, not to take account of international comparisons.

- 21.3 It is not the task of the Benchmarking Body to make judgements about the appropriateness, or otherwise, of actual pay in the Private Sector for different categories and levels of employment.
- 21.4 The fact that other societies may put different values on pay (whether in the Private Sector or the Public Service) is neither here nor there. Those societies have worked out such matters through the interplay of different economic and social structures and values of relevance in those societies. Irish Public Servants live in Ireland and have to have their position determined by reference to this society.

22. **Scope of the Private Sector**

- 22.1 The text of the terms of reference refers to comparisons with the “Private Sector” for purposes of the Benchmarking exercise.
- 22.2 As the PSC sees it, this includes the commercial state companies. In general terms, National Agreements treat these bodies as part of the Private Sector for pay purposes.

July, 2006

ictu/benchmark2/PSC Submission – Final

## **Terms of Reference for the Public Service Benchmarking Body**

### **Introduction**

In the second Public Service Pay Agreement under *Sustaining Progress* the parties agreed that the Benchmarking Body will commence the next benchmarking review in the second half of 2005 to report in the second half of 2007. The parties have agreed the following terms of reference for the Benchmarking Body.

### **Timing and scope of the examination**

The Public Service Benchmarking Body is asked to examine the pay and jobs of the grades listed in **Appendix A** [not listed here] and to produce a Report containing recommendations on the pay rates for these grades in the second half of 2007.

As in the previous benchmarking exercise that took place between 2000 and 2002, the exercise should be a coherent and broadly based comparison with jobs and pay rates across the economy.

As in the previous exercise the Body will examine the roles, duties and responsibilities of jobs in the public service and in the rest of the economy and not just the pay rates applicable to jobs with similar titles, and superficially similar roles, in the private sector.

### **Approach**

The Body should conduct in-depth and comprehensive research and analysis of pay levels in the private sector on the following basis:

- Overall pay levels in the two sectors as well as pay rates for particular groups( such as clerical/administrative staff and technicians) and other identifiable grouping (such as graduate recruits;
- The overall pattern of pay rates in the private sector and employments across a range of type, size or sector;
- The way reward systems are structured in the private sector.

As previously, the Body, in reaching its recommendations should have regard to

- The need to recruit, retain and motivate staff with the qualifications, skills and flexibility required to exercise their different responsibilities;
- The need to support ongoing modernisation of the public service;
- The need to ensure equity between the employees in both the public and private sectors and,
- The need to underpin the country's competitiveness and continued economic prosperity

In this work the Body should have regard to the differences between the public service and the private sector and between the various public service groups within its remit in working conditions, the organization of work, perquisites, and conditions of employment and other relevant benefits, including security of tenure and superannuation benefits.

The Body should also consider any issues arising from any third party recommendations concerning benchmarking and any group on List A since the Body's first report, including, specifically, Labour Court Recommendations Nos. 17526 and 17805.

### **Relativities**

As was the case previously the Body should have regard to the agreement made under the *Programme for Prosperity and Fairness* and reiterated in *Sustaining Progress* that cross-sectoral relativities are incompatible with the benchmarking process. Within the sectors internal relativities is a relevant criterion for the Body to take into account but the existence of any traditional or historic relativities should not prevent the Body from recommending what it considers are the appropriate rates of pay for any particular job.

### **Public Service Modernisation**

Continued co-operation with change and modernisation has been a feature of previous national agreements and, in the context of *Sustaining Progress*, detailed Action Plans were agreed in each sector. This reflects the ongoing nature of the work of modernisation of the public service to meet present day needs and future demands. In that context change and modernisation is a continuing requirement of a modern public service. It is, of itself, not a basis for giving an improvement in pay or conditions.

### **Procedures**

Subject to these terms of reference the Benchmarking Body will determine its own procedures but these should provide for relevant employers and trade unions to have the opportunity to make written and oral submissions to the Body.

The last exercise gathered large quantities of data and developed a job weighting system used by the Body. In doing its work the Body may draw on the previous work done in this area and use, as it sees fit, the existing database and methodology for comparing jobs.

The level of detail to be provided by the Body in its report is a matter for the Body itself taking into account any confidentiality constraints and its own judgement on the level of detail that should be provided. However, the Body should seek to ensure the optimum level of transparency consistent with the efficient and effective operation of the benchmarking process, regarding the factors and their import, which the Body took into account in determining the appropriate pay levels.

### **Implementation**

The implementation of the outcome of the benchmarking process is a matter for the parties and will be discussed by them in the context of discussions on whatever arrangements on pay and conditions are put in place on the expiry of the current *Sustaining Progress* pay agreement.

## PERFORMANCE-RELATED PAY FOR GOVERNMENT EMPLOYEES

OECD Report June, 2005

### Executive summary

#### Introduction

Twenty years ago, nearly all civil servants in the central government of OECD member countries were paid according to service-incremental salary scales. This is not to say that civil servants previously lacked performance incentives. Promotions, and especially those into senior management, were rigorously controlled, serving partly as an incentive but partly also as a way of ensuring the independence of the public service with regard to the executive and thus its ability to serve governments of different political persuasions. However, socio-economic pressures have led to the need for types of incentives other than “promotion” to strengthen performance management. Remuneration has been seen as an alternative or a complementary incentive to promotion.

By the turn of the millennium, significant numbers of civil servants were covered by performance related pay (PRP) schemes of one kind or another in most OECD member countries, particularly senior managers, but increasingly also non-managerial employees. The introduction of performance pay policies occurred in the context of the economic and budgetary difficulties faced by OECD member countries from the mid-1970s. Reasons for introducing PRP are multiple, but focus essentially on improving the individual motivation and accountability of civil servants as a way to improve performance. PRP is seen as a signal of change for civil servants and as a way of indicating to citizens that performance is regularly assessed in public administration.

In this book, the terms “performance-related pay” and “performance pay” are used as synonyms to refer to a variety of systems linking pay to performance. Performance-related pay systems are based on the following assumptions: i) organisations can accurately measure individual, team/unit or organisation outputs; ii) individual and team/unit outputs contribute to organisational performance; iii) pay can be administered in a way which capitalises on its expected incentive value for potential recipients.

The adoption of performance-related pay in the public sector reflects the influence of the private sector culture of incentives and individual accountability on public administration. Civil services have increasingly sought to manage service production tasks on similar lines to those in the private sector. In the private sector, pay for performance is the norm in most companies: managers usually receive cash incentives and stock ownership opportunities that link rewards to the success of the company as well as individual performance, and lower level employees receive individual or group bonuses for good performance.

The introduction of PRP in OECD public sectors is only one facet of a wider movement towards increased pay flexibility and individualisation. Another important change – especially at the managerial level – is the attempt to base individual salary on the specific difficulties of the post or the level of responsibilities. In most countries, the salary policy for civil servants now consists of three key components: base pay, remuneration linked to the

nature or duties of a post, and performance-related pay elements. The two elements of variable pay should not be confused. The first relies on an *ex ante* evaluation of “anticipated” or “likely” performance based on job demands (for example, by assessing the qualities needed for the particular duties associated with the position) while the other relies on an *ex post* evaluation. Variability of pay in almost all OECD member countries at the managerial level tends to depend more on prior job evaluation than on the *ex post* evaluation necessary for a PRP scheme.

Two-thirds of OECD member countries have implemented PRP or are in the process of doing so (OECD, 2004). However, there are wide variations in the degree to which PRP is actually applied throughout an entire civil service. In many cases, PRP concerns only managerial staff or specific departments/agencies. Very few OECD civil service systems can be considered to have an extensive, formalised PRP system. PRP is sometimes more rhetoric than reality, as some systems actually base the assessment of performance on inputs – which cannot really be qualified as “performance-related”. In some cases as well, performance rewards are distributed without any formal assessment of individual performance. In fact, there is often a gap between the stated existence of a so-called “performance-related pay scheme” and its concrete functioning, which may be barely linked to performance.

The goal of this book is to provide a comprehensive overview of the different trends in performance pay policies across government employees of OECD member countries and to draw some lessons from their experience. The book focuses on PRP policies applied to ministries/departments/agencies of the central/federal government level. The report explores the various PRP designs and emerging trends, investigating the reasons why PRP policies are being implemented and how the policies operate concretely. The report also aims to analyse the apparent impacts of PRP policy. The book is organised as follows: Chapter 1 sets performance-related pay policies in the wider management context; Chapter 2 analyses key trends in performance pay policies in OECD member countries; Chapter 3 assesses the impact of PRP policies and draws lessons from the experience of implementing them.

The book is based primarily on twelve country reports that were presented at an OECD expert meeting in October 2003<sup>1</sup>: Denmark, Finland, France, Germany, Hungary, Italy, Korea, Spain, Sweden, Switzerland and the United Kingdom – all OECD member countries – and Chile, which is an observer to the OECD Public Governance Committee. The other main sources for the book are the answers given to the 2003 OECD/GOV Survey on Strategic Human Resources Management<sup>2</sup> and the research on performance-related pay conducted by

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<sup>1</sup> Reports were prepared by delegates within the framework of guidelines set by the Secretariat. The guidelines were structured around four key points: i) background, scope and coverage of PRP policy; ii) design of PRP policy: performance appraisal, rating and payment systems; iii) implementation and assessment of impact of PRP policy; iv) difficulties facing PRP policy, lessons learnt and prospects.

<sup>2</sup> The Survey on Strategic Human Resources Management [PUMA/HRM(2002)3/FINAL] was answered by 29 OECD member countries (Turkey was not included). It was completed by ministries/departments in charge of human resources management in the public sector, and one official answer was provided by each country. This book relies in particular on sections 7 and 8 of the survey which deal with performance management and pay determination systems.

Professor David Marsden of the Centre for Economic Performance at the London School of Economics<sup>3</sup>.

### **Performance-related pay in the wider management context**

PRP fits within the wider performance budgeting and management developments in vogue over the past two decades, which emerged against the background of the economic and budgetary difficulties in OECD member countries. These developments have been characterised by an attempt to systematically incorporate – at least formally – performance objectives and indicators into human resource management and budgeting processes and to move towards pay flexibility and individualisation in OECD public sectors. The introduction of PRP is only one facet of this wider movement towards an increased focus on defining and achieving organisational objectives and targets.

The impact of the introduction of PRP has to be analysed according to the multiplicity of objectives for introducing it. The main argument put forward for implementing PRP, is that it acts as a motivator, by providing extrinsic rewards in the form of pay and intrinsic rewards through the recognition of effort and achievement. Overall, however, the types of objectives pursued with PRP vary across countries, with Nordic countries focusing more on the personnel development aspects, most Westminster countries focusing more on the motivational aspect and others such as France or Italy, stressing the leadership and accountability of top civil servants.

There are large variations in the degree to which PRP is actually applied throughout an entire civil service. Only a handful of member countries can be considered to have an extended, formalised PRP policy (Denmark; Finland; Korea; New Zealand; Switzerland; the United Kingdom). Mostly, countries which have developed the strongest links between performance appraisals and pay as employee incentives, are those which have the highest delegation of responsibility for human resources and budget management – usually position-based systems. This illustrates the importance of such delegation to the development of PRP. Until recently, countries with a low degree of delegation – mainly career-based systems – tended to focus primarily on promotion to motivate staff. However, this has started to change and PRP policies have now been introduced into some career-based systems in such a way as to increase flexibility and to promote individual accountability (Hungary, Korea and France, for instance).

### **Key trends in performance-related pay**

There is no single model of PRP across OECD member countries. Models are diverse and vary according to the nature of the civil service system, the pay determination system and the degree of centralisation or delegation in financial and human resources management. However, common trends are clearly emerging across groups of countries and across the OECD as a whole:

- PRP policies have spread from management level to cover many different categories of staff in the past ten years

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<sup>3</sup> See the bibliography. The results of this research are based on a series of attitudinal surveys of employees and line managers in several areas of the United Kingdom public service: the Inland Revenue, the Employment Service, NHS Trust Hospitals, and head teachers in primary and secondary schools.



- Among PRP policies, there has been some increase in the use of collective or group performance schemes, at the team/unit or organisational level.
- Long-running standardised PRP schemes have evolved into more decentralised systems, which facilitate delegation of managerial functions.
- There is an increased diversity of the criteria against which performance is assessed. Both career-based and position-based civil service systems tend to converge in the attention given to outputs, but also on competencies and social skills in general.
- Performance rating systems are less standardised, less formalised and less detailed than ten years ago. Performance appraisals rely more on the assessment of pre-identified objectives and on dialogue with line management than on strictly quantifiable indicators. On the other hand, systems of rating performance which impose quotas on the numbers who can succeed under them, are more widespread across OECD member countries.

The size of performance payments is generally a fairly modest percentage of the base salary, especially among non-managerial employees. Merit increments tend to be smaller than one-off bonuses, they are often below a maximum of 5% of the base salary. PRP bonuses, which tend to supplement or replace merit increments, are in general higher – but overall, maximum awards usually represent less than 10% of the base salary for civil servants. At the management level, performance payments are generally higher, around 20% of the base salary.

### **Implementation and impact**

Performance pay is an appealing idea, but the experiences reviewed in this study indicate that its implementation is complex and difficult. Previous OECD studies on the impact of performance pay at the managerial level concluded that many of the schemes had failed to satisfy key motivational requirements for effective performance pay, because of design and implementation problems, but also because performance assessment is inherently difficult in the public sector (OECD, 1993; OECD, 1997). Performance measurement in the public sector requires a large element of managerial judgement. The notion of performance itself is complex, owing to the difficulty of finding suitable quantitative indicators and because performance objectives often change with government policy. Many studies have concluded that the impact of PRP on performance is limited, and can in fact be negative.

Evidence cited in this book indicates that the impact of PRP on motivation is ambivalent: while it appears to motivate a minority of staff, it seems that a large majority often do not see PRP as an incentive. While base pay as it relates to the wider “market” is important, supplementary pay increases for performance are a second-rank incentive for most government employees, especially those in non-managerial roles. Job content and career development prospects have been found to be the strongest incentives for public employees. PRP is unlikely to motivate a substantial majority of staff, irrespective of the design.

Despite such cautions, the interest in performance pay has continued unabated over the past two decades. This paradox arises from the fact that, despite the overall consensus on the types of problems raised by performance pay, PRP policies continue to be introduced on a large

scale in many OECD member countries. There are few examples of public organisations having withdrawn their PRP policy.<sup>4</sup> But the fact that organisations do not withdraw PRP is not necessarily a very good indication of its effectiveness, because the costs of doing so are a deterrent. However, one of the key reasons why PRP continues to be introduced on such a large scale across civil service systems, appears to be its role in facilitating other organisational changes.

It seems that, in the right managerial framework,<sup>5</sup> the processes that accompany PRP have made such changes both possible and positive. When performance pay is introduced, there is a window of opportunity for wider management and organisational changes. These include effective appraisal and goal setting processes, clarification of tasks, acquisition of skills, creation of improved employee-manager dialogue, more team work and increased flexibility in work performance. Introducing PRP can be the catalyst that allows these changes to occur and, at the same time, facilitates a renegotiation of the “effort bargain” thus assisting in recasting the culture at the workplace. These dynamics have positive impacts on work performance. It appears that it is not through the financial incentives it provides that PRP can contribute to improving performance, but rather through its secondary effects, that is the changes to work and management organisation needed to implement it.

## **Recommendations**

***The design of PRP is a trade-off*** between various options which have to take into account the background culture of each organisation/country. There is no “best” solution. When designing new schemes, management should consider what will prove acceptable to large numbers of the staff in its organisations. Management should seriously consider team/unit PRP systems for employees, which can be introduced in a less disruptive way and appear to be able to produce more positive results than strictly individualised PRP. The balance of individual and team PRP is a key design issue.

***The performance appraisal process is at the heart of the whole system.*** It is recommended that performance appraisal be based on goal setting rather than on standard criteria for a job. Performance rating should not be too detailed and should avoid rigidity. The objectives set for an individual’s performance appraisal should act as a basis for ongoing dialogue throughout the year between the manager and the employee. Detailed feedback on the appraisal undertaken at the end of the year should be provided. Transparency in the whole process is the key factor in ensuring its success, which ultimately relies more on an effective measurement of performance than on the distribution of payment.

***Implementation problems need to be anticipated.*** This implies primarily co-ordination with staff and unions on the implementation of PRP; the preparation of top and line management; clear anticipation of the budget needed for, and the costs linked to, PRP and of the ways of funding PRP; and of the time and work that the introduction and monitoring of the system requires.

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<sup>4</sup> The New Zealand police is one example.

<sup>5</sup> The right managerial framework means the basics of sound management; that is transparency within the organisation, clear promotion mechanisms and trust in top management.

***Performance pay goes hand in hand with human resources management delegation.*** Some delegation of human resources and pay management is crucial for the effective implementation of performance pay. This is because of the close link between goal setting and performance pay. The more successful schemes appear to rely upon a close integration of these two functions, in contrast to more traditional models which tended to award PRP against standardised performance criteria. It is easier to articulate individual employees' objectives and those of their organisation in a meaningful way if the local management has a degree of autonomy to adapt the scheme to its own needs.

***Evaluations need to be conducted regularly*** and a PRP system needs to be revised from time to time.

***The significance and impact of PRP on motivation should not be overestimated.*** PRP is of secondary importance as a managerial tool for improving motivation. Criteria such as satisfying job content, promotion possibilities or flexibility in work organisation come far ahead of performance pay in motivating for staff. The evidence points, therefore, to the need for a broad approach to better performance management as against a narrow preoccupation with performance-related compensation.

***PRP should be applied in an environment that maintains and supports a trust-based work relationship.*** In such an environment there is a balance between formal and informal processes, with ongoing dialogue, information sharing, negotiation, mutual respect, and transparency being prioritised. It is also suggested that PRP requires a mature and well-established civil service culture and a stable political and policy environment.

***PRP should be used, above all, as a stimulus and a lever for the introduction of wider management and organisational change,*** rather than solely as a motivational tool for staff. Pay for performance should be viewed essentially as a management tool. The objectives of PRP should be set accordingly.

**IPC/NPC Conference**

**Working Together for Excellence in the Public Service**

**5 March, 1998**

**Extract from Paper by Professor William Roche, UCD**

*Paying for Performance*

The SMI places considerable emphasis on the role of performance management in public service reform and endorses the principle of introducing performance-related pay into the Irish public domain on a more widespread basis. In this area the SMI is again in line with developments in public sector HRM reform internationally. Performance management need not entail the use of performance-related pay, but the two tend to go together in the private sector. Performance-related pay is commonly used to reinforce other aspects of the performance management system, such as objective setting, feedback and recognition for high performance. It is also commonly believed that a shift in something as fundamental as the reward system is necessary to signal serious intent in programmes of organisational and culture change.

It is clear from the international research evidence on the uptake and effects of performance-related pay in both the private and public sectors that this area of HRM policy presents both line managers and HRM specialists with one of their biggest challenges. In short, the evidence indicates that performance-related pay frequently falls well short of its objective of enhancing individual or organisational performance on any significant scale, and that it can actually damage performance. As to why this should be so the research is reasonably consistent in showing that in this policy area the 'devil is in the detail' and that many schemes fall victim to poor planning, poor design and poor management. Achieving exemplary management in this area really does seem to require remarkably well-attuned managerial processes and possibly a supportive wider organisational culture in which the staff involved have always worked in a regime built on performance-related pay and its associated management systems. Poor systems fall prey to misuse by executives seeking to retain staff under threat from other organisations, or to recruit people to categories subject to labour market pressure; to inconsistent ratings across raters and organisational divisions, to poorly formulated objectives, to crude objective setting focused on the quantifiable; to short-termism, to inadequate funding, and to competition between staff where teamwork is important.

All these problems have come to light in international research on performance-related pay in the public domain. Recent research by the OECD also suggests that public managers do not believe, in any case, that performance pay is one of the significant major motivating factors in public work. It ranks well behind such attributes as challenge, job security, good base salary and the availability of training and development.

On the face of it the evidence suggests that it would be wrong to exaggerate the contribution performance-related pay is likely to make to higher performance in the Irish public sector or the public services.

**Public Service Superannuation**

**Table 1**

**“New Entrant” Rates**

(Adapted from Table 6.8 of Report of the Commission on Public Service Pensions)

<b>Civil Service</b>	<b>Male</b>	<b>Female</b>
Established	16%	16%
Prison Officer	21%	21%
Non-Established	8%	9%
Industrial	8%	9%
<b>Local Authorities</b>		
Officers (without professional added years)	14%	14%
Officers (with professional added years)	18%	18%
Non-established employees	8%	9%
Employees in fire service	24%	23%
<b>Education</b>		
Primary teachers	17%	16%
Secondary teachers	16%	15%
VECs/RTCs/DIT	16%	15%
Universities	22%	22%
<b>Health</b>		
Management/administration	14%	14%
Nurses (general)	12%	11%
Nurses (psychiatric)	17%	16%
Paramedics	14%	13%
Non-officers	10%	10%
<b>Non-commercial state-sponsored bodies</b>		
Established officer	16%	16%

<b>Table 2</b>	
<b>Simple Average of "New Entrant" Rates by Sector</b>	
Civil Service	13.5%
Local Authorities	16.0%
Education	17.4%
Health	13.1%
Non-Comm. State Bodies	16.0%

<b>Table 3</b>	
<b>Numbers Employed in Different Sectors</b>	
Civil Service	38,432
Local Authorities	33,633
Education	79,870
Health	96,950
Non-Commercial State Bodies	11,217

<b>Table 4</b>					
<b>Staff Contributions</b>					
<b>Variable Contribution</b>					
Gross Pay (a)	€30,000	€45,000	€70,000	€90,000	€110,000
OACP p.w.	€193.30	€193.30	€193.30	€193.30	€193.30
OACP p.a.	€10,052	€10,052	€10,052	€10,052	€10,052
Twice OACP p.a. (b)	€20,103	€20,103	€20,103	€20,103	€20,103
Pensionable Pay [(a) - (b)]	€9,897	€24,897	€49,897	€69,897	€89,897
Contribution Rate	3.50%	3.50%	3.50%	3.50%	3.50%
Actual Contribution	€346	€871	€1,746	€2,446	€3,146
<b>% Variable Contribution</b>	<b>1.15%</b>	<b>1.94%</b>	<b>2.49%</b>	<b>2.72%</b>	<b>2.86%</b>
<b>Standard Contribution</b>					
<b>% of Gross Pay</b>	<b>3%</b>	<b>3%</b>	<b>3%</b>	<b>3%</b>	<b>3%</b>
<b>Total Contribution</b>	<b>4.15%</b>	<b>4.94%</b>	<b>5.49%</b>	<b>5.72%</b>	<b>5.86%</b>

**Labour Court Recommendations under Industrial Relations Act, 2001:**

**Recommendation No.: 18,461**

Parties:

Show Jumping Association Of Ireland and Services Industrial Professional Technical Union

Finding on Pensions:

The Court recommends that the Company introduce a defined contribution pension scheme for all staff. The rate of contributions should be 5% from the employer and 5% from the employee. In the case of any individual who has more favourable arrangement at present, this should continue on a personal-to-holder basis.

**Recommendation No.: 18,454**

Parties:

Johnson, Mooney and O'Brien and Services Industrial Professional Technical Union

Finding on Pensions:

The Court notes the Employer's commitment to the introduction of a pension scheme with effect from April 2006. The Court welcomes the Employers commitment in that regard. It is recommended that a defined contribution scheme, with a contribution rate of 5% from the Employer and 5% from the employee, be introduced from the date proposed.

**Recommendation No.: 18,346**

Parties:

Murphy's Super Valu (Kenmare) and Services Industrial Professional Technical Union

Finding on Pensions:

The Court recommends that a Defined Contribution Pension Scheme be introduced which conforms to normal eligibility criteria. There should be a contribution of 4% payable by the Company and a further 4% payable by the employee. The Scheme should be finalised within four months of the date of this Recommendation .

**Recommendation No.: 18,280**

Parties:

Data Electronics and Services Industrial Professional Technical Union

Finding on Pensions:

The Company's offer of 5% contribution from each side is reasonable and should be accepted.

**Recommendation No.: 17,919**

Parties:

Radio Kerry and MANDATE

Finding on Pensions:

The Court recommends that the company introduce a defined contribution pension scheme by end September 2004. The contribution should be not less than 5% payable by the employer and 5% payable by the employee.

**Recommendation No.: 17,914**

Parties:

Ashford Castle Ltd. and Services Industrial Professional Technical Union

Finding on Pensions:

The contribution to the pension scheme should be 5% from the employer and 5% from employees. The Company should also take steps to have a worker trustee appointed to the scheme.