

INTRODUCTION & EXECUTIVE SUMMARY

ISME, the *Independent* Business Organisation, is the only representative group in Ireland specifically representing the SME sector with a membership of over 4,800 member companies. Membership is comprised exclusively of entrepreneurs who own and manage competitive businesses, the true risk-takers in the economy.

While the Association is vehemently opposed to the whole Benchmarking concept our submission is on the basis that Benchmarking 2 is a 'fait accompli' and this therefore is reflected in our recommendations to the Benchmarking Body.

It is our view that the first benchmarking initiative failed to adequately achieve its aims, including; the delivery of a modern efficient public sector, and the provision of quality services that the public expects. In fact, evidence would conclude that the additional cost of benchmarking far outweighs the extremely limited benefits.

The total lack of transparency of the process raises serious doubts with regard to the conclusions of the initial benchmarking exercise, which attempted to benchmark rates of pay in the private and public sector. The workings and findings, which were shrouded in secrecy, cast even further doubts on the scientific basis of the whole initiative and confirm that the exercise was a politically driven process that favoured public sector workers in general, and in particular those workers with the strongest trade union representation.

All available evidence puts paid, once and for all, to the lie that has been perpetrated by the powerful public sector unions that wages in the public sector

had fallen behind those in the private sector. According to the CSO, the average wage in the public sector at the end of 2005 was €45,153, a massive 47% higher than the average industrial wage of €30,813.

With an annual additional wage bill of €1.2bn being foisted on the taxpayer, huge amounts of money have been committed, with no guarantee of value in return. Therein lies the crux of the problem. To date, there has been no improvement in public services, with no monitoring, measurability or accountability and as a consequence, we are paying and will continue to pay a heavy price for its existence.

Another key argument justifying benchmarking, namely the difficulty in recruiting and retaining public sector workers, is an aberration with growth in employment in the public sector increasing rapidly in recent years. For instance, in the period between March 2001 and December 2005 the total employment in the public sector, excluding Health, increased by 28,400. Coincidentally, during that period the Government actually committed to reduce by 5,000 the numbers employed in the public sector. Over the same period employment in the unsheltered Manufacturing sector, actually decreased by 31,000.

Due in part to the ever-increasing cost environment, which ironically has been exacerbated by benchmarking, particularly increased local charges, the private sector is now under increasing pressure and workforces are being forced to

adapt as businesses are restructured. Unfortunately, the benchmarking process has completely failed to take account of this new business environment and has simply not delivered in terms of introducing a new level of adaptability and change into the public service. No tinkering around the edges will change that position, unless there is a radical change in addressing the archaic and inflexible practices of the public sector.

With regard to a second round of benchmarking awards, the Association recommends that the Benchmarking Body take on board a number of important considerations, so blatantly absent from the first benchmarking deal. These should include,

- the changing nature of the Irish economy and the challenges facing it,
- a serious assessment of the terms and conditions of employment in the private sector compared to the public sector,
- the financial cost of the public sector and
- the broad implications that another deal would have on the private sector.

The evidence indicates that the plans to introduce another benchmarking process is incomprehensible and should be seen for what it is, another politically motivated exercise, designed to buy industrial peace and votes at the next election, at the expense of the private sector. There is absolutely no doubt that another agreement along the lines of Benchmarking 1 would seriously undermine competitiveness and economic prospects.

In setting the terms of reference for the second phase of benchmarking and more importantly in preparing the next report and recommendations the following considerations must be top of the agenda.

- Benchmarking 1 imposed a huge financial cost on the Irish Exchequer and on the Irish taxpayer.
- Benchmarking 1 has made a significant contribution to inflation in the Irish economy as state agencies have been forced to increase charges to pay for the awards.
- Benchmarking 1 lacked transparency and was shrouded in secrecy. This undermined its credibility and justifiably created much angst in the private sector.
- It is not clear that the quality and quantity of public services have improved as a result of Benchmarking. The criteria used to assess and pay the awards have not been stringent and at a minimum, should always have applied in the public sector in any event.
- The structure of the Irish economy is moving away from agriculture and manufacturing and towards higher value added services and other activities. Government needs to ensure that this process is managed and facilitated and that the public sector does not 'crowd out' the private sector.
- Job security in almost all private sector activities is becoming increasingly fragile, particularly in the SME sector of the economy. This stands in marked contrast to the public sector where job security is solid, and generous holidays and pensions are guaranteed.

- To achieve its economic growth potential in the longer-term, it is essential that a position of competitiveness be maintained and enhanced. Competitiveness should be broadly defined to include the wage and general cost environment, the physical and IT infrastructure, the quality of public services, the value for money obtained in the delivery of public services, the overall tax environment and the quality and flexibility of the labour force.
- The Irish economy is facing into an immense pensions challenge. The public sector is in a very advantageous pension's position relative to most private sector workers. This must be a key factor in determining public sector pay.
- The Irish dependency rate is now the lowest in the history of the state. This is set to deteriorate over the next twenty years as the population ages. This has serious implications for future government spending and tax revenues. Increased pressure will come on spending due to greater health and pension requirements, while the tax take will come under some pressure as the population ages.
- Any future benchmarking report should present international data. Ireland is part of a single market with a single currency and seeks global competitiveness. If Irish public services are too expensive by international standards, they price jobs out of the private sector. One of the weaknesses of the 2002 Benchmarking Report was the failure to present international data and comparisons.
- Public sector pay is something that should be sorted out independently of any benchmarking or social partnership process. Public sector pay is an issue of concern to the public as a whole for it is public resources that are

being used to fund public sector pay. Public sector pay should not be determined by the bargaining power of the unions involved but by fairness.

- The Benchmarking Body should insist on value for money audits being undertaken in each Government Department.
- Introduce a performance related pay mechanism within the public sector, whereby those individuals who are consistently efficient are rewarded accordingly.
- Introduce private sector employees into specific public sector areas to do administrative and secretarial tasks.

It is imperative that a successor to Benchmarking 1 should ensure that the public sector pay bill cannot be allowed to grow indefinitely, as this would ultimately necessitate a significant increase in the tax burden, which would undermine Ireland's growth dynamic and growth potential. The public sector cannot be allowed to crowd out the productive private sector, as this would ultimately hamper economic activity and destroy employment.

The Benchmarking 2 process must be transparent, must insist on proper performance measurement and must recognise the realities of the globalised world in which the very small and open Irish economy now operates. In many ways a *parallel universe* has been allowed develop in the Irish economy in recent years, on one side cosseted public sector employees and on the other a private sector labour force that is facing increasing uncertainty in relation to job security and future pension benefits.

Background

The original Benchmarking proposal was instigated at a time when the Irish economy was operating at close to full employment in 2000. At that stage all employers both in the private and public sectors were experiencing significant labour market tightness, with consequent difficulties in recruiting and retaining workers. The perception was that private sector wage growth pushed significantly ahead of growth in the public sector, driven to a significant degree by the willingness of private sector workers to switch employment. Public sector workers and their unions believed that they were falling behind in relative terms and succeeded in pushing the notion of benchmarking their pay to the top of the political agenda and it became a key element of the social partnership agreement. All of the social partners bought into the concept, with most employer interests going along with the process.

By the time the Benchmarking Body reported in June 2002 the overall economic environment had changed significantly. The US technology bubble had burst, the terrorist attacks on New York had occurred and the global economic situation had deteriorated quite markedly. This had a negative impact on the Irish economy. GNP growth slowed from 10.1% in 2000 to just 1.5% in 2002. Business investment spending was the main casualty of the slowdown and fell sharply from the first quarter of 2001 onwards. Private sector corporate behaviour during the period came to be characterised by cost cutting and cost containment, and expansionary policies were not on the agenda. There was a modest rise in overall unemployment and a significant slowdown in private sector wage growth.

Quite simply, between the time of the inception of the benchmarking concept and its delivery, the background environment had changed significantly, but the social partners still pressed ahead with delivery of the benchmarking proposals regardless. This highlights one of the major shortcomings of the initial benchmarking exercise.

In evaluating the first part of the benchmarking process, the key issues that must be considered are as follows:

- The overall cost of the awards
- The transparency of the process
- The issue of performance measurement
- Recent trends in public sector pay
- Recent trends in public sector employment
- The issue of modernisation of work practices in the public sector, and
- The contribution benchmarking has made to Irish inflation and competitiveness in the economy.

Cost of Awards

The suggested pay rises varied from a 2% increase for Laboratory Technicians to a 25% increase for various ambulance grades, and a wide range of increases in between. In total, the benchmarking process resulted in an increase of 8.9% in the overall pay bill. This benchmarking increase was in addition to agreed increases under the national wage agreements.

Figures from the Department of Finance in late 2003 suggested that the Benchmarking awards, which were backdated to December 1st 2001, would have cost the taxpayer €552 million in 2003, an incremental increase of €223 million in 2004, €151 million in 2005 and €107 million in 2006. This would give a full year cost of €1,033 million in 2006. The latest estimates suggest that the process will have cost the taxpayer €592 million in 2003, an incremental increase of €306 million in 2004, €166 million in 2005 and €128 million in 2006. This would give a full year cost of €1,192 million in 2006.

Lack of Transparency

The whole Benchmarking process is characterised by a total lack of transparency. Its workings and findings are shrouded in secrecy. For example, the Report does not show the outcome of the research conducted on specific public sector grades in any detail and the Freedom of Information Act does not apply to the Benchmarking Body. Neither was the technical work comparing public sector pay with private sector pay published, allegedly for reasons of confidentiality. These deficiencies cast serious doubt on the scientific basis of the whole process and certainly undermine its overall credibility. It adds to the argument that Benchmarking was a politically driven process that favoured public sector workers with the strongest trade union representation.

Performance Measurement

In the private sector it is common practice to evaluate the performance of individual employees and set wages, wage increases, and bonuses on the basis of an evaluation process. The original Benchmarking Body noted in its original report the commitment under social partnership to look at the concept of performance measurement in the public sector, but it took the view that “consideration of performance related pay in the public service is premature pending the outcome of that process of review”. Accordingly, the Body made no recommendation in that regard.

This was a wasted opportunity. In any given profession in the public sector, such as teaching for example, the failure to differentiate between individual teacher performance and the payment of the same benchmarking award regardless of performance is very demotivating for the majority of teachers who give 100% or more. Just as it is possible in the private sector to evaluate performance, it should be possible for any professional manager in the public sector to evaluate in a fair and objective way, individual staff performance. A robust system of performance measurement would act as a major incentive for public sector

employees, improve the quality of public services and ensure that the taxpayer gets better value for money.

Public & Private Sector Pay Differentials

Alleged wage differentials between public sector workers and their equivalents in the private sector inspired the benchmarking process in the first place. All available evidence fails to back up this assertion.

Data from the CSO show that in December 2005 average industrial earnings stood at €592.56 per week, equivalent to €30,813.12 per annum. Average hours worked stood at 41 per week. In the same month average weekly earnings in the public sector (excluding health) stood at €868.32, equivalent to €45,153 per annum, a 47% differential. It should also be noted that a recent figures from the CSO confirm that average public sector wages were running €405 ahead of average wages in the private sector.

However, it would not be correct to just compare average earnings on that basis. Adjustments have to be made for different workplace circumstances. O'Leary et al (2004) adjusted for the fact that public sector workers typically have attributes that command higher levels of pay than private sector workers. Such attributes include the fact that public sector workers are typically older, are more experienced, have higher levels of educational attainment, and tend to work in more highly skilled jobs and in bigger establishments. When earnings are adjusted for such factors the research concluded that in 2001, public sector workers enjoyed a premium of 13% over private sector workers, and that the premium is significantly bigger for those near the bottom of the earnings distribution than those near the top. Significantly, the research also concluded that the premium in 2001 was not significantly different than that in 1994, despite the fact that this was the period of the Celtic Tiger when there was a widely held view, particularly among public sector unions that public sector workers had been left behind in terms of prosperity.

These research findings seriously undermine the basis for the original benchmarking process.

Recruiting & Retaining Public Sector Workers

One of the other key arguments used to justify the benchmarking process was the apparent difficulty faced by public sector employers in recruiting and retaining workers. The evidence does not bear this out. The growth in employment in the public sector has increased rapidly in recent years.

Table 1: Public Sector Employment

<i>SECTOR (000s)</i>	<i>MARCH 2001</i>	<i>DEC 2005</i>	<i>Increase/decrease</i>
Civil Service	35.2	38.5	3.3
Prison Officers	3.2	3.1	(0.1)
Administrative Servants	Civil 29.2	32.1	2.9
Industrial Civil Servants	1.9	1.8	(0.1)
Others in Civil Service	0.9	1.4	0.5
Defence	11.7	11.4	(0.4)
Garda Siochana	11.6	12.2	0.6
Education	73.5	93.5	20
Primary	23.4	34.2	10.8
Secondary (excl. VEC & ITs)	18.3	20.1	1.8
Third Level (excl. VEC & ITs)	10.7	13.0	2.3
VEC & ITs	21.0	26.1	5.1
Regional Bodies	33.6	37.3	3.7
Local Authorities	32.2	36.1	2.5
Others	1.4	1.2	(0.2)
Semi-State Companies	55.3	56.2	0.9
Commercial	46.2	46.1	(0.1)
Non-Commercial	9.0	10.1	1.1
TOTAL (excl. Health)	220.7	249.1	28.4
Health (Dec 2001)	93.0	102.0	9

Source: CSO

Table 1 illustrates the change in employment across the public sector between March 2001 and December 2005 and shows strong growth in most categories of public sector employment over the period. Excluding the health sector, total employment increased by 28,400 over that four-year period. Over the same period employment in manufacturing actually declined by 31,000.

Modernisation

The payments awarded under benchmarking have been contingent on the delivery of certain commitments by public service workers. The verification groups set up to monitor the process have by and large concluded that commitments have been adhered to and the final part of the award was paid on June 1st 2005.

For consumers of public services it is not readily apparent that the annual cost to the taxpayer of €1.2 billion has actually resulted in a marked improvement in the quality and quantity of public services. ISME would argue that a process that delivered an average pay rise to public servants of 9% did not deliver value for money. In fact it could be argued that things have got worse, including,

- A lack of progress in Public Sector Dispute Resolution Procedures
- Demanding extra money to co-operate with new management systems
- Failure to reduce industrial disputes in the Health Sector
- Disregarding flexibility commitments and co-operation with new work practices
- A slow down in agreeing clerical recruitment procedures

Different vested interest groups will naturally have very different perspectives on what benchmarking has delivered in terms of value for money and improvement in service delivery. Such concepts are quite nebulous in nature and are prone to

subjective assessment. However, it is anecdotally evident to many users of public services that there has not been a marked improvement in the general quality or quantity of services as a result of the benchmarking deal.

Furthermore, it is the case that the criteria laid down under benchmarking are typical of those that have been standard in most commercial private sector organisations for many years. The fact that they are only now being applied to public sector providers should come as a surprise to taxpayers who have invested millions of euro in the public sector over many years. These performance criteria should have been par for the course, rather than an excuse to pay the substantial ongoing cost of the benchmarking awards.

Contribution to Inflation

Ireland has become relatively expensive in recent years not least due to the fact that the economy has been growing at breakneck pace and inflation rates have been running well ahead of those in most other developed countries. This is not terribly surprising. Since 1999 the Irish economy has been growing very strongly and inflation has been running at levels well ahead of the major trading partners. Inflation is typically driven by the interaction of demand and supply in an economy. Since Ireland joined EMU in 1999, the economy has drifted in and out of an overheated situation and considerable upward pressure has been exerted on many prices as a direct result. This is textbook economic behaviour.

However, it is also very important to recognise the contribution that the state sector has made to the inflationary environment. In the year to May 2005, overall inflation in the economy was running at an annual rate of 2.4%. However, in areas controlled by the state, the rate of price increase was significantly higher. For example, the price of Water Supply, Refuse Charges & Miscellaneous Services increased by 36.4% on an annual basis, Hospital Services increased by 12.6%, Rail Transport costs increased by 7.6%, and Primary Education was up by 13.1%. This shows just how much of a contribution government is making to

the cost of living in Ireland. Government and state agencies have been forced to raise extra revenue to supply services. The increased financial burden that the politically driven benchmarking process has imposed upon them is an important underlying cause.

Table 2: State Contribution to Inflation

Category	% Change Jan 2002 – May 2006
Overall CPI	+16.7%
Health	+28.7%
Hospital Services	+55.8%
Motor Tax	+17.5%
Rail Transport	+27.1%
Postal Services	+30.5%
Education	+29.4%
Primary Education	+46.5%
Secondary Education	+44.9%
Health Insurance	+47%
Water Supply, Refuse & Misc. Services	+111%

Source: CSO

Table 2 shows that in the period from January 2002 to May 2006, overall consumer price inflation increased by 16.7%. However, in all of the categories where the state has a direct impact, the increase in prices has been significantly higher. While all of this cannot be attributed to Benchmarking, the increase in the wage bill has had a significant influence.

In conclusion, the previous benchmarking deal had many shortcomings and has not succeeded in its original aims and most importantly is unlikely to lead to a significant improvement in the quality of public services. It represented a missed

opportunity for meaningful reform of public sector service delivery and had made a significant contribution to the permanent cost base of the economy. It is essential that any successor does not have these shortcomings.

THE NEXT BENCHMARKING PROCESS

Under the terms of the Mid-Term Review of Part Two of Sustaining Progress (June 2004), the Social Partners have agreed that the Public Service Benchmarking Body will commence the next benchmarking review in July 2006 and will report its recommendations in the second half of 2007. It is committed to reviewing “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”. There is also a commitment to seek to ensure “the optimum level of transparency consistent with the efficient and effective operation of the benchmarking process”.

The ESRI (Summer 2004) pointed out that “the lack of transparency surrounding the original process makes it difficult, even ex post, to assess its merits and any future benchmarking type scheme should be designed ex ante to allow open public scrutiny of its subsequent recommendations and the basis on which they were made”. These comments are interesting, coming as they do from a body whose employees benefited from the first round of benchmarking, but clearly highlight the disillusionment with a process that many believe was driven by political imperatives rather than any sound economic rationale.

Despite the fact that the first benchmarking process was never intended to be a once off phenomenon, it is somewhat disconcerting that another similar process is now getting under way again, particularly given the immense challenges facing the Irish economy. To meet these challenges Ireland will need to be as flexible and competitive as possible, and every effort will have to be made to preserve the relatively low tax burden. The first benchmarking deal was not consistent with these objectives. A second deal will have to take these realities on board.

In assessing the possibilities for a second benchmarking deal, it is imperative that the Benchmarking Body takes on board a number of important considerations. These should include,

- 1) the changing nature of the Irish economy and the challenges facing it,

- 2) a serious assessment of the terms and conditions of employment in the private sector compared to the public sector, and
- 3) the financial cost of the public sector, and
- 4) the broad implications that another similar deal would have on the private sector.

Changing Nature of Irish Economy

The Irish economy is now going through one of the most significant periods of change in decades. Nowhere is this change more evident than in the recent trends in employment. As Table 3 demonstrates total employment in the economy increased by 504,000 in the relatively short period between 1998 and February 2006. Within this overall increase, Agriculture has continued to shed jobs, as has the Other Production category, which is primarily manufacturing. The construction sector has been a major contributor to employment creation, reflecting the boom in residential house building and public infrastructure provision. This buoyant level of activity in the construction sector will not last indefinitely as the infrastructure and residential housing needs will be satisfied eventually.

Table 3: Irish Employment Trends

NACE SECTOR	ECONOMIC (000s)	MAR-MAY 1998	Dec-Feb 2006	CHANGE (000s)
Agri., Forest. & Fish	135	117	-18	
Other Production	303	287	-16	
Construction	126	255	129	
Wholesale & Retail	211	286	75	
Hotels & Restaurants	98	115	17	
Trans, Stor & Com.	87	121	34	
Fin. & Bus. Services	172	269	97	
Public Admin & Def	71	103	32	
Education & Health	207	325	118	
Other Services	85	124	39	
Total Employment	1,494	1,998	504	

Source: CSO

Private sector services have made a significant contribution to employment creation, reflecting the fact that Ireland is becoming a post-agrarian and increasingly post-manufacturing society. Agriculture is in long-term decline, but manufacturing activity in Ireland is also under serious strain as the higher cost base is forcing many manufacturing activities to migrate to cheaper locations. Private sector services will be forced to become the major source of job creation in this economy in transition.

The public sector has also made a significant contribution to employment creation over the period, with Education & Health and Public Administration & Defence accounting for 34% of total employment created over the period. This strong growth in public sector employment, which is still continuing, contradicts the claims made about the difficulty in recruiting and retaining workers in the public sector.

Economic Background & Challenges

The Irish economy has achieved remarkable success over the past decade and a half. However, it is important to recognise that the 1990s was a catch up period for the economy. It effectively moved from a seriously under developed economy to a more modern developed economy. The sort of growth rates that Ireland has enjoyed typically characterise a catching up process of this nature, but the important point is that once the catch up phase is complete, economic growth will inevitably slow of its own volition.

The potential growth rate of an economy is the maximum level of growth that an economy can achieve if all resources are fully utilised. It is basically determined by growth in employment and growth in productivity. During the 1990s, Irish employment expanded at an average annual rate of 3.7 per cent. Growth in productivity is estimated at around 3 per cent in real terms. This would suggest that the potential growth rate of the economy during the 1990s was around 6.7

per cent. Economic growth actually averaged 6.9 per cent per annum. In other words the Irish economy effectively achieved its growth potential during the decade.

Ireland's economic model over the past four decades has been heavily driven by an industrial policy that seeks to attract mobile foreign investment into the country, through the use of generous grant aid and an attractive corporation tax rate. This policy has been very successful and Ireland has become a significant host for many foreign companies engaged in the Chemical & Pharmaceutical industry, the IT industry and more recently shared services. However, the market for FDI is now becoming increasingly competitive with the emergence of countries such as China, India and the EU Accession states, which can offer the same or better tax incentives and a much lower cost base. That is not to suggest that Ireland should forget about FDI, and on the contrary should focus on the more sophisticated higher value added activities. Notwithstanding this, it is clear that Ireland's status as a recipient of FDI will come under sustained attack in the medium to longer-term and it will be necessary to create alternatives.

There is now a solid economic imperative to develop a more vibrant indigenous economy comprised of a larger number of small and medium sized enterprises. Such companies will have to play an increasingly important role in the evolution of the Irish economy.

The reality today for such small and medium Irish owned companies is a challenging one:

- Globalisation is a two edged sword that will open gates to vibrant markets such as China, India and the EU Accession states, but it will also intensify foreign competition on domestic & external markets.
- Many smaller indigenous companies have limited pricing power, but have seen input costs, such as oil, wages, and public service charges, rise

significantly in recent years, and consequently margins are being squeezed steadily and consistently.

- Many are very good at production, but in many cases lack the expertise and resources to add value through product innovation.
- Marketing capability may not be strong and hence the exploitation of growing markets may not be fully realised.
- Exchange rate uncertainty, particularly due to the heavy dependence on the US & UK markets.
- Smaller Irish companies have a very heavy dependence on the UK market and are finding it difficult to penetrate the moribund Euro Zone markets.

To achieve its medium-term growth potential and develop a vibrant indigenous economy, the Irish authorities will have to create the correct environment. The key challenges that will have to be addressed are as follows:

- The Irish economy has clearly outgrown its physical infrastructure over the past decade. The roads, rail, air transport and IT infrastructure need heavy and focused investment going forward to ensure that the economy sustains a relatively competitive situation.
- The maintenance of a controlled cost environment. Government has made a significant contribution to the cost base facing Irish business in recent years. This needs to be controlled.
- Heavy investment in Education & Training to ensure that high value added activities could be sustained in the economy through the upskilling of the labour force.
- A proper Economic Migration policy, with a focus on the skill requirements of Irish companies.
- The provision of assistance to Irish companies in areas such as product innovation and marketing capability.
- High quality public services, delivered in an efficient, value for money manner.

It is clear that the challenges facing the Irish economy in the medium to longer-term are very significant and will require focused and sensible Government policies. A strong public sector is obviously an important component of any modern economy, but it has to be efficient, cost effective and focused on delivering value for money. It is not clear that the first Benchmarking awards actually enhanced the situation and in fact placed a serious extra financial burden on the economy at a time of immense challenge. Another benchmarking process must not be allowed make the same mistakes and must recognise the challenging realities facing the private sector. Two parallel worlds cannot be allowed develop, one consisting of a growing and increasingly affluent and costly public sector, and the other consisting of a private sector being squeezed by the globalisation process.

Terms & Conditions of Employment

In any consideration of public sector pay and a successor to Benchmarking, the terms and conditions of employment in the public sector relative to the private sector must be a key consideration. Public sector workers have longer holidays, have a job for life and have a guaranteed pension. This stands out in marked contrast to the situation in the private sector where holidays are typically shorter, where there is increasingly no such thing as a job for life and pensions are coming under increasing pressure. The pension's situation should be a particularly important consideration. It is estimated, for instance, that to obtain a salary-indexed pension (like our public servants have) in the private sector would require contributions of 45% of a person's salary throughout their working life! Public servants pay around 6% of salary for their pensions. When consequent pension costs are included, the true cost of the last benchmarking deal was €20 billion and not €1.1 billion as is often stated.

In the public sector, the majority of employees are entitled to guaranteed and relatively generous pensions. This is in marked contrast to the private sector,

where pension's coverage is low and future pension benefits are under serious threat due to a combination of poor market performance and the changing trend in the nature of private sector pensions. An increasing number of private sector workers are being forced on to defined contribution pension schemes where the amount they contribute and market performance will determine the pension that will be received in retirement. For private sector workers on defined benefit schemes, a major financial burden is being placed on employers to pay pension benefits.

These consideration should be taken on board when considering the relative pay situation for public sector and private sector workers.

The Cost of the Public Sector

The Analysis of Exchequer Pay and Pensions Bill 2000 to 2005 published by the Department of Finance in May 2005 summarises in very stark terms the cost of the public sector in Ireland.

- Between 2000 & 2005 the net pay bill increased by 73.2%.
- Of this increase over the period, 41% is due to general pay increases, 22% is due to special pay increases (including benchmarking), and 37% is due to other factors such as increased numbers.
- In the period 2000 to 2003 the pay and pension bill increased as a percentage of GNP and GDP, and has stayed fairly constant since.
- The pay bill accounts for about 50% of net non-capital Exchequer spending and about 39% of total exchequer spending.

- The health sector bill increased by 87% over the period (compared to 65% in the rest of the pay bill) and now accounts for around 40% of the total pay bill.
- The Exchequer's annual wages and pension's bill increased from €10.2 billion in 2001 to €16.2bn last year - with the benchmarking initiative accounting for up to €1.32bn of that rise.
- Pensions now account for 9% of the total pay bill, up from 8.7% in 2000. Over the period 2000-2005 the pension bill has increased from €750 million to €1,369 million, representing an increase of 82.5% over the period.

It is clear that the public sector is an expensive and growing part of the Irish economy. With such a large spend, it is essential that the value for money spent be maximised. Scientific procedures need to be developed for measuring value for money.

CONCLUSIONS

The first benchmarking deal was seriously flawed. Between its inception and delivery economic circumstances changed significantly, but it did not recognise this reality. It has imposed an annual cost of €1.2 billion in current pay and pensions on the taxpayer.

In preparing the next report and recommendations the following considerations must be top of the agenda.

- Benchmarking 1 imposed a huge financial cost on the Irish Exchequer and on the Irish taxpayer.
- Benchmarking 1 has made a significant contribution to inflation in the Irish economy as state agencies have been forced to increase charges to pay for the awards.
- Benchmarking 1 lacked transparency and was shrouded in secrecy. This undermined its credibility and justifiably created much angst in the private sector.
- It is not clear that the quality and quantity of public services have improved as a result of Benchmarking. The criteria used to assess and pay the awards have not been stringent and at a minimum, should always have applied in the public sector in any event.
- The structure of the Irish economy is moving away from agriculture and manufacturing and towards higher value added services and other activities. Government needs to ensure that this process is managed and facilitated and that the public sector does not 'crowd out' the private sector.

- Job security in almost all private sector activities is becoming increasingly fragile, particularly in the SME sector of the economy. This stands in marked contrast to the public sector where job security is solid, and generous holidays and pensions are guaranteed.
- To achieve its economic growth potential in the longer-term, it is essential that a position of competitiveness be maintained and enhanced. Competitiveness should be broadly defined to include the wage and general cost environment, the physical and IT infrastructure, the quality of public services, the value for money obtained in the delivery of public services, the overall tax environment and the quality and flexibility of the labour force.
- The Irish economy is facing into an immense pensions challenge. The public sector is in a very advantageous pension's position relative to most private sector workers. This must be a key factor in determining public sector pay.
- The Irish dependency rate is now the lowest in the history of the country. This is set to deteriorate over the next twenty years as the population ages. This has serious implications for future government spending and tax revenues. Increased pressure will come on spending due to greater health and pension requirements, while the tax take will come under some pressure as the population ages.
- Any future benchmarking report should present international data. Ireland is part of a single market with a single currency and seeks global competitiveness. If Irish public services are too expensive by international standards, they price jobs out of the private sector. One of the weaknesses of the 2002 Benchmarking Report was the failure to present international data.

- The new benchmarking exercise should incorporate factors such as differences in hours worked and the different character of the pension arrangements in the two sectors. This new exercise could merely aggravate further the marked disparity that already exists between the public and private sectors of our economy.

- Public sector pay is something that should be sorted out independently of any benchmarking or social partnership process. Public sector pay is an issue of concern to the public as a whole for it is public resources that are being used to fund public sector pay. Public sector pay should not be determined by the bargaining power of the unions involved but by fairness.

- The Benchmarking Body should insist on value for money audits being undertaken in each Government Department.
 - Introduce a performance related pay mechanism within the public sector, whereby those individuals who are consistently efficient are rewarded accordingly.

 - Introduce private sector employees into specific public sector areas to do administrative and secretarial tasks.

The second phase of benchmarking must take into account all of the aforementioned realities. Quite simply the public sector pay bill cannot be allowed grow indefinitely as this would ultimately necessitate a significant increase in the tax burden, which would undermine Ireland's growth dynamic and growth potential. The public sector cannot be allowed crowd out the productive private sector as this would ultimately undermine economic activity and destroy employment.

Benchmarking 2 must be transparent, must insist on proper performance measurement and must recognise the realities of the globalised world in which the very small and very open Irish economy now operates. In many ways a parallel universe has been allowed develop in the Irish economy in recent years, with on one side a cosseted public sector and on the other side a private sector labour force that is facing more and more uncertainty in relation to job security and future pension benefits.