Report of the Special Group on Public Service Numbers and Expenditure Programmes

Recommendations Relevant to AONTAS (July 2009)

AONTAS
The National Adult Learning Organisation
Second Floor, 83 – 87 Main Street,
Ranelagh, Dublin 6
01 4068220
www.aontas.com

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Foreword

The report of the Special Group on Public Service Numbers and Expenditure Programmes, also informally known as An Bord Snip Nua, which was published on Thursday 16th July 2009, contains measures designed to save the Government some €5.3 billion annually. The group was established by the Government in November to examine all current Exchequer spending across all Departments and agencies, to see where expenditure and staff savings might be made, as necessary in the current financial crisis.

The members of the groups are:

The Special Group on Public Service Numbers and Expenditure Programmes is chaired by Mr. Colm McCarthy, UCD economist and he is joined by Mr. Donal McNally, Second Secretary General in the Department of Finance to form the core membership.

The Group is being assisted by a panel of advisors: Mr. Maurice O'Connell, former Governor of the Central Bank; Mr. William Slattery, Managing Director, State Street International; Ms. Mary Walsh, former Partner PriceWaterhouseCoopers; and Mr. Pat McLaughlin, Business Consultant and former Deputy Chief Executive of the Health Services Executive.

This document outlines the recommendations that affect supports for adult learners and providers.

1. Education & Science

C.1 Rationalisation of VECs

There are 33 Vocational Educational Committees (VECs). In some counties there are both city and county VECs (e.g. Cork and Galway). The Group considers that the number of VECs should be reduced. This should involve the amalgamation of city and county VECs as well as amalgamation of certain VECs on a regional basis. Overall, the Group considers that the numberof VECs can be reduced from 33 to 22 and aligned with the functional areas of the Local Authorities (which the Group is recommending be reduced to 22 in number - see Detailed Paper No. 8). This should lead to savings in administration costs and efficiencies in service delivery. While there will be some offsetting costs, there will also be once-off revenue generated through disposal of property. Overall, the Group targets €3m in savings for this measure. This should also include reductions in administrative staff. The possibility of amalgamating the VECs with the local authorities could also be considered.

D. 3 Merge HEA with D/E&S

There is duplication in the number of staff carrying out administrative supervision work for the third level education institutions across D/E&S and the *Higher Education Authority* (HEA). There are 44 staff in the D/E&S supervising the third level institutions4. The Special Group is of the view that this staffing level is too high considering that the HEA (staff of 59) already carries out similar activities. The Group considers that the HEA should be merged with the D/E&S to generate efficiencies in staffing and administrative expenditure. The Group envisages savings of €1m and associated staffing reductions of 15.

D. 6 Reduction in the allocation to the *Strategic Innovation Fund*

The Group is of the view that the activities funded by the *Strategic Innovation Fund* are no longer an affordable priority in the current economic climate. The fact that drawdown of available funds has been slow further strengthens the argument for the scheme to be wound down. Accordingly, the Group recommends that there should be no further funding rounds and that the fund be abolished. However there are legal contractual commitments in place which must be met before abolition can take place. As spending under the SIF was €16m of the €40m allocated in 2008 and the 2009 allocation is €26m, the Group proposes a reduction in the annual allocation of €10m.

D. 8 Reduction in the allocation to the *Student Support Scheme*

At present, €297m is spent on supports for students attending third level institutions. The support is means tested and is available in respect of all third level courses. In order to reduce the cost of this scheme while continuing to target those most in need of support, the Group recommends that an asset test be introduced as one of the criteria to be used in the means testing under the scheme. In addition, the Group considers that the current situation whereby unemployed students who return to full-time education under the Department of Social & Family Affairs funded *Back to Education Allowance* (BTEA) are also eligible to apply for a D/E&S student maintenance grant under this scheme should be changed. The Group considers that students should be entitled to apply for either a BTEA allowance or a student maintenance grant, but not both. It is therefore recommended that BTEA recipients should not be eligible for further support under the D/E&S *Student Maintenance Grant Scheme*. Finally, consideration could be given to targeting this scheme in support of priority educational areas (e.g. science & technology). It is estimated that the combination of these two changes would yield annual savings of up to €70m. More generally, the Group considers that grant schemes of this nature should be cash limited each year so that the allocation is fixed and determinate in line with overall funding priorities.

D. 10 Abolition of *National University of Ireland*

Progress is being made towards the amalgamation of *Higher Education & Training Awards Council* (HETAC)*, Further Education & Training Awards Council* (FETAC) and the *National Qualifications Authority of Ireland* (NQAI) into one body. It is likely that the qualifications functions of the NUI in relation to its constituent universities and recognised colleges will also be amalgamated into the new qualifications body. Once these functions are removed from the NUI, its remaining functions would consist of the following:

- Printing parchment for the making of awards itself and for the making of NUI awards by the constituent universities;
- Bestowing prizes and bursaries across the constituent universities of the recognised colleges;
- Maintaining a register of NUI graduates and undertaking the elections for the NUI seats on Seanad Éireann; and
- Supporting Convocation of the NUI.

It is not considered that the remaining functions of the NUI would sustain the existence of the body. It is recommended accordingly that the NUI be abolished and its remaining functions transferred to another existing body as necessary. This should result in savings of the order of €3m a year.

Re-Introduction of Third Level Fees

In addition to the efficiency actions outlined above, the Group is of the view that third level fees should be re-introduced to provide a sustainable funding stream for third level education which would relieve the existing burden on the Exchequer. The existing free fees scheme subsidises the education of students from high earning socio-economic groups e.g. it is estimated that 28% of free fees covers students from households with income in excess of €80,000. The continued rationale for this subsidy to be payable to those households which have the ability to pay for third level education is open to question. Furthermore, the scale of the budgetary crisis facing the Exchequer points to the need for tuition fees to help fund third level institutions.

E.3 Absorb *National Education Welfare Board* (NEWB) into D/E&S

The *National Education Welfare Board* (NEWB) is the national body responsible for school attendance. It employs up to 90 service delivery staff around the country to support school attendance and to discharge the NEWB's functions locally. The Group considers that the work of the NEWB is central to the mission of the D/E&S and should be more closely aligned with the Department. There is scope for the NEWB to work more closely with other units within D/E&S such as the NEPS, the Social Inclusion Unit and other staff working on educational disadvantage Programmes, particularly on a regional basis. Therefore, the Group recommends that the NEWB be absorbed into the D/E&S. This measure should also lead to efficiencies in board membership fees, professional fees and support costs which are estimated to save €0.5m a year.

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2. Enterprise, Trade and Employment

Labour Force Development

This Programme has a 2009 allocation of €1,095m including the *National Training Fund*. Overall, some 2,317 staff are involved in the implementation of the Programme, the great majority of these being employed by FÁS. The Group has included savings worth €77m in the table below. A further saving, estimated to be €100m in a full year, related to duplicate payments to certain categories of social welfare claimants when they take up places on the *Community Employment Scheme*, will be taken into account in the Social & Family Affairs Detailed Paper.

The Group supports a recommendation from the Department of Finance to substitute €100m of the surplus in the *National Training Fund* in 2010 thereby reducing the allocation of voted funds for the same purpose. As this will only have a once off benefit, it is not included in the table below. The Group also notes the wide variation in the unit cost of relatively similar training provided in Community Training Centres compared to training provided under the *Vocational Training Opportunities Scheme* by the VECs. It raises questions about effective and cost efficient delivery of training that requires an in-depth investigation that the Group was unable to pursue in the time available. It recommends that this, and similar issues, should be the subject of a VFM review by the *Central Expenditure Evaluation Unit* of the Department of Finance.

C.3 Cease funding FÁS Services to Business and Skillnets

The Group was not convinced by the argument that the funding of €27m provided through FÁS Services to Business and Skillnets is a necessary catalyst in the provision of training by businesses to their own employees. The Group is not convinced that any market failure exists and recommends that these activities be stopped as employers can provide for their own requirements.

C.5 Close down the *Jobs Initiative Scheme*

Although recruitment to the *Jobs Initiative Scheme* ceased in November 2004, the rate of decline in numbers on the scheme is extremely slow. There are currently just over 1,400 participants at an annual cost of €35m in 2009. The Group has concluded that this Scheme should be wound up as soon as possible. A saving of €10m has been calculated by offsetting the cost of accommodating the existing 1,400 participants on alternative schemes against the gross saving of €35m arising from full closure.

C.6 Savings on Training for the Unemployed

With regard to FÁS Training for the Unemployed, the Group recommends a number of measures. Ceasing payment of the training allowance to participants who do not qualify for *Jobseekers Allowance* or *Benefit* will save an estimated €19.5m in a full year. Replacing the range of supplementary allowances with a single training grant will result in direct and indirect savings through reduced administration. Finally, the Group considers that the higher training bonus of €31.80 per week payable to the long-term unemployed is not justified. Removing this bonus will save €1.65m per 1,000 participants each year.

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3. Community, Rural & Gaeltacht Affairs

The Group's core recommendation is that this Department be closed and its functions re-distributed to other areas.

Programme Area Destination Department

(i) Community Services Programme: Enterprise, Trade & Employment

(ii) Charities Regulation, Community & Voluntary Programme:s Social & Family Affairs

B.1 Discontinuation of *Dormant Accounts Fund Board*

The Dormant Accounts Fund Acts provide for an annual transfer by credit institutions and insurance undertakings of monies in accounts determined to be dormant into the *Dormant Accounts Fund*. *The Dormant Accounts Board* is responsible for drawing up a disbursement plan for the distribution of these funds. Given that the level of funds transferred into the fund has declined in recent years, the Group concludes that the *Dormant Accounts Board* should be discontinued. Remaining projects funded by the Board should be processed to their conclusion. Any remaining incoming dormant accounts funds should instead be transferred to the Exchequer.

B.2. Discontinuation of the *Revitalising Areas by Planning Investment and Development* scheme

The *Revitalising Areas by Planning Investment and Development* scheme (RAPID) is an initiative which targets 51 of the most disadvantaged areas in the country. The programme aims to ensure that priority attention is given to designated areas by focusing State resources available under the *National Development Plan*. The Special Group is of the view that these RAPID funded projects are minor interventions to address social inclusion when compared to other major State funded measures such as schemes to address educational disadvantage. For this reason, the Group recommends that this scheme be discontinued, subject to contractual commitments, leading to an annual saving of €7.5m. This proposal will also have consequences for other departments which cofund RAPID measures. These are set out as appropriate in the other detailed papers.

B.3 Reduction in allocation for community and voluntary sector supports

The Government provides a range of supports for the community and voluntary sector. These supports include such schemes as the *Local Community Grants Scheme* (currently suspended), *Contracts for the National Community and Voluntary Organisations*, the *Community Scheme for Older people* (currently suspended) and *Supports for Volunteering*. Given the severe pressure on the public finances, and the traditional reliance of these groups on donations as well as the contribution of unpaid volunteers, the Special Group is of the view that the allocation for this Programme should be substantially decreased by €10m annually.

B.4 Reduction in allocation for *Community Services Programme*

The *Community Services Programme* aims to support local community activity which addresses disadvantage, while at the same time providing employment opportunities for people from the following target groups: people with disabilities, the long-term unemployed, travellers, stabilized and recovering drug misusers and ex-prisoners. There is little information available on the outcomes achieved through the scheme. The scheme also has similarities with the community employment schemes administered by FÁS. For these reasons, the Group recommends that the allocation for this Programme be reduced by €10m.

B.5 Reduction in allocation for Local & Community Development Programmes

These programmes include the *Local Development Social Inclusion Programme* (LDSIP) and the *Community Development Programme*. Both of these programmes aim to counter disadvantage. Projects funded include adult education courses, support for local enterprise initiatives and information provision for target groups. There is little evidence of positive outcomes for these initiatives. Furthermore, the current delivery structure for these Programmes is not optimal. The Group recommends that Partnerships and Volunteer Centre structures (both funded mainly by D/CR&GA) be merged with County Childcare Committees (funded by Department of Health & Children). Significant savings for D/CR&GA should accrue from the merger of these local delivery mechanisms. Overall, the Group targets total savings of €44m attributable to a re-structuring of delivery mechanisms and a reduction in the number of funded projects.

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4. Social & Family Affairs

Change in the rate of social welfare personal payments

As outlined in Chapter 1 of Volume 1 of the Report, the Group notes that the public sector pay and pensions bill (around €20bn a year) and total social welfare payments (€21bn in 2009) together comprise the two largest expenditure areas for the Exchequer and any proposals to achieve efficiencies in public spending must address both of these. The scale of the contribution of welfare payments to Exchequer expenditure is illustrated by the fact that a 1% reduction in personal welfare rates could save in the order of €170m a year.

In this section, the Group considers the scope for social welfare rate reductions. An assessment of the scope for efficiencies in this area must take into account recent trends in welfare payments, the impact of recent budgets, trends in public/private sector pay as well as the relativities of welfare rates with competing labour market jurisdictions, notably the UK. The significantly weaker position of the public finances is also a relevant consideration.

General wage adjustments

The period 2008-2009 has seen significant adjustment in the wages for public and private sector workers. The adoption of the pension levy in 2009 has on average reduced public sector wages by 7½% and saved the Exchequer in the order of €1.4bn in a full year. While information on private sector wage patterns is more difficult to establish, there appear to have been reductions in private sector pay rates in many sectors (although no firm data is as yet available later than Q4 2008). A March 2009 survey carried out on behalf of the *Central Bank* indicates that many private-sector employers have reduced wages by 3 to 4% to date, across all types of employment, with many companies expecting to implement wage reductions in the months ahead. On balance, it seems clear that both in the public and private sectors there have already been significant reductions in wages, or such reductions are in prospect, though the effect of this has been moderated to some extent as a result of a fall in prices. It is also relevant to note that there have been significant increases in taxes on earned income for all workers and a pension levy on public servants (raising €3bn in a full year in aggregate) and job losses have also been widespread.

Inflation trends

Rates of payment in the Social Welfare system were increased across the board by approximately 3% in the budget of October 2008. Since that time, the *Consumer Price Index* (CPI) has fallen by 5.3% (up to May 2009), while the HICP measure of inflation has fallen by 1.6%. The principal difference between the two is mortgage interest on owner-occupied housing, which up to May 09 had been falling quickly in line with ECB interest rates decreases. It is known from the Household Budget Survey that this item is a minor component in living expenses for those income groups most reliant on social transfers, for whom the HICP, which has declined less than the CPI, is more relevant. Nonetheless, and relying only on the HICP, the real value of weekly and monthly Social Welfare payment rates would have risen in real terms since October even if no increase had been granted in the budget.

Prices have been falling for most categories of goods and services since autumn 2008. In 2009, there have been reductions in the price of food and non-alcoholic beverages; housing, water; electricity, gas and other fuels; furnishings; household equipment and routine household maintenance. Some of the fall can be attributed to reductions in mortgage interest which are generally not relevant to individuals in the lowest income deciles but there are now further reductions in train in fuel costs. It is likely, given the relatively weak economic conditions that the price reductions will be maintained and price levels may fall further in 2009. The April 2009 *Supplementary Budget* forecast a fall in CPI of 3.9% for 2009 over 2008.

Impact of recent Budgets

Recent research by the ESRI demonstrates that the total package of Budget 2009 adjustments (including the October 2008 Budget, the pension levy and the April *2009 Supplementary Budget*) is strongly re-distributive in its effects, with income gains of 5% (above a parity benchmark) for those with the lowest incomes and with percentage income losses rising with income, to around 9% for the top 10% of income earners. This result takes account of the removal of the additional bonus payment made in December (the 'Christmas bonus'). The main social welfare rates have increased significantly since 2000 over and above the rate of inflation and average industrial earnings. As a result many social welfare rates (particularly for pensions and unemployment allowance) are now higher in absolute cash terms than their UK equivalents.

Incentive effects

The Group considers that it is important that the rates and benefits available under the social welfare system do not inhibit a return to work. For those of working age there are increasing indications that the level of welfare payments is creating disincentive effects for improved labour participation with relatively high replacement ratios6 for specific occupations and age rates. As an example a Dublin based couple with three children (aged 4, 8 and 11) avail of benefits to the value of €23,000; with the addition of the current rent supplement7 could receive benefits to the value of €35,500 per annum approximately and this increases to nearly €42,000 if current rates of child benefit are included. A couple with no children and in receipt of rent supplement could receive in the order of €27,000. A table of various scenarios types is set out in Appendix B. The Group is also concerned that disincentives to participate in the labour force could be magnified by increases in the tax wedge8 due to measures already taken and future measures as the fiscal consolidation process continues.

Conclusion

On balance, there is a clear case for social welfare rates to be adjusted downwards in line with economic developments, and in line with the pay and price adjustments that are being experienced across the wider economy. **Accordingly, the Group recommends that social welfare rates should be reduced generally by 5%,** saving around €850m in a full year. This would effectively preserve living standards for affected groups relative to 2008. Alternatively a 3% reduction, reversing the increase of October last, would save around €510m a year. More will be known about pay and price developments closer to the budget of December next, and the Government will be in a better position to make a judgement on the matter in the light of those data. The Group also notes the decision to discontinue the December bonus payment for 2010 and future years. The Group agrees that continued payment of this bonus is no longer affordable given the need to support new additions to the Live Register and other pressures on the social welfare budget. It would recommend against reintroducing the payment, which would add back costs of around €233m a year – which would have to be made up by further service reductions in other areas

B.2 *Family Income Supplement* (FIS)

FIS is a weekly payment for families, including lone parent families, at work on low pay. It aims to encourage employees to stay at work when the employee may only be marginally better off than if he/she were claiming other social welfare payments. Expenditure on this scheme has increased by almost 50% since 2007 (€212m). Currently, claimants may be in receipt of certain other welfare payments and retain eligibility for the scheme. FIS is not payable to a person in receipt of payments from the *Community Employment Scheme*, the *Part Time Job Opportunities Scheme*, the *Rural Social Scheme*, *Jobseekers Benefit/Allowance*, the *State Pension (Transition)* and the *Pre Retirement Allowance*. However FIS may be payable concurrently to persons in receipt of *One Parent Family Payment*; *Deserted Wife's Benefit*, *Widow or Widow(ers) Contributory Pension* and *Disability Allowance/Blind Pension*. The Group recommends that claimants already in receipt of a primary weekly social welfare payment should not be eligible for the scheme in line with the principle that where possible social welfare claimants should be in receipt of a single primary payment. The Group considered the possibility of increasing the number of hours an individual can work on the programme in a single week but considered it was appropriate that as many supports as possible are retained in place to support individuals in employment (who are not in receipt of a primary social welfare payment).
The Group targets savings of €20m for this measure.

C.1 Grading of *Jobseeker's Allowance* by age

Jobseekers Allowance is a means-tested payment payable in respect of any week of unemployment. The *Supplementary Budget 2009* contained a measure reducing the personal rate of *Jobseeker's Allowance* for new claimants less than 20 years of age to €100 a week from the first week of May 2009. Consistent with this approach, the Group recommends that the personal rate for new claimants between the ages of 20 and 24 be reduced to €150 yielding an estimated full year saving of €70m. The Group is of the view that there should be consistency between the graduation of the *Jobseekers Allowance* and the graduation of the minimum wage. If such changes are adopted, it is important to ensure that no replacement ratio issues arise from the interaction of the tax and welfare systems.

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5. Justice, Equality & Law Reform

E.3 Transfer the gender mainstreaming functions of D/JE&LR to the Department of Enterprise, Trade & Employment

Gender mainstreaming aims, inter alia, to improve equality between men and women, to tackle educational and social barriers to women entering and progressing within the workforce and to support the advancement of women to decision-making levels in employment and in civil society. The Group recommends that, in light of the current budgetary difficulties, and the pressures that this is placing on delivery of services across the all public services, expenditure in this area be reduced by €1m i.e. to the level of EU co-funding. The Group also considers that, given their strong labour market emphasis, these roles are more fitting to the remit of the Department of Enterprise, Trade & Employment and as such should be transferred to that Department

E.4 Reduce the allocation to equality organisations and projects

Under Programme E, the D/JE&LR provides funding for a variety of organisations and projects, in particular, national women's organisations, equality proofing, *Cosc – Domestic, Sexual and Gender-based Violence* and equality monitoring and associated consultative committees. The 2009 allocation in this area is €4.7m. Given the significant resources that have been devoted to equality issues over recent years, and in light of the current budgetary difficulties, expenditure should be reduced to yield savings of €1m a year. Furthermore, the Group recommends that as the *Equality Proofing* and *Gender Mainstreaming and Positive Action for Women* subheads are *European Social Fund* co-funded until 2013 funding be phased out by the end of 2013.

E.5 Abolish the *Office of the Minister for Integration*

As the functions now carried out by the *Office of the Minister for Integration* were previously dealt with within D/JE&LR and the Office was created to improve the perception of the importance of integration in the new multi-cultural Ireland, the Group recommends that this Office be abolished; this should yield a saving of €1.5m. Furthermore, the Group recommends that it is up to each Department to report on an annual basis, for example, as part of their Annual Output Statement, how they have contributed to the promotion of cultural integration.

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6. Rationalisation of State agencies

The Government announced a number of State agency rationalisation measures as part of the 2009 Budget. In the course of its analysis of the various Votes, the Group has built on these measures by considering the consolidation of the sectoral economic Regulators, Ombudsman Offices as well as the non-commercial State agencies under the aegis of each Department. For the purposes of its examination, the Group has taken account of the Government's principles on agency rationalisation, first articulated in *Budget 2009*, and re-capitulated below:-

1. *Citizen focus*

The relationship between citizens and the State is the key relationship in any democratic society. Proposals should respect and enhance this relationship, in particular by ensuring that agencies are designed to deliver quality public services, and to contribute effectively to the business of public administration whether directly or via their parent Department.

2. *Policy formulation*

In the Irish system of public administration, Government Departments are and should be the primary locus of public policy formulation, evaluation and analysis. Policy evaluation and advisory functions should not, as a general rule, be carried on by external State-funded agencies. Specialist advice and consultancy may be availed of from time to time by Government Departments, subject to the tightened Government strictures on the budgets for external consultancies.

3. *Specialist agencies*

Decisions should take into account whether it is appropriate that a separate agency carry out particular functions in areas where specialist skills may be required, and where independence in the performance of functions requires functional separation from Government Departments.

4. *Streamlining*
Decisions should be cognisant of duplication, overlapping and similarities of functions and roles of agencies, and the synergies from bringing together separate bodies within cognate areas.
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5. *Service sharing*
Even where bodies should remain separate from one another, or from a 'parent' Department, the possibility of sharing back-office functions should be explored to the maximum extent possible.

6. *Agency life cycle*
Decisions should consider whether the goal for which an Agency was originally established has been achieved (or has been found to be unachievable) and whether the original objective remains relevant today having regard to developments in society or changes in Government priorities. Accountability for performance needs to be improved for non-commercial State agencies. At present, the Annual Output Statements do not apply to them directly, nor are the bodies subject to clear "Service Level Agreements" as in other countries. The Group understands that these issues have been flagged for reform in the context of the Government's *Transforming Public Services* agenda, and we recommend that progress be pursued with a view to establishing a common, coherent framework for results-focused management and governance in Irish State agencies. The Group's own general recommendations for improving performance and value-for-money, as outlined in section 2.13 above, are also relevant in this regard. On this basis, the Group now proposes a further 43 rationalisation measures concerning State agencies and other bodies/structures. Please note that the proposals summarised in table 2.3 have been included under the most relevant Department, usually where the target saving will accrue. Collectively, these proposals would deliver over €170m in savings, including some €19m in capital expenditure. Details on particular rationalisation proposals and their associated estimated savings are contained in the relevant Detailed Paper in each case.

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