

NESC REPORT NO. 49

ENTERPRISE IN THE PUBLIC SECTOR

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NATIONAL ECONOMIC AND SOCIAL COUNCIL

Enterprise in the Public Sector

No. 49



**NATIONAL ECONOMIC AND SOCIAL COUNCIL
CONSTITUTION AND TERMS OF REFERENCE**

1. The main task of the National Economic and Social Council shall be to provide a forum for discussion of the principles relating to the efficient development of the national economy and the achievement of social justice, and to advise the Government, through the Minister for Economic Planning and Development, on their application. The Council shall have regard, *inter alia*, to:

- (i) the realisation of the highest possible levels of employment at adequate reward,
- (ii) the attainment of the highest sustainable rate of economic growth,
- (iii) the fair and equitable distribution of the income and wealth of the nation,
- (iv) reasonable price stability and long-term equilibrium in the balance of payments,
- (v) the balanced development of all regions in the country, and
- (vi) the social implications of economic growth, including the need to protect the environment.

2. The Council may consider such matters either on its own initiative or at the request of the Government.

3. Members of the Government shall be entitled to attend the Council's meetings. The Council may at any time present its views to the Government, on matters within its terms of reference. Any reports which the Council may produce shall be submitted to the Government and, together with any comments which the Government may then make thereon, shall be laid before each House of the Oireachtas and published.

4. The membership of the Council shall comprise a Chairman appointed by the Government in consultation with the interests represented on the Council,

Ten persons nominated by agricultural organisations,
Ten persons nominated by the Confederation of Irish Industry and the Irish Employers' Confederation,
Ten persons nominated by the Irish Congress of Trade Unions,
Ten other persons appointed by the Government, and
Seven persons representing Government Departments comprising one representative each from the Departments of Economic Planning and Development, Finance, Agriculture, Industry, Commerce and Energy, Labour, and Environment and one person representing the Departments of Health and Social Welfare.

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6. The Council shall have its own Secretariat, subject to the approval of the Minister for Economic Planning and Development in regard to numbers, remuneration and conditions of service.

7. The Council shall regulate its own procedure.

NATIONAL ECONOMIC AND SOCIAL COUNCIL

Enterprise in the Public Sector

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PART I

BACKGROUND TO REPORT OF STUDY GROUP

Introduction

1. For some time, the Council has intended to examine measures to mobilise more fully enterprise in the public sector. The Council was unable to initiate work on this project in the course of 1977.* In November 1978, the Economic Policy Committee of the Council invited a Study Group, comprised of persons from the public and private sectors, and the universities, to examine the potential for enterprise in the public sector. The Study Group was given the following terms of reference:—

- to examine the definition of enterprise in the public sector context and to outline its nature and purpose;
- to isolate whatever barriers or problems exist in relation to the development and implementation of enterprise within the Irish public sector;
- to make recommendations and suggestions on how the problems and barriers to enterprise can be removed or minimised.

2. The members of the study group were as follows:—

Dr. B. O'Regan (Chairman), Former Chairman of the Shannon Free Airport Development Company

Professor J. A. Bristow, Associate Professor of Economics, Trinity College, Dublin

Dr. D. S. A. Carroll, Chairman, Carrolls Industries Limited

Mr. J. G. Donovan, Former Assistant Secretary, Department of Industry and Commerce

Mr. J. H. Donovan, Member of the National Executive of the Confederation of Irish Industry

Dr. J. J. Kelly, Chief Executive and Member of the Electricity Supply Board

*NESC, *The Work of the NESC: 1977*, Report No. 39, paragraph 32.

Mr. D. M. Kennedy, Chief Executive and Director, Aer Lingus

Mr. M. McStay, Managing Director, Philips (Ireland) Limited

Mr. D. Nevin, Assistant General Secretary, Irish Congress of Trade Unions

Dr. T. Walsh, Director, An Foras Talúntais

3. The Study Group completed its report in June 1979, and an Addendum to the report was presented in August 1979 in the light of comments received by the Study Group on its report. The report of the Study Group is published in full in Part II of this report.

4. The Council has received a considerable number of comments on the report of the Study Group.* It considers these comments to be of considerable importance to the debate on enterprise in the public sector. In order to further the debate on this matter, Part III contains a synopsis of the comments which the Council has received on the Study Group report. It will be seen that there is some overlap, and differences of emphasis, and at times differences of viewpoint, between these comments. The Addendum presented by the Study Group in the light of the comments which it received is given in Appendix 1 to its Report. In Part IV, the Council draws attention to the principal areas of broad agreement and of broad disagreement between the report of the Study Group and the comments. It must be recognised that this, of course, will tend to under-estimate the extent of the agreement with points made by the Study Group, because those who comment on reports tend to concentrate on those points with which they disagree. The Council goes on to make some specific comments on the report of the Study Group.

*Comments were received from the Departments of Finance, the Public Service and Tourism and Transport; from the Irish Farmers' Association; and from the following Council members: Dr. B. Hensey, Mr. J. Holloway, Senator N. Mulcahy, Mr. J. O'Mahony, and Senator T. K. Whitaker.

PART II
STUDY GROUP REPORT
ON
ENTERPRISE IN THE PUBLIC SECTOR

CHAPTER 1

INTRODUCTION

1. In November 1978 the National Economic and Social Council invited us to undertake a study on Enterprise in the Public Sector with the following terms of reference:—

—to define what enterprise means in a public sector context and to outline its nature and purpose;

—to isolate whatever barriers or problems exist in relation to the development of enterprise within the Irish public sector;

—to make recommendations on how the problems and barriers to enterprise can be removed or minimised.

An important purpose of our study was to examine how the public sector could contribute most effectively to the achievement of the objective of full employment—our primary economic and social objective at the present time.

2. Our Study Group met on six occasions, the first meeting taking place on 10 January 1979. It was our unanimous belief that the issues raised in our terms of reference were of urgent national importance and that a lengthy report was not required, and we therefore decided that we should complete our work at the earliest possible date. We were also unanimous in our view as to the crucial issues based on our combined knowledge and experience and have accordingly concentrated on general principles applicable to the public sector. We refer to these crucial issues and proposed solutions in Chapter 3 of our report.

3. From the earliest years of the State's existence those working in the public sector in Ireland have made an immense contribution to our national development. We are concerned in this report with how the spirit of enterprise and dedication to public service, which has been the hallmark of many of our most notable national achievements, can be sustained and fostered. We focus our attention on the part of the public sector closest to the commercial environment—the State-sponsored sector—where we believe there are, in particular, great opportunities to build on past achievements. Our recommendations are put forward with the aim of enabling the State enterprises to achieve their full potential to contribute to our national economic development while at the same time conforming with the need for public information and accountability in relation to their activities, and the over-riding requirement for central policy-making in relation to the allocation of public funds.

CHAPTER 2

ENTERPRISE IN THE PUBLIC SECTOR

Enterprise

1. Enterprise is above all a quality of the individual. An enterprising person is one who sees an opportunity and at the same time identifies the resources needed to satisfy that opportunity and is capable of taking initiatives quickly to bring the two together. The marks of the enterprising individual are the capacity to see an opportunity where others miss it, the courage to seize it, the energy to pursue it and the tenacity to keep on through the difficulties that are inevitable in a new venture. Basic to all these in the individual is self-confidence and a belief in one's own judgement and ability. Enterprise is characterised by a sense of adventure. There is a keenness to explore for and to exploit new opportunities and a readiness to take risks in doing so. The primary concern is not to avoid mistakes but to achieve success.
2. Since enterprise is basically an individual attribute the first concern must be to give the maximum scope to the individual to develop his or her talents. Imaginative thinking and initiative are encouraged organisationally through the decentralisation of activity, through the delegation of authority and by placing the responsibility for day-to-day decision-making at the lowest possible levels. The harnessing of individual efforts through team work can in many cases enhance entrepreneurial abilities but the basic drive still depends on the individual.
3. Enterprise is more easily identified in the world of private business where it is widely regarded as a pre-requisite for outstanding success. We see it in individuals who have, for example, successfully launched new enterprises, dramatically expanded old ones, turned around ailing

companies and transformed them into flourishing businesses, developed new lines of production or opened up new markets.

4. Although less commonly recognised, enterprise in the public sector is similar in nature and purpose and has also produced equally outstanding results through new projects, new methods, new approaches to long-standing problems or solutions to new ones. The record of our public sector shows clearly that this has happened over the years in many areas and is still happening. We believe, however, that there is scope for much greater development of this kind if enterprise in the public sector is properly fostered. This can be aided through the creation and maintenance of an environment which encourages risk-taking and innovation.

State-Sponsored Sector

5. For the purpose of our study we concentrated our attention on that part of the public sector which operates in or close to the commercial environment—the State-sponsored sector. Government Departments, of course, play a vital part in maintaining the general environment in which enterprise can flourish. But there exists in the State-sponsored sector direct potential for wealth-creation and it is by creating viable employment through wealth creation that the over-riding national objective of full employment can best be achieved. Thus, while we have the State-sponsored bodies mainly in mind in this study, and especially those involved in commercial or semi-commercial activities, we consider that the principles underlying our recommendations are capable of much wider application, particularly to those parts of the public sector that are clearly engaged in commercial activities and for which the normal Civil Service procedures are inappropriate.

6. The State-sponsored bodies play a major role in the economy generally. They employ over 65,000 people and account directly for 8% of Gross Domestic Product and for one quarter of our annual capital investment. Over the years the contribution of the State-sponsored bodies to our national development has been very important and it has been widely acknowledged that they have proved an essential factor in the growth of our economy. They are involved directly or indirectly in

industry and commerce, in providing vital services, in marketing and in research and development. A rich fund of expertise has been built up within these bodies which can be used to generate more wealth and employment provided the climate for enterprise is right. Our recommendations are put forward with aims of creating and maintaining this climate.

CHAPTER 3

PROBLEMS AND RECOMMENDATIONS

Unity of the Public Sector

1. The State-sponsored bodies are in a unique position in the economic and political system. They are financed in varying degree by public funds and their boards or governing bodies are appointed and may be dismissed by Government. Yet for the most part they are expected to and must operate in a commercial environment. As public bodies established and financed by the State they must always be accountable ultimately to the Oireachtas.

2. It has been recognised from the beginning that the practices and procedures which govern the operation of other public agencies were not the most appropriate to State-sponsored bodies. These bodies were set up specifically because "it was realised that the normal arrangements and procedures of Government administration were not always suitable and that new agencies through which to function were required".* Yet the acceptance of this distinctive nature of State-sponsored bodies is being eroded. The concept of the unity of the public sector has begun to be interpreted more rigidly and narrowly than in the past. There is an increasing emphasis on centralised decision-making within the public sector and a tendency towards greater central control of the activities of State-sponsored bodies. These bodies are increasingly being regarded as forming a homogeneous group. They are not homogeneous and were not originally conceived as such.

3. In our view, these efforts to introduce uniformity throughout the whole of the public sector are seriously impeding enterprise in the

*Address by Mr S Lemass, then Tánaiste and Minister for Industry and Commerce, at the Institute of Public Administration, 2 March 1959

State-sponsored bodies. The autonomy and authority which are assigned by Government to these bodies are being increasingly undermined. The State-sponsored bodies have fundamentally different functions from those of Government Departments. The procedures and structures and personal attributes of staff which are appropriate to administrative units within these departments are not necessarily those best suited to bodies in the State-sponsored sector. It is of primary importance that the essential differences in functions and practices of the various parts of the public sector be seen and understood. In the public sector which has such a multiplicity and variety of functions there must inevitably be a conflict between the independence required for enterprising initiative and the need for overall administrative control. The public sector can do its job most effectively if these conflicting needs are recognised and a constant effort is made to maintain the proper balance.

4. It is tempting to seek for consistency and uniformity of practices and procedures throughout the entire public sector and there are obvious risks in allowing greater autonomy to individual State-sponsored bodies. In striving to attain the right balance, however, it is easy to overlook the lost opportunities for innovation and creative development that will occur if the climate does not encourage enterprise. In our view, the increasing pressures for centralisation of decision-taking within the public sector under the umbrella of "the unity of the public sector" have seriously inhibited the development of enterprise by State-sponsored bodies. We believe that it would be of much greater value to the community to focus on "the diversity of the public sector" if an environment is to be created in which enterprise can flourish. By the very nature of their tasks our State-sponsored bodies should be capable of getting things done quickly. They should be enterprising and readily adaptable to new conditions. They should be prepared to take risks and not be afraid of mistakes. As in business practice, the emphasis must be on action rather than on deliberation. This difference from the Civil Service is a large part of the reason for the existence of State-sponsored bodies. If the difference is diminished—and the tendencies are increasingly in this direction—so will the ability of the State-sponsored bodies to work for the public good be diminished.

Political Commitment and Mandate

5. There is no doubt in our minds that the attitude of Government to the role of State-sponsored bodies is the key factor in determining whether public sector enterprise will be released or constrained. While the intention of the Government to encourage greater enterprise in the public sector has already been expressed through the Industrial Development Consortium, and a National Enterprise Agency has been proposed, we consider that there is still a need for strong Government action to ensure that the existing problems and barriers to public sector enterprise are removed or minimised.

6. We therefore recommend that the Government should state publicly and unequivocally that State-sponsored bodies have an explicit objective to seek to create additional wealth in ways which will generate additional commercially viable employment. We also recommend that this commitment be confirmed in writing to the Chairman of each State-sponsored body by the appropriate Minister. This commitment should include an undertaking that each State-sponsored body will be given the necessary freedom of action in relation to the research and development of new activities, the initiation and financing of new investment projects and the appointment and development of staff at all levels to carry through its programmes within normal commercial resource constraints. The statutory limitations within which State-sponsored bodies operate should also be flexibly interpreted and widened where to do so would allow for the setting up of demonstrably viable projects.

7. In many instances the legislative parameters within which State-sponsored bodies operate do not give a sufficiently clear mandate to these bodies regarding their broad objectives and functions. For each body, therefore, the broad objectives and functions should be agreed between the board and Minister concerned. Thereafter, the relationship between the Minister and the board should be the same as that between the shareholders and board of any private company. Constant intervention should no longer be a feature of the relationship between State-sponsored bodies and Government Departments. The bodies should have full independence in the day-to-day conduct of their business. They should have the same freedom as any firm in the private sector in

relation to contracting for or buying equipment, materials or services, in acquiring premises, in recruiting and remunerating all staff, in marketing their goods and services and in determining the prices they charge for them.

8. Where commercial State-sponsored bodies are required to provide socially desirable though uneconomic services, the extent and cost of such services should be agreed between the board and Minister concerned and an undertaking given that the agreed cost will be met by the Exchequer. Thus the danger of confusing social and commercial objectives within State-sponsored bodies will be minimised.

Policy Reviews

9. The broad objectives and functions of the State-sponsored bodies need to be re-assessed and up-dated from time to time to take account of changing circumstances. This should be done through regular policy reviews in which the board of each State-sponsored body and the Minister concerned participate jointly. The frequency and nature of such reviews, and the submission of reports by State bodies, which may vary from one body to another depending on their particular circumstances, should be settled between each board and the appropriate Minister. The objective of the reviews should be to facilitate the planning process of both the State-sponsored bodies and sponsoring Departments. If the relationships between State bodies, Ministers and Government Departments were arranged on an organised basis as proposed, the frustrations caused by constant surveillance of and day-to-day intervention in the affairs of the State bodies could be avoided.

Personnel Policy

10. Enterprise, as we have emphasised, is primarily an individual quality. Enlightened personnel policy is, therefore, a vital instrument in creating the proper environment for enterprise to thrive. However, the right of the boards and management of State-sponsored bodies to determine their own personnel policies has increasingly been challenged. There has been a trend in recent years towards establishing uniformity in the conditions of service of staff throughout the whole public sector through the imposition of centralised control. The result

has been that, in many instances, the boards and management of State-sponsored bodies have been deprived of the responsibility to tailor the terms of employment of their staff to their own particular needs. We are concerned that this tendency towards standardisation and centralisation is causing a sense of widespread frustration throughout the State-sponsored sector. It is having a seriously damaging effect on morale and is the antithesis of what is needed to develop a climate in which entrepreneurial risk-taking can flourish.

11. It is not necessary, nor is it desirable, that there should be complete uniformity in the conditions of service of public sector staff across the board. This stultifies initiative and enterprise and introduces an inflexibility into personnel policies which makes it impossible for bodies operating in a commercial environment to react to changing market conditions. State-sponsored bodies should have reasonable independence in staff matters; the freedom to decide levels of staffing, to settle all pay levels and conditions of employment, to recruit and dismiss staff and to conduct negotiations with trade unions and staff associations where the need arises. The staff of State-sponsored bodies will to a certain extent come from the private sector and will move back there if a rewarding opportunity is offered. Boards should therefore be free to determine what a job is worth and to pay it on their own responsibility if they are to recruit and retain staff of the required quality. State-sponsored bodies should, of course, also be subject to the same constraints as private sector firms are through nationally or otherwise agreed pay policy and should also have regard to the consequences their decisions may have for the public sector generally. This does not mean that a rigidity in regard to pay and conditions should be imposed on these bodies which deprives them of the freedom to adapt to the prevailing market conditions in which they are required to operate.

12. Industrial disputes have been in recent years more acute in the public sector. A contributing factor may have been that employees in this sector consider themselves to be more shielded from the effects of industrial action than would be the case in parts of the private sector. Unfortunately, this has led to a situation in which management in State-sponsored bodies have on occasions been deterred from pressing

ahead with new projects because of concern with potential industrial disputes. Management and unions within State-sponsored bodies have a shared responsibility to create a climate in which there is a willingness to adapt to changing circumstances, a willingness to accept new ideas and work practices and a realisation of their responsibilities in providing vital services.

13. If, for example, the commercial side of a State-sponsored body's operation is consistently loss-making, there must be willingness on the part of staff and trade unions to allow the body to adapt its operation to achieve profitability. Equally there should be a willingness to diversify into new areas of activity which provide greater opportunities for wealth creation in the economy generally. If new enterprises are being established, it is our considered view that, where possible, these should be set up as separate corporate entities in order to establish working practices appropriate to the particular enterprise rather than to the parent body and also to emphasise the stand-alone nature of the activity in question.

Finance

14. If the State-sponsored bodies are to act independently in the way we suggest, they should have access to adequate resources to enable them to plan their work and carry it out without the uncertainty of having to look to the State for aid at frequent intervals. For bodies engaged in commercial activities, this means that they should be given a sound financial base from the start, just as a newly launched company in the private sector would. Initial financing should include sufficient share capital or other permanent capital to enable the body, with no more than a normal amount of borrowing, to get through the start-up period into profitable operation without having to seek State aid to meet current expenses. When a State-sponsored body has been properly capitalised, it should be expected to operate thereafter on commercial lines provided, of course, that the board and management are given the executive freedom we recommend.

15. A State-sponsored body in the commercial sector, operating along commercial lines, should be given freedom to manage its own financial

affairs as a private company does. It should be free to borrow on overdraft or on longer term arrangements or to issue debentures to the extent that it can do so on the strength of its assets, financial position and future prospects without the support of a guarantee or letter of comfort from the State. There should be no obligation to seek the prior approval of the relevant Minister or the Minister for Finance. The body should be free to undertake any new capital development within its sphere of responsibility if it can be financed without either recourse to the Exchequer or a State guarantee.

16. From time to time, commercial State-sponsored bodies may propose major new developments too large to be financed without fresh share capital. Where it is felt that this share capital should come from the State, the board, having thoroughly studied the project, should make a formal proposal to the appropriate Minister for new capital, supported by all the necessary information. The proposal should include projections and financial data which any prudent investor would seek in a situation where, for example, a rights issue of shares was being made by a private company. It is vital that the consideration of such a proposal on behalf of the State should be efficient and expeditious. Long delays in considering proposals are not only frustrating to boards and management, but endanger the projects themselves. Since the staff of Government Departments cannot be expected to have in-depth expertise on all aspects of every State-sponsored body's activities, the staff of the body concerned should participate in the consideration of the proposal by the relevant Department, so that questions arising may be disposed of rapidly. Where two or more Departments are involved they should carry out their examination jointly and with the participation of the body in question, so that the lengthy delays which occur when Departments carry out their own separate examinations are avoided.

17. There is also a large number of State-sponsored bodies not engaged in purely commercial activities that are financed directly by State grant. In order to plan their operations properly these bodies should have some commitment about future financing beyond the current year. For example, in the case of the promotional bodies, it is difficult to approve grants to private enterprise which will not be taken

up for several years unless there is some assurance that finance to meet these long-term commitments will be available. We therefore recommend that State-sponsored bodies that are funded by way of annual grant from the Exchequer should have their annual allocations determined on a rolling basis for a three year period. This would be facilitated by the adoption by the Government of multi-annual budgeting in relation to its planning activities.

Role of Boards

18. The crucial factor in the performance of any organisation is the effectiveness of its board and top management; they have a key role in developing the corporate outlook and in fostering within the organisation the climate necessary for the release of entrepreneurial talents. In this regard, the correct relationship between boards and managements and a high level of modern management practice throughout the organisation are of particular importance. Boards of State-sponsored bodies should see themselves as active agents of community development, recognising and discharging the extra dimension of responsibility expected of a State organisation. There should be a policy commitment on this at the top in State bodies which should be documented, programmed and given an appropriate allocation of resources.

19. The performance of a State-sponsored body depends critically on the quality of the board members appointed to direct it. Unless the board comprises people of ability and wide experience, the State-sponsored body is unlikely to be well equipped and staffed. Consequently it will not function at its best. The most important task a Government has, therefore, in relation to any State body is the appointment of the Chairman and members of the board. The Chairman of the board holds a key position. On him rests responsibility for ensuring that the board operates with a unity of purpose which pervades the whole organisation. For this reason, the Chairman of the board of each State-sponsored body when appointed should, where possible, be consulted before the other members whom he must organise as a team are selected.

20. It is also our belief that the unity of purpose which boards must have in order to provide the proper leadership within State-sponsored

bodies can be jeopardised when non-elected members of boards are appointed as representatives of particular interest groups. Such members of boards should, as far as possible, be appointed in their personal capacity on the basis of their potential to contribute to the effective operation of the board to which they are appointed and not as representatives of any particular group.

Continuing Commitment to Enterprise

21. The experiment in co-operation between the State-sponsored bodies in relation to their activities in Third World countries, through DEVCO (State Agencies Development Co-operation Organisation), has been a successful one. A similar effort to stimulate the generation of greater enterprise and increased employment by State-sponsored bodies on an on-going basis would, we believe, prove equally successful. A working party drawn from the agencies that initiated DEVCO (Aer Lingus, CTT, IDA, IPA and SFADCO) studied this possibility at our request. Having considered their report, we recommend that the State-sponsored bodies themselves should establish a small unit with the following broad functions:—

- (i) to provide a forum for interaction and exchange of ideas and experiences at horizontal level between State-sponsored bodies and between State-sponsored bodies and private enterprise;
- (ii) to identify needs and possibilities for individual or joint enterprise ventures between State-sponsored bodies, as well as joint ventures between State-sponsored bodies and the private sector;
- (iii) to encourage research on enterprise development in the State-sponsored bodies, with particular emphasis on the creation of employment by these bodies through wealth creation;
- (iv) to promote the organisation of courses and seminars for board members and for staff in State-sponsored bodies particularly those involved in stimulating enterprise within their own organisations;
- (v) to disseminate information throughout the State-sponsored bodies on new ideas and practices for enterprise development;
- (vi) to identify on a continuing basis problems inhibiting the development of enterprise and employment and ways and means of overcoming or minimising these problems.

We would emphasise that such a unit should be closely identified with the State-sponsored bodies. It should have a council and executive committee somewhat similar to DEVCO, its staff should be drawn from the State-sponsored sector and its structure should be informal and flexible. We believe the State-sponsored bodies should take the initiative in establishing a unit of the kind proposed and so begin, in the national interest, a process of continuous self-appraisal and regeneration which could have immense potential for the future.

Conclusion

22. The central theme of this report is that within the public sector in this country there are many talented, able and willing people, who could contribute much more effectively to economic and social development in Ireland. We have put forward recommendations aimed at creating a more encouraging climate. It is our firm belief that the spirit of dedication and commitment which has been such a notable feature of our public service will be strengthened, enterprise will be released, people of ability will again be attracted into the State-sponsored sector and the contribution of our public sector to national development will be significantly increased, if the recommendations contained in this report are implemented.

Signed:—

B O'Regan (Chairman)
J A Bristow
D S A Carroff
J G Donovan
J H Donovan
J J Kelly
D M Kennedy
M McStay
D Nevin
T Walsh

Date:—29 June 1979

APPENDICES

APPENDIX 1

Letter from Chairman of Study Group, and Accompanying Addendum by Study Group to its Report

Dr Noel Whelan
Chairman
National Economic and Social Council

29 August 1979

Addendum to Study Group Report on Enterprise in the Public Sector

Dear Dr Whelan

The Study Group have very carefully considered the comments on its report which have been submitted to the Council and passed to the Group for our reaction, including especially the comments in the Memoranda of the Departments of Finance and of the Public Service.

Having considered these comments it is our unanimous view that there is nothing in them that causes us to alter our recommendations. On the contrary we would most strongly urge those concerned to read our report again and to consider carefully precisely what we have said.

Most of the comments from Government Departments exemplify the perspective of the controller as opposed to that of the entrepreneur. These illustrate explicitly the attitudinal problems which we identified as the central crucial issue in our report. That issue is the conflict between the independence required for enterprising initiative and the appropriate degree of central administrative control. What we have been seeking to do is to draw attention to this difference and to describe an imbalance which has developed and which we believe to be widely recognised outside the Civil Service.

It is, of course, no easy matter to achieve the right balance between the independence required for enterprising initiative and the controls appropriate to the use of public funds. A report such as ours could not say where precisely the point of balance would be for each different body; this would be determined in the regular policy reviews we recommend (paragraph 9). Our recommendations are aimed at ensuring a climate which favours, rather than restricts, enterprise development in the State-sponsored bodies, and we emphasise that the principles which underlie these recommendations are capable of much wider application in the public sector.

Because we have endeavoured to concentrate on crucial issues, we believe the thrust of our report may not be fully understood. We have therefore prepared the enclosed Addendum, and we ask that this letter and the Addendum should be attached to the report as an Appendix and published with it.

The members of the Group are glad to have been invited by the National Economic and Social Council to undertake this important study. We hope that the report will be a constructive contribution to major decisions in the coming months regarding State-sponsored bodies.

Yours sincerely

For Study Group:
Brendan O'Regan
Chairman

Addendum to Report*

1. In the introduction to the report we stated that the issues raised were of urgent national importance and we were at pains to draw up a brief report concentrating on general principles. The urgency of the matter is increased by the recent decision on the organisation of the postal and telecommunications services.

2. As we explained in the report, a conscious and deliberate decision was taken to concentrate on the most crucial issues affecting the public

*Note: The Addendum was written at the point when most, but not all, comments on the Study Group Report had been received.

sector's contribution to the achievement of full employment. We did not then, and we do not now, believe that it would have been practical, nor for our purposes desirable, to undertake a detailed examination of the whole public sector. A wider study—on the lines suggested by the Department of the Public Service—would, we feel, seriously delay rather than facilitate necessary reforms. The report and this Addendum represent the unanimous views of a Study Group set up by NESC and drawn from diverse backgrounds with combined experience and knowledge of public and private enterprise, the Civil Service, trade unions and universities. We have considered the views of many people which were put to us before and since the report was prepared. We have also taken into account various reports and studies which are available concerning the public sector, as well as literature and experience related to the progress of State enterprise in other countries (see Appendix 3).

3. On page 4 of our report, we explained our reasons for concentrating on the State-sponsored bodies. However, we also had in mind that the Public Services Organisation Review Group in 1969 dealt in great detail with the question of delegation in the Civil Service and that this matter was being specially handled by the Department of the Public Service and was subject to the advice of the Public Service Advisory Council.

4. We are in no doubt that the State-sponsored bodies are and must remain subject to the authority of the Oireachtas and of the Government. Our recommendations are not aimed at escaping this over-riding authority, nor would they have that effect. The ultimate authority of the Oireachtas is explicitly referred to, and the authority of the Government and of the relevant Ministers is also recognised fully in the report. We recommended, on page 8 of our report, strong Government action to ensure that State-sponsored bodies have an explicit objective to create increased wealth in ways that will generate additional viable employment. We believe that the attitudes of the Oireachtas and Government are key factors in this respect.

5. Neither was it our task to comment on the efficiency and dedication of the officials in the central Departments. Rather, we have endeavoured

to identify weaknesses in the system, which hinder the utilisation of the full potential for development in Government Departments as well as in State-sponsored bodies. As a rule, our Government Departments and State-sponsored bodies enjoy good relationships, and their activities are generally complementary to one another. Nevertheless, the comments we have received confirm us in our belief that changes are urgently required in some official attitudes within Government Departments towards State-sponsored bodies and how they operate. We are concerned about the danger of an inexorable growth of unnecessary administrative control—not over policy issues which are the care of the Oireachtas and the Government, but over many day-to-day activities which should be within the competence of the Boards of State-sponsored bodies. Such control is inimical to the development of policy and to enterprise and contrary to the very concept of the State-sponsored body, which has been responsible for so much valuable development in Ireland. We know from our study and experience of State-sponsored bodies in other countries that such organisations do not succeed if they become subject to the arrangements and procedures of Government administration. We have stressed this factor in our report because we believe it is a real danger which faces State enterprise generally on account of the very nature and needs of central administration.

6. None of the recommendations we have made would, so far as we are aware, involve a breach of any Article of the Constitution. Our proposals in regard to the financing of State-sponsored bodies are not intended to weaken the financial control of the Oireachtas, and in general do not appear to us to contravene any essential provision in the financial procedures laid down by the Oireachtas. The machinery by which the Oireachtas exercises its financial control would not be affected by the changes we recommend. In certain cases there may be statutory provisions, e.g. in relation to borrowing by commercial bodies, which would require amendment, but such provisions are not necessary for effective Oireachtas control. Similarly, the recommendation for financing non-commercial bodies on a rolling three-year basis would need Oireachtas approval, but it would improve financial control, not weaken it.

7. In formulating our recommendations concerning commercial bodies we did not, of course, seek to devise a means by which these bodies would secure concealed subsidies. The expression, operating "on commercial lines" used in the report should be given its normal meaning in ordinary life, that is, that the body it refers to would aim to make sufficient profit to remunerate the capital employed, provide reserves for the replacement or renewal of assets and for at least moderate expansion, and yield an adequate return to the shareholders. Our concept is that commercial bodies, having been given the adequate initial resources appropriate to the activity for which they were set up, and executive freedom to carry on that activity, should then be required to operate on commercial lines, as defined, but without being compelled to finance, from their own resources, socially desirable but loss-making activities. As in commercial life, the Board would be judged by its performance. It would be a matter of Government policy to decide, after consultation with the Board, what would be considered an adequate growth in assets and/or dividend return to the shareholders.

8. Our recommendations would place more responsibility than at present on members of State-sponsored Boards. The demand for persons of the required calibre would of course be greatly increased. We have no doubt that there are many suitable, experienced and well-qualified people who would be attracted to give their services readily as members of State-sponsored Boards, for the public good, if unnecessary causes of irritation and frustration were removed. We recognise that all Boards may not be successful in carrying out their new responsibilities, and that even the best organisation can become stale. It would be the responsibility of the relevant Minister to make from time to time such changes in Boards as would be needed to keep them functioning effectively. Some of the Departmental comments on our recommendations seem to us to result from an implied mistrust of State-sponsored bodies, as if any freedom given to them would be abused. It should be recognised that members of Boards and Managements, selected for their ability and integrity, will be fully conscious of their responsibilities and will carry them out with the same fidelity as Civil Servants.

9. In a large organisation—and Government must for this purpose be so ranked—enterprise and efficiency can be secured only if, first, there is a proper decentralisation of activity, and then a real delegation of power with real accountability. Such delegation of power does not diminish the over-riding authority at the top, whether it rests in the Board of a Company, in a Government or in Parliament; rather, effective exercise of such authority is impossible without delegation of power to individuals (or groups of individuals) who will be answerable for the way they use their power. Effective delegation is essential—particularly in relation to activities of a developmental nature—if Government itself is not to be seriously overburdened. Our recommendations have been framed to secure this real delegation of power to the State-sponsored bodies, in the interest of greater enterprise and efficiency. We recognise that there are risks in this. All delegation involves risks. We do not believe that the risks, if our recommendations are accepted, would be excessive, and the potential rewards are very great. Many of the recommendations, including some of the most important could be put into effect by the various Ministers concerned without legislation, following a simple decision of the Government. We urge that those that can be so implemented should be, as quickly as possible, and the necessary steps to implement the others should follow swiftly.

August 1979

APPENDIX 2

Summary of Recommendations

1. It is of primary importance that the essential differences in functions and practices of the various parts of the public sector be seen and understood. In the public sector which has such a multiplicity and variety of functions there must inevitably be a conflict between the independence required for enterprising initiative and the need for overall administrative control. The public sector can do its job most effectively if these conflicting needs are recognised and a constant effort is made to maintain the proper balance (Chapter 3, paragraph 3).
2. We consider that there is a need for strong Government action to ensure that the existing problems and barriers to public sector enterprise are removed or minimised. We therefore recommend that the Government should state publicly and unequivocally that State-sponsored bodies have an explicit objective to seek to create additional wealth in ways which will generate additional commercially viable employment. We also recommend that this commitment be confirmed in writing to the Chairman of each State-sponsored body by the appropriate Minister. This commitment should include an undertaking that each State-sponsored body will be given the necessary freedom of action in relation to the research and development of new activities, the initiation and financing of new investment projects and the appointment and development of staff at all levels to carry through its programmes within normal commercial resource constraints (Chapter 3, paragraphs 5 and 6).
3. The statutory limitations within which State-sponsored bodies operate should be flexibly interpreted and widened where to do so would allow for the setting up of demonstrably viable projects. In

many instances the legislative parameters within which State-sponsored bodies operate do not give a sufficiently clear mandate to these bodies regarding their broad objectives and functions. For each body, therefore, the broad objectives and functions should be agreed between the board and Minister concerned (Chapter 3, paragraph 7).

4. The broad objectives and functions of the State-sponsored bodies need to be re-assessed and up-dated from time to time to take account of changing circumstances. This should be done through regular policy reviews in which the board of each State-sponsored body and the Minister concerned participate jointly. The frequency and nature of such reviews, and the submission of reports by State bodies, which may vary from one body to another depending on their particular circumstances, should be settled between each board and the appropriate Minister. The objective of the reviews should be to facilitate the planning process of both the State-sponsored bodies and sponsoring Departments (Chapter 3, paragraph 9).

5. Thereafter, the relationship between the Minister and the board should be the same as that between the shareholders and board of any private company. Constant intervention should no longer be a feature of the relationship between State-sponsored bodies and Government Departments. The bodies should have full independence in the day-to-day conduct of their business. They should have the same freedom as any firm in the private sector in relation to contracting for or buying equipment, materials or services, in acquiring premises, in recruiting and remunerating all staff, in marketing their goods and services and in determining the prices they charge for them (Chapter 3, paragraph 7).

6. Where commercial State-sponsored bodies are required to provide socially desirable though uneconomic services, the extent and cost of such services should be agreed between the board and Minister concerned and an undertaking given that the agreed cost will be met by the Exchequer (Chapter 3, paragraph 8).

7. State-sponsored bodies should have reasonable independence in staff matters; the freedom to decide levels of staffing, to settle all pay

levels and conditions of employment, to recruit and dismiss staff and to conduct negotiations with trade unions and staff associations where the need arises. The staff of State-sponsored bodies will to a certain extent come from the private sector and will move back there if a rewarding opportunity is offered. Boards should therefore be free to determine what a job is worth and to pay it on their own responsibility if they are to recruit and retain staff of the required quality (Chapter 3, paragraph 11).

8. State-sponsored bodies should, of course, also be subject to the same constraints as private sector firms are through nationally or otherwise agreed pay policy and should also have regard to the consequences their decisions may have for the public sector generally. This does not mean that a rigidity in regard to pay and conditions should be imposed on these bodies which deprives them of the freedom to adapt to the prevailing market conditions in which they are required to operate (Chapter 3, paragraph 11).

9. If new enterprises are being established it is our considered view that, where possible, these should be set up as separate corporate entities in order to establish working practices appropriate to the particular enterprise rather than to the parent body and also to emphasise the stand-alone nature of the activity in question (Chapter 3, paragraph 10).

10. State-sponsored bodies engaged in commercial activities, should be given a sound financial base from the start, just as a newly launched company in the private sector would. Initial financing should include sufficient share capital or other permanent capital to enable the body, with no more than a normal amount of borrowing, to get through the start-up period into profitable operation without having to seek State aid to meet current expenses (Chapter 3, paragraph 14).

11. A State-sponsored body in the commercial sector, operating along commercial lines, should be given freedom to manage its own financial affairs as a private company does. It should be free to borrow on overdraft or on longer term arrangements or to issue

debentures to the extent that it can do so on the strength of its assets, financial position and future prospects without the support of a guarantee or letter of comfort from the State (Chapter 3, paragraph 15).

12. From time to time, commercial State-sponsored bodies may propose major new developments too large to be financed without fresh share capital. Where it is felt that this share capital should come from the State, the board, having thoroughly studied the project, should make a formal proposal to the appropriate Minister for new capital, supported by all the necessary information. Since the staff of Government departments cannot be expected to have in-depth expertise on all aspects of every State-sponsored body's activities, the staff of the body concerned should participate in the consideration of the proposal by the relevant Department, so that questions arising may be disposed of rapidly. Where two or more Departments are involved they should carry out their examination jointly and with the participation of the body in question (Chapter 3, paragraph 16).

13. We recommend that State-sponsored bodies that are funded by way of annual grant from the Exchequer should have their annual allocations determined on a rolling basis for a three year period. This would be facilitated by the adoption by Government of multi-annual budgeting in relation to its planning activities (Chapter 3, paragraph 17).

14. In fostering within the organisation the climate necessary for the release of entrepreneurial talents the correct relationship between boards and managements and a high level of modern management practice throughout the organisation are of particular importance. Boards of State-sponsored bodies should see themselves as active agents of community development, recognising and discharging the extra dimension of responsibility expected of a State organisation. There should be a policy commitment on this at the top in State bodies which should be documented, programmed and given an appropriate allocation of resources (Chapter 3, paragraph 18).

15. The performance of a State-sponsored body depends critically on the quality of the board members appointed to direct it. Unless the board comprises people of ability and wide experience, the State-sponsored body is unlikely to be well equipped and staffed. Consequently it will not function at its best. The most important task a Government has, therefore, in relation to any State body is the appointment of the Chairman and members of the board. The Chairman of the board holds a key position. On him rests responsibility for ensuring that the board operates with a unity of purpose which pervades the whole organisation. For this reason, the Chairman of the board of each State-sponsored body when appointed should, where possible, be consulted before the other members whom he must organise as a team are selected (Chapter 3, paragraph 19).

16. Members of boards should, as far as possible, be appointed in their personal capacity on the basis of their potential to contribute to the effective operation of the board to which they are appointed and not as representatives of any particular group (Chapter 3, paragraph 20).

17. We recommend that the State-sponsored Bodies themselves should establish a small unit to stimulate greater enterprise, increased employment, and a process of continuous self-appraisal and regeneration (Chapter 3, paragraph 21).

APPENDIX 3

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PART III

**SYNOPSIS OF COMMENTS RECEIVED BY COUNCIL ON
THE STUDY GROUP REPORT**

General Points*

I

The report tends to give the impression that a hostile attitude and restrictive approach is adopted towards State-sponsored bodies—presumably by Government Departments. This does not accord with the real situation.

It seems to be assumed that all State-sponsored bodies are highly successful in their various spheres. In fact in most cases there is no real objective standard of measurement of achievement. Many of them depend on Exchequer grants, do not remunerate capital, or are in monopoly positions where financial burdens can be passed on to consumers.

There is a need to distinguish more clearly between the various types of State-sponsored body. There is much to be said for giving greater freedom to a body which has shown a high degree of enterprise and efficiency and is paying its way. But all State-sponsored bodies would not fall under this heading and there must inevitably be hesitations about giving greater freedom to bodies which have consistently imposed heavy burdens on taxpayers or consumers.

There is an implication that State-sponsored bodies have been prevented from engaging in desirable new developments. It would add weight to the report if some specific instances could be given.

**Note:* The comments which were received have been edited and have been arranged by subject area. The Roman capitals (I, II, etc.) are used in order to distinguish the groups of comments from one another. For example, within each subject area, but not between subject areas, all the comments under I come from one particular source.

II

The report ignores the issue of enterprise in the agencies involved in the planning and administration of the social services. Enterprise is just as important in these agencies as in the commercial group.

III

There must be a clear acceptance of the principal object which the Study Group had in mind, and that all unnecessary obstacles in the way of achieving greater enterprise and efficiency in the State-sponsored bodies must be removed as early as possible. The difficulty arises when one endeavours to translate that general object into particular rules, especially when trying to establish the extent of the minimum public controls which are required. There is difficulty in reconciling the two contrasting principles which arise with State-sponsored bodies:

- (i) the object of setting them up is to give them a considerable degree of independence;
- (ii) since they are public bodies set up pursuant to statute, the relevant Minister must accept responsibility for their activities in the Dáil, and for that reason they must be subject to public control.

These issues have been dealt with by convention rather than by rigid rules.

The functions of State-sponsored bodies might be classified in various ways, e.g. commercial, promotional, regulatory or social. The widely varying objectives of these bodies are such that they cannot be subjected to identical forms of assessment or control. The best approach might be a set of guidelines for each type of State-sponsored body.

Even within the commercial sector it is necessary to distinguish between monopolistic bodies and those which operate in a real commercial environment. In the Irish context, there are very few bodies

which could truly be called commercial, i.e., bodies which are expected to survive in a normal competitive situation, without special assistance, and to balance their books. Only in the case of truly commercial bodies operating without loss in the competitive world could the type of freedom of action which is recommended in the report be envisaged.

Where a body is truly commercial, then the granting of total freedom to it could be considered, on the clear understanding that its management and staff fully accept the consequences. The fact that the body in question may have got financial assistance from the State should not of itself deny it the status of being commercial. A great deal of public money is now being put directly or indirectly into private sector enterprises and this has not given rise to any call for State control over their activities. It can be argued, therefore, that if a State enterprise is receiving no more assistance than that which would be given to a private sector enterprise, it should not be impeded by unnecessary supervision.

It is not realistic to allow the type of freedom of action which is recommended in the report to monopolistic bodies where the market is assured either by law or otherwise and all costs can be passed on to consumers. If such organisations were allowed to fix their own staff levels, salaries, and sale prices without recourse to Government approval, they would in effect be in an extremely privileged position. It is also difficult to conceive that such bodies should be entirely free to seek funds for capital requirements independent of overall Government budgetary considerations; apart from their monopoly status the amounts of capital involved can have a considerable impact on the market. In the case of enterprises of this kind there must, therefore, be substantial control over their activities, including their pricing policies, while at the same time maximum operational freedom must be aimed at.

Promotional bodies could not be considered commercial, and should be subject to different forms of assessment and control. For these bodies, the idea of near total freedom is hardly tenable. Basically

these bodies are in the business of granting public funds to individuals and enterprises of various kinds and the pressures upon them to adopt a liberal approach are very considerable.

Some form of assessment and control is needed for other non-commercial bodies, that is the enterprises which are clearly uneconomic and can be maintained in existence only by the payment of a public subsidy, and bodies which are administrative, regulatory or established for the provision of a social service.

IV

The clarification of the functions of State-sponsored bodies which is advocated in the report must, in the long run, restrict the scope of each body to its statutory mandate. Furthermore, while the creation of wealth and the provision of viable employment must be a general objective of all State-sponsored bodies, this objective must always be secondary to the satisfactory performance of the statutory task of each body. In considering the freedoms from control by the Ministers functionally responsible, now advocated for the State-sponsored bodies, regard must be had to the extent to which freedoms are consistent with the demands of the electorate, of the Oireachtas and, above all, of the Constitution.

Since State-sponsored bodies are agencies of the State it would be illogical if they were to act in contravention of public policy.

The question arises as to whether there can be *real* risk-taking in the private enterprise sense where there is the ultimate guarantee of the State or a State-enforced monopoly. There is a growing body of opinion that, in its present sheltered position, State-sponsored enterprise lacks the ultimate spur to maximise efficiency and that measures should be taken to introduce competition and to apply the disciplines of the commercial world.

V

The need for initiative and enterprise in State agencies engaged in promotional and other "non-commercial" activities is no less important than in the commercial State bodies.

It would have been useful if the report had taken cognisance of the implications of the fact that the State-sponsored bodies were established by decision of the Government, that they are accountable to the Oireachtas, and that they are financed in varying degree by public funds. The Study Group appear to be under a misapprehension about the underlying reasons for Government controls. The purpose of the controls is not to interfere in the detailed management of the undertakings, as the report seems to imply, but to ensure that the activities of the undertakings are brought into the wider context of Government policies for the economy as a whole and to see that they operate to the overall advantage of the community.

It would have been useful if the Study Group had referred to particular instances of successful enterprise (there are many such examples) and related them to the problems which they now perceive. With a view to identifying other possible constraints on enterprise, the Study Group might have considered, in greater depth, the extent to which more flexible attitudes would yield benefits in the sphere of growth and employment. The question of the attitudes of the private sector to expansion into their area of operation by State-sponsored bodies (frequently seen, rightly or wrongly, as enjoying a privileged or protected position) might also be worth examining. The scope for joint ventures by public and private bodies might also be considered.

The report recommends that State bodies be given the necessary freedom of action in relation to research and development of new activities and the initiation of new investment projects. One is not aware that any restrictions or constraints are placed on the State bodies in relation to these matters. There is, of course, the over-riding question of how new projects should be financed and on this point the degree of freedom envisaged in the report is not realistic.

VI

Any analysis of entrepreneurship in the public service, whether it is in State-sponsored bodies or in Government Departments, that does not take into account the role of the political system and the elected representatives is incomplete. The political process and the administration process are inter-related and inter-dependent.

Support is offered for the giving of the maximum freedom of enterprise and operation of State bodies to enable them contribute as much as they can to sound national development, starting with efficient and economic performance of their specific functions and responsibilities. Achievement of the right balance between the freedoms conducive to, or necessary for, enterprise and the controls appropriate to the use of public funds is, however, an exceedingly delicate matter. This balance is not properly struck in the Study Group's report.

There is no hint in the Report of any *specific* developments which have in the past been stifled by the constraints imposed on State bodies or might in the future be stimulated by a freer dispensation.

Extent of Centralised Decision-Making within Public Sector

I

The Group has advanced no evidence to substantiate its claim that there is an increasing emphasis on centralised decision-making which has seriously inhibited the development of enterprise by State-sponsored bodies. On the contrary, the diversity of activities in which these bodies are engaged makes it difficult to draft general principles on project appraisal and the provision of capital. Accordingly, decisions on development proposals from State-sponsored bodies are taken on the merit of each individual case as submitted. The relevant decisions have necessarily to be taken in the context of the overall budgetary position and the constraints of the national borrowing requirement. Much of the apparent involvement by the Civil Service in the affairs of State-sponsored bodies arises because many of them are chronic loss-makers.

II

It is, of course, desirable that the maximum practicable freedoms should be given to State-sponsored bodies, but some controls and directives are inevitable in relation to specific functions of each body and in relation to general Government policy.

There has, however, been no policy or practice of applying a uniform treatment to all State-sponsored bodies in furtherance of the concept of "the unity of the public sector". On the contrary, a significant difference has been recognised for some time between the "commercial" State-sponsored bodies, which derive the greater part of their income from the sale of goods or services, and the "non-commercial" bodies, which are agencies of Government financed by Exchequer subvention. Increasingly, too, distinctions are becoming apparent within the two categories of State-sponsored body. What

may appear to the State-sponsored bodies as the application of a policy of uniform treatment to State-sponsored bodies is no more than the application of various aspects of Government policy across the whole public sector.

Complaints about the imposition of undue uniformity are difficult to reconcile with the wide variations at present in the organisation, financing, and pay structures of State-sponsored bodies generally.

III

Apart from the pay area, there is no evidence (and indeed the report does not adduce any) of the adoption of a more uniform, centralised approach in relation to the State-sponsored bodies. Despite a fairly uniform statutory framework, the actual relationship varies in practice from one under-taking to another and, in the case of particular under-takings, varies over time depending on prevailing circumstances.

Objectives of State-Sponsored Bodies

I

There is perhaps a case to be made for spelling out more clearly the objectives of State-sponsored bodies. If some of them are to be commercial in the real sense then they should be expected not to make a loss. If they are given various freedoms of activity to achieve that objective then it should be made clear to them and to their creditors and staff that they must accept the consequences of their own actions and that the State will not take responsibility for their undischarged obligations. Conversely, if the State agrees to guarantee certain funds etc., then certain controls should be accepted.

In the case of all State-sponsored bodies, there may well be a case for greater detail in the legislation dealing with them.

II

Periodic review and updating of the broad objectives and functions of the State-sponsored bodies as recommended by the Study Group has much to commend it. But if the reviews were carried out too frequently they might serve to institutionalise what the Study Group were at pains to avoid.

The recommendation that, following agreement of broad objectives and functions between the board and Minister, "the relationship between the Minister and the board should be the same as that between the shareholders and board of any private company" ignores the realities of the situation and particularly the fact that the State-sponsored bodies do not remunerate the State shareholding. Moreover, some of the principal State-sponsored bodies occupy key positions in the economy, and it is scarcely realistic to expect that they be treated as though they were private sector companies selling their goods or services in free competition.

Intervention by Government Departments in the Day-to-Day Operations of State-Sponsored Bodies

I

No one could quarrel with the Report's recommendation that there should be no interference in the day-to-day operations of State-sponsored bodies. However, regard must be had to Government guidelines for the economy as a whole, especially on pay.

II

Difficulties which frequently arise for State-sponsored bodies are delays in dealing with their development plans, somewhat greater severity in considering their price claims and sometimes a denial of certain facilities which are available to the private sector. There is little doubt that these pressures can have certain consequences for enterprise in the public sector. Any steps to relieve these pressures should be encouraged.

III

Such matters as pay and pricing policies could hardly be regarded as falling into the category of day-to-day affairs entirely within the discretion of the State bodies. Because of the influential position of the State-sponsored bodies and the possible repercussive effects of pay settlements, co-ordination of pay policy by the Government is essential. Control of price levels is necessary, particularly in the case of State bodies engaged in the provision of essential public services and those which are shielded from competition through provision of financial support.

Provision of Socially Desirable though Uneconomic Services

I

In its recommendation on this issue, the Group treats the commercial State-sponsored bodies as a homogeneous group, a practice which it itself criticises in Chapter 2. The diversity of operation and performance of the State-sponsored bodies makes it difficult if not impossible to adopt a uniform practice for them. The true level of profitability of "profitable" State-sponsored bodies is not known: some do not remunerate their capital, others do so only partially, so that effectively they are to a large extent already subsidised by the Exchequer. Furthermore, if "socially desirable but uneconomic services" were, as a general rule, to be given a specific subsidy, where is the line to be drawn? If employment maintenance were included in the definition of "socially desirable" services (and it would be difficult to exclude it), the Exchequer could be expected to meet losses, without limit either as to time or amount, incurred by such bodies. If consideration is to be given to minimising the danger of "confusing social and commercial objectives within State-sponsored bodies" by separating the loss-making activities, attention must also be given to the question of divorcing from the State-sponsored bodies subsidiary operations which, though profit-making, bear little relationship to the functions for which the bodies were established. The question must be faced whether the subsidiary activities of State-sponsored bodies should be separated from their parents so that the record of the parent company in dealing with its original remit can be clearly identified and dealt with appropriately.

Pay Policy and Personnel Policy

I

If, as the report recommends, the commercial agencies are to be given freedom in fixing pay and in recruitment so as to get the best people for their jobs, this implies that the best will not be available for other parts of the public sector—to be specific, for the implementation of social policies. If there were to be a fair distribution of the best personnel throughout the public sector, then the same degree of freedom on personnel issues would have to be given to each public agency, but this could lead to a breakdown in public pay policy.

II

With the exception of the truly commercial bodies operating under competitive conditions, the full freedoms proposed on remuneration and conditions of employment can hardly be contemplated. Nonetheless, it is widely accepted that State-sponsored bodies should be in a position to offer conditions which will attract the right people. The fairly simple rule which existed for many years under which only the salary of the Chief Executive was subject to control is probably as good a control mechanism as any. This would hardly lead to any greater complications than those arising out of attempts to control the whole range of salaries from the Chief Executive downwards.

III

Far from State-sponsored bodies being subject to excessive central controls, their freedoms have been such that many of the inflationary pay movements in recent years have originated in them. Attempts at central co-ordination in pay in recent years have been motivated by the need to safeguard the interests of the taxpayer and by the need

to moderate the inflationary pressures generated by excessive increases in pay. In current circumstances, it would be rash to contemplate a situation where the State-sponsored bodies had even more freedom than at present in fixing pay rates. On this issue of uniformity of pay, the Review Body on Higher Remuneration in the Public Sector recommended nine different pay categories for chief executives of State-sponsored bodies, the top category of which carried a rate of pay which was double that of the bottom category. This hardly suggests undue uniformity.

IV

The effects of the Devlin report on salary scales in State-sponsored bodies have not been sufficiently spelt out in the report. In the commercially operating State-sponsored bodies it has impeded recruitment of chief executives and senior management. The problem is not that chief executives and senior management would work harder or better if they were paid more. But if anyone in these positions leaves or retires, it is impossible to recruit a replacement of proven ability in the field because private industry can pay so much better.

The State requires the disclosure of items of commercial information to the management of certain State-sponsored bodies operating in the commercial field. This means that board members are at times inhibited from discussing matters which affect the commercial information to the management of certain State-sponsored bodies operating in the commercial field. This means that board members are at times inhibited from discussing matters which affect the commercial operations of enterprises for fear that commercial information about these enterprises may be disclosed to their competitors. The result is that the Chief Executive and senior management have greater responsibilities than would otherwise be the case, and board members have to rely on the probity of their Chief Executive. The Devlin report took no account of this aspect any more than it did of the risks and uncertainties of commercial operation as compared with the more routine requirements of a State-sponsored body operating in the service or commercially—sheltered situations.

The need for sufficient official surveillance or control to prevent unreasonable headlines being set by State bodies in regard to pay and conditions of service is not questioned. There is, however, a delicate problem of reconciling this need with the prerogatives legitimately claimed by every reputable board. It is obviously not consonant with the entrusting of a specific set of tasks to a State body to deny the board of that body the discretion to determine how many, and what kinds of staff are needed to carry out its responsibilities. This principle should apply generally to State bodies.

If they are conceded freedom as to numbers and functions of staff, it is not inappropriate that the boards of State bodies should be expected at least to have consulted (if not to have obtained the approval of) the Department of the Public Service before deciding on the salary scales appropriate to particular grades. This is necessary to prevent "leapfrogging". A board which persisted in ignoring public service norms should not be continued in office. The consultation should be as speedy and informal as possible. There is no necessity to involve the parent Department in this purely technical consultation.

The Department of the Public Service can assure itself that excessive numbers of staff are not being appointed by periodic review of staff complements and grade structures; the results should be discussed with the board of the State body concerned.

Financial Structure and Financial Controls for State-sponsored Bodies

I

Questions arise with regard to giving State-sponsored bodies considerable freedom in raising money. It is realistic to envisage a liquidator or receiver for a State-sponsored body? Could the State allow a State-sponsored body to go bankrupt and ignore the effect on its own credit-standing? How would a State-sponsored body fare in raising risk capital on the open market, if it were made clear in advance that under no circumstances would the State come to the rescue?

II

With regard to the report's prescription for operation free of restraints on financial structure and controls: the reality of chronically loss-making or marginally profitable bodies, shored up by subsidy, makes this prescription an unrealistic one. Despite its emphasis on the analogy of the private firm, the Report ignores the logical corollary that "commercial" State-sponsored bodies should have a responsibility to remunerate the capital which they receive from the State. The term "commercial" would mean that the body concerned should make sufficient profits to finance, in conjunction with well-founded borrowing, its own planned expansion.

State-sponsored bodies should not be free to borrow, for the following reasons. First, borrowing by State-sponsored bodies is an integral and very important part of the public capital programme. In view of the effect which the financial operations of State-sponsored bodies can have on credit creation and the level of external reserves, Ministerial control and co-ordination is essential. Second, it is unrealistic

to suggest that State-sponsored bodies would be in a position to borrow the amount of funds that they have been borrowing in recent years without the backing of a Government guarantee. Third, on international capital markets, borrowing by a State company—even without a State guarantee—would be regarded by potential creditors as borrowing by Ireland and could pre-empt the ability of the Exchequer to borrow abroad. Fourth, borrowing without Ministerial guarantee would in fact prove far costlier to State-sponsored bodies, since the availability of such guarantees secures preferential terms from lending institutions. Fifth, any borrowing or capital development by State-sponsored bodies represents a contingent liability on the Exchequer, unless it is contemplated that the Government should default on its debt.

III

A case could probably be made for a more flexible approach to permit the raising of funds for capital projects on the security of the unencumbered assets. It may be argued that such an arrangement can adversely affect the security of any public funds which may already have been invested in the enterprise, or that the extra funds procured can lead to an expansion of activities having the potential later on to impose further demands on the State. On the other hand, borrowing on own resources could enable some State-sponsored bodies to reduce their demands for Exchequer finance and it might, at the same time, engender a greater spirit of enterprise.

IV

The financial treatment of the State-sponsored bodies in receipt of subsidy or directly financed from the Exchequer will be determined by the requirements of the Constitution and the rules laid down by the Oireachtas in relation to financial procedures; at the same time the Government have to manage the subvention of these bodies as part of the total public finances. As regards capital expenditure, share capital provided for State-sponsored bodies has to be obtained by the State and remunerated at the market rate; for so long as no return is

received on such share capital, the State-sponsored body is being subsidised by taxpayers who may ask for an account of how their money is being spent. Since, too, the net assets of State-sponsored companies are owned by the State, difficulties would arise if they were mortgaged; since the State could not stand by and see national assets seized in satisfaction of debts, it is scarcely realistic to talk of State-sponsored bodies borrowing on the security of their assets. It is inconceivable in present conditions that the State could contemplate winding up State-sponsored bodies for insolvency.

V

The view that the State-sponsored bodies should have freedom of action in relation to the financing of new projects would be more valid if the undertakings were able to meet capital requirements from their own resources, but this is not normally the case.

Proposal to Determine Annual Allocations for Certain State-sponsored Bodies on a Rolling Basis

In practice, difficulty in approving longer-term grants to private enterprise is not experienced by the promotional bodies, who know that adequate provision will be made in their allocations for any specific year to allow all grant commitments falling due to be honoured.

The Role of Boards

There seems to be a confusion between the approval which is implied in the report for elected members of boards, and the disapproval in the report of members being appointed to represent particular interest groups. The electorate for an elected member must be regarded as an interest group, and appointment as referred to in the report is the same as election by perhaps an indirect means. Either method results in a board member who is chosen by the majority of members of an interest group and who is responsible back to an electorate of some sort. Representatives of interest groups have their attention and application sharpened by the fact that they have to report back. Moreover, they would not be appointed as representatives if they had not first satisfied those who selected them of their competence to do a good job. Board members appointed in a personal capacity are responsible to no one other than the Minister making the appointment and he may or may not want to be bothered with reports. There are many instances of board members being appointed primarily for political services rendered, although they have little or no knowledge of the work involved. In our experience, board members who represent interest groups have not had difficulty in resolving the potential conflict between confidentiality in the board room and the requirement to report back.

If one could be sure that board members appointed in a personal capacity would truly be appointed on the basis of their potential to contribute as recommended in Chapter 3, paragraph 20 of the Study Group report then all might be for the best, but experience shows that a better quality of work comes from those who reach the boards as the representatives of interest groups.

Special qualifications for the posts of chairmen of State-sponsored bodies are needed. Independence of mind and action on the part of the chairman is essential. He should at all times be in a position to make decisions and to act in the interests of the board which he chairs, uninfluenced by any other position which he holds. His other commitments should not be such that he lacks independence when making decisions or when recommending courses of action. For this reason the present trend to appoint, as chairmen of State-sponsored bodies, persons who are employees of the State or of other State-sponsored bodies is undesirable and not in the best interests of the bodies which they chair.

Recommendation that State-sponsored bodies establish a Unit for Exchange of Ideas and Other Matters

I

This recommendation deserves favourable consideration. The mechanism set out in the report seems appropriate.

II

The sentiments expressed in Chapter 3, paragraph 21 of the Study Group report are all very fine, and it would be splendid if we could have the co-operation envisaged here. However, nothing is said of the rivalry apparent between State-sponsored bodies, each trying to encompass activities on the fringe of its own field which might equally be covered by some other State body. The trend seems to be towards "empire building" rather than co-operation.

III

The desirability of this recommendation is doubtful. Such a unit would inevitably be seen as and operate as a pressure group and would add a further layer to present processes. Having regard to the fact that Planning Units are being established in Departments, there might be scope in the case of particular ventures for the establishment of joint project teams, representative of State-sponsored body and Departmental planning staff. This would secure Departmental involvement in projects at an earlier stage than at present and would help to expedite subsequent consideration of projects in Departments.

Part IV

Comments of Council on Study Group Report

INTRODUCTION

1. The Council considers that the Study Group's report and the comments to which it gave rise are valuable contributions to a topic which is of fundamental importance to the economic and social development of Ireland. It is publishing, not only the report of the Study Group, but a synopsis of the comments on that report which have been received, so that they may be taken into account in the debate on this topic.

2. On a matter as wide ranging as "Enterprise in the Public Sector" it is to be expected that broad areas of agreement and disagreement will emerge between the different groups who contribute to the debate. Since many of these areas—both of agreement and disagreement—may have validity from one perspective or another, it is a matter for judgement as to what precise balance should be adopted between them. The Council wishes to draw attention first to the main areas of agreement and of disagreement which have emerged from the exchange of views between the Study Group and the comments. The Council also offers some general comments of its own.

The Comments: Areas of Agreement

3. The main areas of broad agreement between the report of the Study Group and the individual comments are as follows:—

- (i) There is general support for giving the maximum *practical* freedom to State-sponsored bodies to enable them to operate in an enterprising manner and to contribute as much as possible to national development (although there is unlikely to be agreement on the proper degree of this freedom in individual cases). Some broad constraints to the granting of complete freedom are seen as being required. For instance, the need for some broad norms in areas such as public

service pay, the public finances and national economic and social policy is recognised in order that Government, operating under Parliament, may co-ordinate and manage the overall affairs of the country effectively. The critical issue is the balance which should be struck between the granting of freedom to operate and develop in an enterprising manner on the one hand, and the application of co-ordinating controls required for effective management of the country's affairs by Government—subject to Parliamentary control—on the other.

- (ii) There is a general view that the objectives of State-sponsored bodies should be made more precise. This would facilitate the judging of whether or not State-sponsored bodies were achieving their mandates satisfactorily.
- (iii) Any administrative steps to relieve constraints which dampen enterprise in the public sector (such as, for instance, delays in dealing with development plans) should be encouraged.
- (iv) There is agreement with the recommendation that State-sponsored bodies should co-operate in an effort to create greater enterprise amongst themselves and increased employment, but not all comments agree that the body which is recommended by the Study Group is the appropriate method.

The Comments: Areas of Disagreement

4. The principal areas of broad disagreement between the report of the Study Group and the individual comments are as follows:

- (i) The Study Group report stresses the need for State-sponsored bodies to have the necessary freedom of action in relation to matters such as the researching and development of new activities, the initiation and financing of new Investment projects and the appointment and development of staff at all levels in order to carry through their programmes within normal commercial resource constraints. There is a general view expressed in the comments, however, that State-

sponsored bodies are public institutions with special positions exercising the executive power of the State, and that while the maximum practicable freedoms should be given, some controls and directives are inevitable in relation to specific functions and in relation to general Government policy. The area of disagreement relates to the precise degree of freedom which should be allowed and the nature of the controls which should be imposed.

- (ii) The view of the Group that there was an increasing emphasis on centralised decision-making, which has seriously inhibited development of enterprise by State-sponsored bodies, was expressed in general rather than in specific terms. However, since the Group set out to produce a succinct report which was not intended to go into the finer details of all the issues which it raised, it did not refer to specific examples.
- (iii) The Study Group report stresses the need for State-sponsored bodies to have freedom in relation to the terms of employment of their staff. This is regarded as a particularly sensitive area and it is argued in the comments that it would be most undesirable if State-sponsored bodies were to breach Government policy on pay which itself is closely connected with national economic and social policy. One view expressed in the comments is that boards of State-sponsored bodies should be allowed to have basic discretion to determine numbers and grades of staff subject to subsequent periodic reviews of staff complements and grade structures by the Department of the Public Service and to prior consultation with that Department regarding salary scales for various grades.
- (iv) The report of the Study Group argues for a sound financial base at the inception of the work of State-sponsored bodies, and for the same freedom as firms in the private sector in relation to financing their operations. It says that the bodies should be free to borrow on the strength of their own assets

and prospects without prior approval of the Government. It is argued, however, in the comments that in reality some of these bodies are chronically loss-making or only marginally profitable and that this makes unrealistic the freedom which is envisaged in the report; moreover, it is argued that the report ignores the corollary that "commercial" State-sponsored bodies should remunerate the capital which they receive from the State, at market rates of interest. There is disagreement with the proposal that State-sponsored bodies be free to borrow without the prior approval of the Government. This is mainly because no State-sponsored body borrows on its own right alone since the State is guarantor of last resort, the State could probably not envisage the liquidation of a State-sponsored body and ignore the effect on its own credit standing, and the lack of Ministerial guarantee would make it more difficult (or more costly) for State-sponsored bodies to borrow.

- (v) It is argued that the Study Group report fails to distinguish adequately between the various types of State-sponsored body. There are bodies which operate in a commercial environment (CIE and ESB, for instance); and other bodies, among which are promotional bodies (Bord Fáilte and IDA for example). This latter category also encompasses bodies concerned with social development and the undertaking of research. These different types of body would require a different balance between freedom and control. It is not realistic for instance, to allow, to State-sponsored bodies which are monopolies the type of freedom which is recommended in the report since, even allowing for constraints imposed by the National Prices Commission, costs can be passed on by monopolies to consumers. The idea of near total freedom for promotional bodies is not tenable either, since the pressures on them to adopt a liberal approach to disbursement of funds are considerable.

Specific Comments by Council on Report of Study Group

5. The Study Group concentrated its attention on that part of the public sector "which operates in or close to the commercial environment", that is the State-sponsored bodies which are "involved in commercial or semi-commercial activities" (such as CIE, ESB, Comhlucht Siúicre Éireann and Irish Shipping) as distinct from the wider public service and, indeed, from those State-sponsored bodies engaged in promotional activities. Hence, in these comments of the Council, the focus is mainly on the commercial State-sponsored bodies. The question of enterprise in other parts of the public service is thus not dealt with in this report, although it also is of considerable importance.

6. The Council feels that the report of the Study Group deals with an issue of vital importance to the Irish economy. The State-sponsored bodies are a significant part of the Irish economy and it is essential that their contribution to economic growth and employment be optimised. The commercial State-sponsored bodies make an important contribution to output and employment. The Council agrees with the Study Group that the commercial State-sponsored bodies "should be capable of getting things done quickly" and that they "should be enterprising and readily adaptable to new conditions."

7. It is clear from the report of the Study Group that a major (if not the major) problem is the correct balance which should be struck between "freedom" and "control", particularly in relation to pay and finance. It is equally clear from the report and many of the comments on it that there is a wide difference of opinion on this central issue between the Study Group on the one hand, and those who submitted comments, on the other. It would be unfortunate, to say the least, if the problem, having been so clearly drawn to notice, did not receive the consideration which it deserves and requires.

8. The basic question of "control" and "freedom" concerns the balance which ought to exist between the granting of freedom conducive to or necessary for enterprise in the commercial State-

sponsored bodies, and the application of central controls appropriate for the management and development of the economy by Government. The need for some control in the public sector is dictated by Government responsibility in the areas of national development and public expenditure. The only test to be applied in deciding on the delegation of powers to a State-sponsored body is whether such delegation would be inimical to public policies which go beyond the direct concern of the State-sponsored body. Any centrally imposed controls on matters which on this test could be delegated to individual boards are counter-productive and militate against a spirit of enterprise in public sector bodies.

9. The Council does not have evidence available to judge whether there has been a recent considerable increase in centralised decision-making within the public sector and a tendency towards greater central control of the activities of State-sponsored bodies by central Government Departments, as is maintained by the Study Group. Excessive control, if it were to occur, however, could stultify enterprise. It is essential that the degree of control be such as to be effective from the point of view of the central Government and yet allow the necessary level of autonomy to the Boards and managements of State-sponsored bodies.

10. The Chairman of the Study Group, in the letter which accompanied the Addendum to the Study Group Report, has implied the acceptance by the Group of the need for suitable controls. The Group does not accept, however, the uniform application of a centralised set of controls. This letter says that the balance between freedom and controls should be determined, in each individual case, in regular policy reviews which the Study Group (in its report) proposes between the board of each State-sponsored body and the Minister concerned. The Council feels that these policy reviews could indeed be a valuable means of resolving conflicts between the needs for "freedom" and "control".

11. For the commercial State-sponsored bodies, the Study Group seeks a sound financial base from the start, and the freedom to manage

their own financial affairs as a private company does. But if the private sector is to be used as a model, it must be recognised that firms in the private sector are also subject to various constraints—for instance in raising capital and in the need to remunerate capital. Many State-sponsored bodies have not the capacity to raise capital on their own, given, for example, their profit records. Even where this capacity may exist, the Council believes that the freedoms which are sought by the Study Group ought only be granted on the understanding that, if plans go awry, the State will not be ready to provide aid on any criteria other than those which apply to the private sector. If this approach were adopted, the issue of freedom to raise capital would probably not arise in many cases.

12. The Study Group discusses the issue of the conditions of service of public sector staff in the context of personnel policy and its relation to enterprise. The critical issue here is the one of control. The Council feels that the comments of the Study Group in this area are worthy of consideration by the relevant Departments.

13. Further consideration may lead to some modification of present positions, by those holding different points of view, in the light of the net national advantage to the community. It may be possible to strike a new balance between the competing requirements. This new balance may of course leave the State-sponsored bodies with less freedom than they would wish—but perhaps by understanding better the unavoidable controls that have to be exercised, they might accept them more willingly. The point is that if some controls are unavoidable in the national interest, the State-sponsored bodies will have to accept them and operate subject to the constraints involved.

14. The above comments (paragraphs 7 to 13) concentrate on the issue of "freedom" versus "control" which was the focal point of most of the comments. However, there are other issues which the Study Group raises, and the Council would like to highlight a number of them.

15. First, the Council agrees with the Study Group that in some cases there may be need for a clearer mandate from Government to

the State-sponsored bodies regarding their respective functions. At the same time, however, the Council realises that some enterprise by State-sponsored bodies would not have occurred if their respective mandates had been interpreted too narrowly. Once the mandates from Government to the State-sponsored bodies are clarified, and issues such as financial objectives and investment criteria are settled between the parent Departments and the respective State-sponsored bodies, interference by Departments in the day-to-day work of State-sponsored bodies should be avoided. This matter is, of course, related to that raised in paragraph 9 above.

16. Second, the Council broadly agrees with the Study Group's approach to the handling of "socially desirable though uneconomic services". The Council feels that, in cases where services which are loss-making but socially desirable are provided by a State-sponsored body at the request of, or with the approval of Government, the Government should consider providing, if necessary, a subvention to the State-sponsored body in respect of the loss. The subvention should be paid to the boards explicitly for providing these socially desirable services. The Council also feels that, in cases where State-sponsored bodies have diversified into areas which are removed from their original remit, the accounts of these activities should be separately identified in the accounts of the State-sponsored bodies. This would facilitate an appraisal of the performance of the bodies in relation to their original remit.

17. Third, the Council would like to see consideration given to the recommendation of the Study Group "that State-sponsored bodies that are funded by way of annual grant from the Exchequer should have their annual allocations determined on a rolling basis for a three year period". In considering this recommendation, it should, of course, be necessary to have regard to the implications for the annual Parliamentary estimates cycle and for the annual setting of priorities across the full range of public expenditure. It is desirable for effective planning that, at least, a medium-term outline of policies be articulated, with the reasonable understanding that the minimum finance necessary for agreed policies is assured. In this context, each State-sponsored

body should have a corporate plan, which would be agreed between the body and its parent Department, and would be rolled forward regularly.

18. Fourth, the Council agrees with the Study Group on the critical importance of the quality, experience and objectivity of the Chairmen and of other members of the boards of State-sponsored bodies.

19. The Council wishes to make two final points. The State-sponsored bodies operate within a system which embraces the Constitution, the Oireachtas and the Government. It could be that the interaction between these elements is a fundamental reason for any inhibition of the spirit of enterprise in State-sponsored bodies.

20. Another crucial issue is whether a fund of enterprise exists in State-sponsored bodies, that is being stifled and that could be released. It is difficult to take a view on this issue, since entrepreneurship is a most elusive factor. The Council believes that, in the last analysis, it may be that individual motivation based on individual commitment to public service—given adequate personal reward for effort, together with personnel policies which encourage individual enterprise and initiative—is the key to furthering enterprise in the public sector.

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<i>Title</i>	<i>Date</i>
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3. The Economy in 1974 and Outlook for 1975	Nov. 1974
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