



## Stephen Kinsella

In the past, countless kites were flown in the run-up to Budget Day. But they're now being shot out of the sky, because of the lack of money. And good riddance to them

Budgets are about expectations. They always have been. It doesn't matter if the economy is expanding or contracting. The budget is the one moment in the year when the government has the attention of the majority of its citizens. It is vital to manage how citizens, business and the international community react to the budget announcements.

Managing the expectations of an expanding economy is now much easier, thanks to fiscal rules. These constrain the spending of the economy towards a medium-term objective of balance.

In the past, grand gestures like de-centralisation were the order of the day. This followed weeks of strategic little leaks called kites. Line ministers vying for more cash from the minister for finance of the day would fly the odd crazy kite, more in hope than

expectation. Journalists delighted in the inches these kites filled.

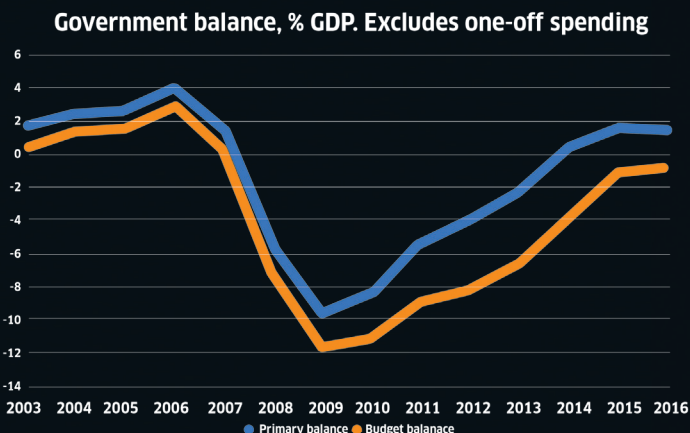
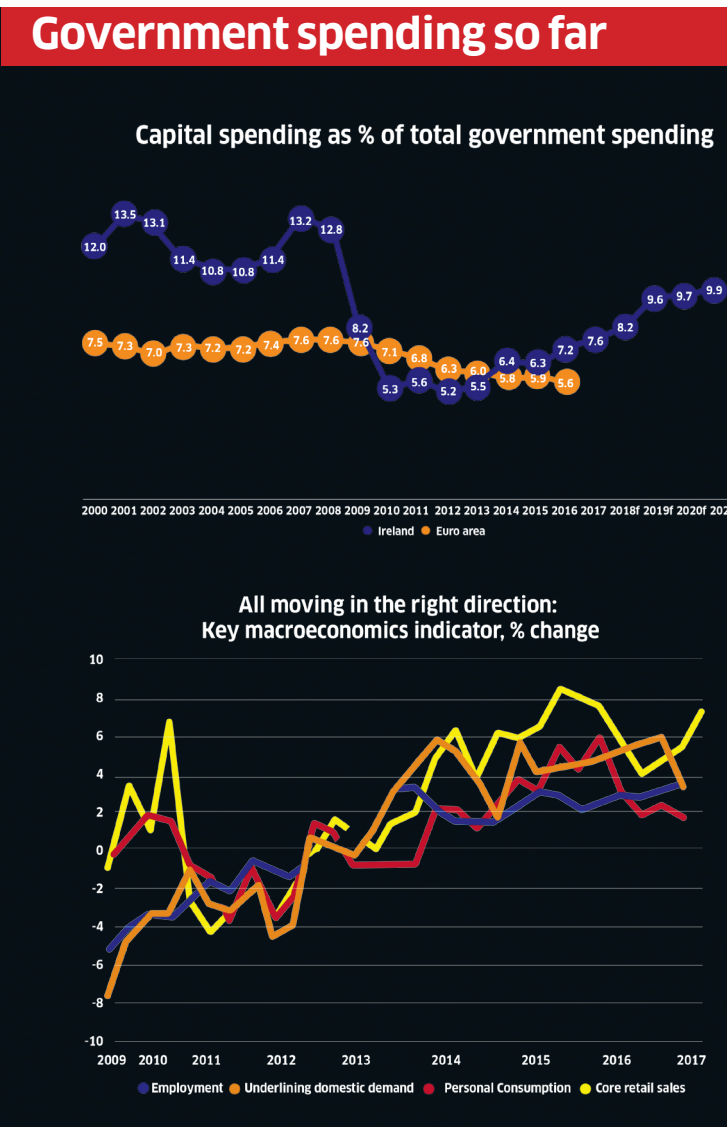
**Death to all kites**

You could see the poor kites as they got shot down by the outrage-ometer of Irish public discourse.

Kites like "we'll increase employers PRSI" in 2012 got roasted by groups like Ibec. Removing the universality of child benefit was a big one in 2013. The kite is a way of idiot-proofing a budget document, and it has worked for years. Kites also keep the media onside as the recipient of the leaks.

Now there are no more kites. Journalists, those careful curators of political wildlife, are bereft. Everyone else is far better off.

I say good riddance to the kites. We can repurpose the Dáil bar as a sanctuary for them or something. Policy-wise, the longer they stay on the endangered list, the better.



**Budget 2018**

What killed off the kites? It wasn't the advent of new politics and the minority government. It wasn't even the Minister for Finance, Paschal Donohoe's, "no leaks or else, lads" edict.

The kites were despatched because there's not enough money to substantiate any big showy policy. Leo Varadkar has also pre-announced many of the major budget initiatives. Reducing income taxes, pension increases, and restoring bereavement grants are good examples. Altering inheritance taxes

and reducing taxes on savings make a lot of sense.

*It's a first in Irish history. We have the contours of the budget months before the actual budget date.*

*Given the scope for new spending, budget day itself should be much ado about almost nothing. Budget 2018 is instead likely to be much ado about everything.*

Lacking actual funds, the government has to make do with nice, cheap

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words. Words about everything. Every sector has to get a medium-term increase in something.

Expect buckets of announcements. These will claim bits of the projected

fiscal space from 2019 to 2021. You'll hear about tax harmonisation and Brexit-proofing the agrifood sector, for sure. You might hear about the need to increase spending on research and development.

**Our processes are improving (slowly)**

It's worth considering how far we've come from the McCreevy days of one minister standing up and shocking his own colleagues with budget announcements. We have the summer economic statement, the national economic dialogue, the fiscal advisory council. All consider the same problem: how to manage a small, highly volatile, open economy.

Every time the economy overheats, its poorest citizens get hurt. The state which looks after them has to retrain its spending because it didn't have the

### COMMERCIAL PROFILE: INSTITUTE OF DIRECTORS

# Planning for succession on company boards

Boards need to plan well ahead for new appointments or risk skills gaps, says Institute of Directors' Boardroom Centre

Over the next two years, there will be several changes to the boards of companies across the financial services sector as many independent non-executive directors (INEDs) reach the end of their term of service under Central Bank guidelines.

The Corporate Governance Code for Credit Institutions and Insurance Undertakings introduced by the Central Bank at the end of 2010 requires boards to review membership at least every three years and recommends that non-executive directors serve a maximum of three terms of three years. By 2019, many independent non-executive directors will reach the maximum and companies must document the rationale for service beyond nine years.

"If INEDs stay on for longer than nine years, this can compromise their independence," said Thora Mackey, head of the Institute of Directors' Boardroom Centre, a non-executive director appointment service.

"Succession planning is really important, particularly in the case of financial institutions, and companies should not leave it until the last minute to commence their search for new board members," said Mackey.

"Depending on the size and complexity of the entity, the process of appointing new board members can take six months or longer. Companies should start planning early on, assessing who is stepping

off the board and what will be lost as a result in terms of knowledge, skill sets and experience."

In recent years, Mackey has noticed an increase in the number of financial services companies seeking to appoint INEDs with fintech expertise. "Companies are looking for INEDs who are either strong on the technology side or stronger on the financial issues but who really understand technology," she said.

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Mackey helps companies to develop an in-depth profile of their ideal candidate, which involves looking at their existing board to identify whether there are any skills or knowledge gaps. She said diversity was increas-

ingly important. "Board diversity means ensuring that there's a diverse skill set and breadth of experience among board members, that different viewpoints are represented and there's room for everybody to challenge constructively."

She said there was a strong pool of potential INEDs in Ireland, with as many qualified women coming through the ranks as men. "We've nearly 500 people registered on the Boardroom Centre's panel. They are all members of the IoD, and around 30 per cent of them have the skills and experience to serve on the boards of financial services companies."

INEDs serving on the boards of insurance companies are subject not only to the Central Bank's Corporate Governance Code but also to Solvency II, the regulatory framework governing the insurance industry.

"Solvency II is quite detailed and prescriptive and every INED of an insurance undertaking needs to have a strong understanding of this particular regime," said Dermot Gorman, a chartered director and independent non-executive director in the insurance sector.

"INEDs need to understand both the detail of the framework and its requirements around what role the board plays in terms of how the firm manages risks, how it manages capital and so on."

"There is a lot of scrutiny by the Central Bank of how a board is composed, how it makes decisions, what types of minutes should be kept



Thora Mackey, head of the IoD's Boardroom Centre



Gerry Devitt and Harley Murphy of Harvest Financial Services

of board meetings. As a result, many INEDs working in this sector now have formal corporate governance qual-

ifications.

"The role of the INED is to help the firm to think more broadly about its risk, to probe its established ways of thinking and draw on the INED's own experience with other firms both in the insurance sector and elsewhere."

The Central Bank's Corporate Governance Code effectively mandates that the main board sub-committees have to be chaired by an INED. "In practice, every INED in this sector chairs a sub-committee and that involves a lot more technical detail in the running of the firm than you might see in other sectors," said Gorman.

"Most INEDs on insurance boards can combine fluency in a number of technical areas such as actuarial, claim reserving, regulation, or accounting with the ability to contribute effectively on more generic, broader issues such as strategy, organisational matters or governance."

He said INEDs generally had senior management or advisory experience in a regulated financial services environment as well as experience of a range of other boards.

"INEDs find themselves sharing that experience and this helps everybody navigate the environment and the expectations of the Central Bank," said Gorman.

Wealth management firm Harvest Financial Services was seeking to plot a new course in the funds landscape when it appointed Harley Murphy as non-executive director five years ago.

Subject to regulation under the Markets in Financial Instruments Directive (MiFID), Harvest is responsible for over €1 billion in clients' funds under administration.

"We'd never had an INED before so we sat down with the IoD's Boardroom Centre and they helped us clarify the type of INED who'd be the ideal fit for us," said Gerry

Devitt, managing director at Harvest Financial Services.

"We wanted someone with considerable international expertise and experience at a very senior level, particularly in fund administration, which is a critical area for us. Beyond that, as a relatively small company, the fit was very important both in terms of experience and personal fit."

"The IoD's Boardroom Centre was a huge help to us, in terms of teasing out those issues and giving us a sense of the remuneration packages. We had three fantastic candidates and it was a tough choice."

Harvest appointed Murphy to the board in 2012 and he became chairman in 2014. "We chose Harley for his experience at the very highest level of financial services internationally and his personal fit with us; in particular his personal fit with me as managing director," said Devitt.

"We realised we needed to step up on the governance front and somebody who had that knowledge, operational experience and governance expertise was vital for us. He brought a greater degree of vigilance and structure and process to our entity."

"The INED is there to make sure that the board makes good decisions, is aware of any significant risks facing the company and maximises opportunities. This changes the dynamic of the functioning of the board and results in better board meetings. They become more discursive and you end up asking better questions of yourselves and of your business."

"We were an ambitious company with significant plans. We needed someone who was going to help us to achieve those goals and that has certainly proven to be the case with Harley."