Restoring Confidence and Fiscal Balance

2010 Budget Submission

Summary

- Restore the public finances by reducing public expenditure and broadening the tax base, whilst holding the overall burden of taxation constant;
- Set out a clear and detailed action pan for restoring the public finances and the economy's competitiveness out to 2013, highlighting detailed targets for expenditure reduction;
- Reduce the rate of excise on alcohol for a trial period of six weeks from Budget Day to stem the losses to the Exchequer from cross-boarder shopping and restore consumer confidence;
- Ensure that there is no increase in the cost of labour, for example, through increases in employers' PRSI, and that there is no further distortion of the burden of employment taxation;
- Replace the current remittance basis with a new skills based relief system, to help in attract the skills necessary for Ireland's SMART economy;
- Review the National Development Plan to focus on maximising the return on investment, value for money and employment generation, taking account of the Forfas report, *Our Cities: Drivers of National Competitiveness*; and
- Create confidence by establishing a clear and steady stream of infrastructure projects, rather than the present "stop-go" system.

1. Importance of the Greater Dublin Area

Cities are magnets for talent and investment. Their competitiveness drives the growth in living standards for the country as a whole. The Greater Dublin Area plays a central role in the Irish context, given it accounts for about half of all output and employment in Ireland. The Dublin Chamber of Commerce provides advocacy and networking services to 1,400 member companies. It is the most representative and broadly-based business group in the Greater Dublin Area, the largest Chamber of Commerce in Ireland, and one of the oldest in the world.

2. Public Spending

Dublin Chamber believes that the focus of Budget 2010 must be on reducing public expenditure, whilst broadening the tax base but holding the overall burden of taxation constant. The objective must be to restore consumer and business confidence. An initial series of expenditure reduction methods, amounting to €5.3bn in a full year, has been prescribed in the *Report of the Special*

Group on Public Service Numbers and Expenditure Programmes (McCarthy report). We support the vast majority of these recommendations. The *Renewed Programme for Government* proposes a correction to the public finances of €4bn in each of the next three years. We believe that such a correction must solely be derived from cuts in public expenditure. The Supplementary Budget of April 2009 set out the goal of reducing the deficit to 3% of GDP by end-2013 and has been welcomed by the European Commission. We note however, that this is the longest period ever given to a member of the euro to achieve stabilisation of its public finances.

The ESRI and the CSO have produced papers comparing wage rates in the public and private sector. The studies consistently conclude that the pay of public sector workers is higher, not including pension benefits, even after allowance is made for the attributes of employees and the characteristics of their employment. Dublin Chamber believes that changes to public sector pay levels and pension arrangements are required in order to eliminate pay and pension differentials with the private sector and to reflect the reality of the public finances. Changes in work practices and patterns are also required.

3. Broadening the Tax Base

Restoring order to the public finances is necessary for economic recovery. We note that forecasts of a domestic recovery are predicated on this. However, balancing the books may not be sufficient to restore consumer and business confidence. Dublin Chamber believes that a rebalancing of the overall tax burden is required over the period. In particular, the tax base should be broadened at local level, to include charges for services provided and a property tax. Critically, however, the overall impact of these tax measures should be revenue neutral and used to offset reductions in commercial rate charges, reduce indirect taxation levels and other measures to restore business and consumer confidence.

Dublin Chamber notes that the income tax system is particularly progressive, with just 4% of taxpayers accounting for 48% of all income tax revenue. Dublin Chamber believes, as the Commission on Taxation has concluded, that any further increase in employment taxation would have a negative impact on employment. The marginal rate of taxation for many stands at 52% and acts as disincentive to higher value-added, knowledge-based employment.

Dublin Chamber is satisfied that the Government’s commitment to the 12.5% rate of corporate taxation is resolute and believes that this commitment will underpin Ireland’s economic recovery.

Dublin Chamber agrees with the Commission on Taxation that the full delivery of public transport alternatives, and full consultation with stakeholders, are prerequisite to any debate on congestion charging or road pricing proposals. Any consideration of road pricing or congestion charging is premature until Dublin’s transport network had been upgraded and all Transport 21 projects delivered. As it currently stands commuters, workers, shoppers and tourists are unable to switch from private to public transport as a reliable, integrated and cost effective transport network is not yet available.

Tourism contributes in a unique and dynamic way to Dublin city’s cultural mix and vibrancy, so Dublin Chamber supports the Commission on Taxation’s recommendation not to introduce a local bed tax or levy in recognition of the importance of the tourism sector to the economy. Dublin Airport is central to the continued development of the Greater Dublin Area - and the wider economy’s - economic, business and tourism life. So we strongly support the Tourism Renewal Groups recommendation that, in the context of framing the 2010 budget, the Departure Tax be abolished.

4. Infrastructure: Dublin and the National Economy

The Greater Dublin Area is the country's gateway to the international economy. The National Competitiveness Council report, *Our Cities: Drivers of National Competitiveness*, highlights the central role that cities, and Dublin in particular, play. As the National Competitiveness Council puts it:

"It is critical that both national and regional policies support the development of Dublin and of our other main cities and that nationally we work to ensure that the development of our cities is fully understood as being in the national interest."[1]

The Greater Dublin Area faces a considerable infrastructure deficit in areas such as water, waste, education and particularly, transport. Eliminating this deficit must be a national priority. Dublin Chamber acknowledges the need for a clear prioritization of capital expenditure. A review of the National Development Plan should focus on maximising the return on investment, value for money and employment generation of each project. Such a review will clearly demonstrate the importance of projects in the Greater Dublin Area. We support the Programme for Government commitment to "fast track and prioritise the Dart interconnector (and its associated electrification and rolling stock projects) and Metro North so that they are completed by 2016." We are pleased to note that the central role of bus transport in urban areas is acknowledged, but are disappointed that the Programme for Government dismisses any progress being made on the Eastern Bypass.

Dublin Chamber recognises the importance of retaining domestic expertise in the sector and the need to continue to plan for, and develop, infrastructure projects. A steady stream of projects is required, rather than the present "stop-go" system. Whilst the current Exchequer position militates against the swift implementation of every capital project, we urge Government to move projects through the planning process in order to have a pipeline of projects ready for implementation once the public finances improve. In addition, we believe that detailed consideration should be given to proposals to use non-exchequer financing mechanisms, such as pensions, to support an ambitious public capital investment programme.

5. Consumer and Business Confidence

The April 2009 Supplementary Budget outlined a broad path towards restoring the public finances to health. Budget 2010 should provide a more clear and detailed programme out to 2013, highlighting detailed targets for expenditure reduction. This programme should be set against a clear statement of Government policy on, not only the restoration of the public finances but also on, the restoration of Ireland's competitive position internationally and of consumer and business confidence domestically.

The Central Bank has outlined three policy challenges:

- (i) Stabilise the banks;
- (ii) Restore fiscal balance; and
- (iii) Regain competitiveness.

To these criteria, we add one more: the restoration of consumer and business confidence. Speculation and uncertainty are damaging to economic recovery. A clear, well understood plan from Government is required in order to remove this instability. Given the critical importance of restoring confidence, this plan must be set out as an operational plan, not a strategy, with a clear timeline for implementation.

1 'Our Cities: Drivers of National Competitiveness', April 2009

Consumer confidence has sharply deteriorated over the past year, with higher savings rates reflecting consumer uncertainty over future employment, employment tax levels and the question of negative equity. This has translated into a sharp reduction in revenue from consumption taxes such as VAT and excise. The VAT and excise differential between Ireland and other economies in the EU, and the UK and Northern Ireland in particular. In addition to the strength of the euro, the VAT and excise differential has reinforced the perception that Ireland does not offer consumers or tourists good value for money.

Dublin Chamber believes that the Budget is an occasion to change those perceptions. We believe that a temporary reduction in the excise on alcohol is warranted for a trial period of six weeks from Budget day. We believe this has the potential to stem the losses to the Exchequer from cross-boarder shopping and restore consumer confidence and a return to consumer spending. The impact of this measure should be monitored and reviewed swiftly, with a view to the possibility of extending it.

A number of other measures to support consumer and business confidence should also be given serious consideration. These include:

- Relax the rules regarding the present onerous funding standards of defined benefit pension schemes to ensure that companies can continue to run them;
- Ensure that the financial sector operates effectively and delivers a substantive improvement to the availability of credit to businesses and households;
- Eliminate employment disincentives in the tax/social welfare system; and
- Continue the direction of recent energy regulation policy to cut energy costs for business.

6. Commercial Rates and the Funding of Local Authorities

The current system of local government financing is failing, with local authorities and the Exchequer overly reliant on business taxation as a source of funding. Commercial rates and charges account for the largest single contribution to local authority budgets and accounts for over half of all funding for Dublin's four local authorities.

Businesses can no longer take the place of the Exchequer in funding local services to households. A survey of Dublin Chamber members found that one in three businesses would look to offset further increases in commercial rates by reducing their labour costs. If employment levels are to be maintained and a sustainable revenue base for local authorities is to be established, then the tax base must be broadened to include commercial properties that are not currently rated and to include the full cost of providing domestic services, such as water, as recommended by the Commission on Taxation.[2] [3]

Dublin Chamber believes that commercial rates should fall by 10% in 2010 and that Budget 2010 should support local authorities in implementing this reduction. We note that the Special Group on Public Service Numbers recommended that the current expenditure levels of local authorities be reduced by at least 10%. Dublin Chamber believes that efficient local authorities should be rewarded. For example, if a local authority manages to reduce its labour costs by reductions in pay or numbers, then a significant proportion of these savings should be retained by that local authority.

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2 Dublin City Council estimates that their revenue for 2006 would have increased by €27m if Government-occupied properties were subject to rates.

3 Studies show that if water charging was brought in and people began to meter their water usage, by 2025 an annual reduction of 4.3 million litres of water could be achieved.

Dublin Chamber believes that the four Dublin local authorities could achieve cost savings by merging some of their administrative functions and working together to provide services. We support the recommendation of the Special Group on Public Service Numbers that local authorities should explore opportunities for outsourcing, and sharing of services with other State bodies should be implemented. Indeed, we recommend going further. The *Special Group on Public Service Numbers and Expenditure Programmes* did not sufficiently examine the possibilities for savings and efficiencies in local government. The level of Government expenditure at local level is considerable. The combined budgets of the four local authorities in Dublin alone amounts to over €1.8bn. We believe that a second detailed report is required by the *Special Group on Public Service Numbers and Expenditure Programmes*, focusing exclusively on making savings in local government. This is particularly urgent, given the forthcoming white paper on local government and the local taxation recommendations in the Commission on Taxation.

Dublin Chamber supports the concept of a property tax. It is, however, disappointed that the Commission on Taxation's recommendation to have an annual property tax - which would be used as a source of local government financing - separates the linkage of revenue to services. The Commission's recommendation that this tax be a national tax will ultimately punish those living in urban areas where it is more cost effective for local authorities managing services. We believe that the property tax rate should be set by each local authority. This would allow local authorities and locally-elected officials to be directly accountable to local taxpayers for what is collected and how it is spent.

7. SMART Economy

Broadband requirements have increased dramatically in recent years. Access to a Next Generation Network (NGN) is a requirement for Dublin to compete internationally for investment and jobs. Business and consumer applications for high speed broadband must be accommodated. Dublin needs a 100+ mbps service by 2012. Government must put the measures in place to deliver a Next Generation Network (NGN) focused on access, speed, quality and price.

Dublin Chamber supports the conclusions of the Commission on Taxation in calling for the replacement of the current remittance basis with a new skills based relief system, which would help in attracting overseas employees coming to Ireland with specific skills necessary for Ireland's SMART economy. This issue is regularly raised by companies and higher education institutes as frustrating their efforts to attract key knowledge workers and senior management to support investment decisions in research and development and the location of company headquarters in Ireland. This system would assist in attracting skilled workers and could be administered through a self-certification process with significant penalties to prevent fraud.