dublinchamber
of commerce

Rebuilding Growth

Budget 2011 Submission

Summary of Recommendations

1. Tackle the financing and venture capital deficits faced by many SMEs:
   a. Broaden the application of the Business Expansion Scheme.
   b. Introduce a form of tax relief for venture capital investors, along the lines of the UK Venture Capital Trusts Scheme.

2. Keep the "competitiveness fundamentals" in place:
   a. Low marginal and average rates of employment taxation.
   b. Reassure investors that 12.5% Corporate Tax Rate remains.
   c. No increase in indirect taxation rates.
   d. No increase in the overall burden of taxation as a percentage of national income.

3. Cut the cost of Government:
   a. Complete a review of the service provide by the Dublin's four local authorities to optimise rationalisation in the context of proposals for a Mayor for Dublin and the White Paper on Local Government.
   b. Implement the recommendations of the reports of the 'Special Group on Public Service Numbers and Expenditure Programmes' and the 'Local Government Efficiency Review Group'.
   c. Consider the use of a Public Private Partnership approach to all major capital projects and publish the results of these assessments.
   d. Set out a plan to increase the level of public capital stock per person towards the OECD average and seek to eliminate the infrastructural deficit.

4. Consider the introduction a Site Value Tax based on sustainability and the cost of providing public services to the home

1. Introduction

In assessing budgetary policy over the past two years, it is acknowledged that Government has taken a number of critical and unpopular steps in bringing the exchequer into balance, following the sharp contraction in taxation revenue based on the property market and other taxation heads. These measures are to be welcomed. Nonetheless, further corrections in the public finances are required, with the balance of adjustment on current expenditure.

Business and consumer confidence are low with expectations of weak growth predominating. Since the end of 2007, Ireland has had two years of negative growth, leading to an overall contraction of GDP of 14.3% over the period. The early signs of an export-led recovery in the first quarter of 2010 have been shown to be tentative at best, with the return to negative growth in the second quarter. Continuing market uncertainty about the public finances can be seen in the rising cost of borrowing, with no clear indication to date from Government as to how expenditure levels will be cut to match the sharp decline in national income and tax revenue. There are numerous reports and proposals for public sector reform, with little evidence of their implementation. About half of the savings necessary for Ireland to achieve over the next four years should come from the implementation of the recommendations of the Special Group on Public Service Numbers & Expenditure Programmes and the Report of the Local Government Efficiency Review Group.

In framing its pre-Budget Submission proposals for 2011, Dublin Chamber is very conscious of the following five factors:

- Many SMEs lack sufficient working capital and capacity for growth;
- The competitive position of the Dublin City Region has deteriorated against its international comparators;
- The Exchequer position is unsustainable at current expenditure levels due to the sharp decline in taxation revenue resulting from the correction of the property market and the fall in national income;
- The realignment of expenditure to more realistic and sustainable levels will be compounded by the net cost to the Exchequer of re-capitalising the banking system; and
- Many of the Government's reform proposals have yet to be implemented fully, and many have not been implemented at all.

Given this background, Dublin Chamber believes the primary purpose of this Budget, and supporting statements about Ireland's medium-term economic strategy, must be to restore business, investor and consumer confidence by restoring fiscal balance, progressing with capital expenditure projects and providing additional support to indigenous small enterprises.

In Dublin and Ireland, the majority of businesses are SMEs and they have been the most exposed to the economic downturn. Results of a survey carried out by Dublin Chamber indicate that some 82% of the city's SMEs have serious working capital problems, with many struggling to remain in business.

There is significant international evidence that city regions are the drivers of national economic activity. Thus if the Dublin economy is performing sluggishly, so too will commercial activity across the country. Dublin's ability to rebuild confidence and growth is directly tied to Dublin's competitive position as an attractive destination to do business, bringing together investment and a talented labour pool. A strategic plan for the development of the Dublin City Region is required, where none exists at present. Dublin Chamber is benchmarking the competitiveness of the Dublin City Region with a view to identifying what specific actions need to be taken to improve the City Region's attractiveness as a location for investment and skilled labour.

Dublin Chamber believes that expenditure cuts in excess of €3 billion are required in Budget 2011. This correction must strike a balance between restoring balance to the public finances and dampening domestic demand. Reductions in capital spending have borne the brunt of the Government's fiscal restraint. Capital expenditure is behind budget to date in 2010 and over one third less than the same period in 2009. Capital stock is an essential component of regional and national competitiveness and as such, further reductions in capital expenditure should be avoided. Dublin Chamber recommends that the bulk of the expenditure correction in Budget 2011 should come from reductions in current expenditure. At the same time, there is a need for structural reform of the taxation system to ensure it is more sustainable and provides a more direct link between the revenue raised and the associated services it funds. Further increases in taxation overall, however, are unwarranted and self-defeating. The economy is at the limit in terms of the burden of taxation it can afford.

The work of the Special Group on Public Service Numbers & Expenditure Programmes and the Local Government Efficiency Review Group identify a number of areas where cost savings can be achieved. These recommendations offer a clear basis for reform leading to savings in current expenditure. The Government must use to full affect the opportunity presented by the Croke Park Agreement to improve the efficiency and effectiveness of public service. In addition, the opportunities presented by outsourcing should be fully explored as provided by the Croke Park Agreement.

This submission sets out a number of specific measures which we believe, if introduced in the forthcoming Budget, would stimulate business activity by encouraging entrepreneurship and ensuring infrastructure spending is targeted as efficiently as possible to secure the maximum return to the exchequer.

2. Open for Business

One of Ireland's strengths is the transparent nature of its taxation strategy. Uncertainty as regards corporate taxation will jeopardise further foreign direct investment and dissuade entrepreneurs from establishing new businesses in Ireland. In this regard, the Minister should reaffirm the status of the **12.5% corporation tax rate** for companies trading in Ireland.

Dublin Chamber understands that the introduction of a **Common Consolidated Corporate Tax Base (CCCTB)** remains an official policy objective of the European Commission and that it is the intention of EU Commissioner Algirdas Semeta to bring forward a formal Commission Proposal on this issue in the first quarter of 2011. The introduction of a CCCTB will severely diminish Ireland's ability to attract foreign direct investment. Dublin Chamber urges the Minister to ensure that every opportunity is taken in Europe to voice Ireland's opposition to the proposal and ensure that Ireland works with like-minded Member States to ensure that the measure is not adopted.

In its pre-Budget 2010 Submission, Dublin Chamber highlighted the need to stem the losses to the Exchequer from cross-border shopping, to restore consumer confidence and to secure jobs. The reduction of both **VAT and excise duty** has helped to counter the perceived attractiveness of cross-border shopping and sustain employment. Exchange rate considerations and the increase in the UK rate of VAT to a rate of 20 per cent will consolidate these gains. Therefore, there should be no increases in VAT, VRT rates, Excise duty and carbon taxation. Employment taxation levels have risen sharply in recent years, with the introduction of income levies. Dublin Chamber welcomes the proposals to simplify and promote greater equity in the employment taxation system by reducing the number and range of charges that apply. In making such changes, it is important the burden of taxation on skilled and highly productive workers, that drive the services economy of Dublin, is not increased.

The **acceleration of corporation tax payments** for large companies introduced in Finance Act (No 2) 2008, poses a significant cash-flow and administrative cost for large companies. The requirement to estimate the company's full year corporation tax liability six months into the year poses significant challenges for companies. Companies that believe that their 2010 liability will be less than in 2009 but are unsure of the final result feel, in many cases, that to avoid a risk of incurring interest charges, they should pay the preliminary tax based on the 2009 year. No interest is paid by Revenue where the preliminary tax is overpaid whereas interest charges will accrue where the preliminary tax is underpaid - creating an unfair situation. Dublin Chamber recommends that no additional corporation tax payment dates are introduced.

Dublin Chamber believes that a strong Irish stock exchange has an important role to play in encouraging enterprise in Ireland. Ireland currently has the highest rate of **stamp duty on share transactions** in Europe with rates of 0% in many European countries (France, Germany, Luxembourg, etc) and a rate of 0.5% in the UK. In this regard, Dublin Chamber strongly supports the Commission on Taxation's recommendation for the abolition of the 1% charge to stamp duty on the transfer of Irish shares. Many companies that move their headquarters to Ireland already use Jersey/Isle of Man companies to avoid the Irish stamp duty and, therefore, abolishing the charge for Irish registered companies will put Irish companies in the same position as these entities and should encourage increased investment in Irish listed shares.

3. Enhancing Infrastructure

The level of capital stock is an essential component of the competitiveness of an economy. Yet Ireland remains far behind our European and OECD counterparts in terms of infrastructure provision, despite high levels of investment in recent years. These investment projects often have the added benefit of being employment rich in nature.

Dublin Chamber welcomed the review of the capital expenditure programme, entitled 'Infrastructure Investment Priorities 2010-2016', insofar as it **clarifies the capital investment priorities of Government**. However, we are concerned that absolute level of capital spending is significantly lower than previous years. In addition, the level of capital spending in the revised capital expenditure programme has been exaggerated by the transfer of certain items of expenditure, such as roads maintenance, from the current to the capital side.

The challenge remains as to how to fund that capital expenditure programme. The use of private finance through the **Public Private Partnership** model allows the Exchequer to spread the cost of infrastructure over a longer time frame that is more in line with the usage of and benefits from the investment. The cost of certain capital projects using the PPP model of financing may also be transferred to those directly benefiting from the investment, through the use of charges and tolls.

The Public Private Partnership model can deliver significant value to the Exchequer. Projects procured under this model are being delivered faster and ahead of schedule whilst significant long term responsibility and risks are being passed in a value for money manner across to the private sector. It is a proven procurement and funding model and more projects in our view could and should use this route. We suggest that it should be mandatory for all capital projects above a defined threshold to be considered for delivery using a PPP approach.

Dublin Chamber is encouraged by the capital expenditure programme's recognition that investment in the Dublin City Region supports national economic development. The commitment to the **Metro North and DART Underground** projects will alleviate capacity constraints in the Dublin rail network and crucially join up the North-South & East-West lines. The full delivery of the capital expenditure programme will still leave Dublin and Ireland with a large infrastructure deficit. There is a need for a more ambitious capital programme, with a **pipeline of projects** that will allow this infrastructural deficit to be reduced as resources allow, including the Eastern Bypass.

4. Encouraging Entrepreneurship

The Business Expansion Scheme (BES) provides much needed financial support for small business, particularly at a time when SMEs are struggling to find the necessary capital for their businesses. The findings of the Department of Finance's survey reviewing BES in 2006 offer valuable insight as to just how important BES is for these businesses and those they employ. In the survey, BES companies were asked the impact that not getting the financing would have on their business. Many said that it would impact their working capital position and require them to look for financing either through a bank or elsewhere. A review of the Business Expansion Scheme should be conducted urgently, with a view to enhancing and broadening the application of the BES by removing the requirements with respect to the qualifying trades which companies must engage in. Such a move could assist in alleviating the credit difficulties faced by many firms.

In addition to a scheme similar to BES, the UK government has recently received EU approval for the provision of tax relief to investors in a Venture Capital Trust (VCT). The VCT is listed on the stock exchange and shares are purchased by investors, with tax relief of 30% on investments up to £200k. Dividend income is exempt from income tax and the disposal of shares is exempt from Capital Gains Tax (subject to a minimum holding period). Given the financing difficulties faced by many firms in developing their businesses, Dublin Chamber believes that a similar scheme should be introduced.

Consideration should also be given to the introduction of **CGT roll-over/reinvestment relief**, introduced for gains on disposals of shares in such trading companies whereby the gain would be deferred provided the proceeds are reinvested in a new trading company within a specified period. This would encourage serial entrepreneurs who sell their shareholding in a company once it reaches a particular size and then reinvests in a new start-up.

5. Supporting Indigenous Companies

In this climate it is of particular importance that state funding ear-marked for Irish business is made available in a co-ordinated and efficient manner, ensuring that unreasonable delays in the provision of this finance to companies is avoided. At present, there is a proliferation of Government agencies providing a range of supports to particular business sectors. Dublin Chamber recommends that the funding from all such agencies be streamlined to facilitate access by businesses. The delivery of enterprise policy should be reformed. Overlapping services are provided by local authorities and County Enterprise Boards, often in competition with the private sector. Dublin Chamber believes that, as part of the current review of the County Enterprise Board system, the Minister for Enterprise, Trade and Employment should consider subcontracting the delivery of this service to the private sector.

The Dublin Chamber raised the issue of prompt payment with the Taoiseach's office in May of last year and was pleased to note the introduction of formal arrangements to reduce the payment period by central Government Departments to their business suppliers from 30 to 15 days from the 15^{th} June 2009. Nonetheless, the Dublin Chamber believes this measure to be insufficient in a number of respects:

- The measure does not cover all payments from Government departments, such as redundancy payments. Given the present delays in processing redundancy payments, this can lead to the perverse situation where more jobs are put at a risk in a company that has already reduced its numbers to remain competitive;
- The Revenue Commissioners do not appear to take account delays in payments from the public sector, when considering the late payment of taxes by firms; and
- The measure does not apply to state bodies and agencies, such as the HSE and An Garda Siochana.

Dublin Chamber calls for an extension of the arrangement for central Government Departments to pay their business suppliers within 15 days to state bodies, agencies and semi state companies.

6. Reducing the Burden of Government

Operational Efficiency of government

A plan for implementing the recommendations of the Report of the Special Group on Public Service Numbers & Expenditure Programmes (McCarthy report) and the Report of the Local Government Efficiency Review Group over the next three years should be presented on Budget Day. These reports have identified a large number of areas where considerable savings can be made.

Dublin Chamber believes that the focus of Budget 2011 must continue to be on reducing public expenditure. We continue to support the vast majority of the expenditure reduction recommendations outlined in the McCarthy report, and call for the correction of the public finances to be derived through even tighter cost management of Government current spending. There is still significant scope for greater productivity and efficiency in the public sector.

The decentralisation programme has led to reductions in the effectiveness and efficiency of the public service, by spreading it too thinly, creating a gap between the decentralised departments and the Ministers that run them, and thereby weakening accountability. Dublin Chamber continues to strongly support the suspension of the public service decentralisation programme. We are disappointed at the waste of public money to date in buying unused properties for the project, duplication of staff costs and the reputational costs associated with the failed programme.

The current procurement process is overly bureaucratic and is preventing many Irish SMEs from tendering for public contracts. Dublin Chamber recommends that the public procurement guidelines should only apply to contracts above the relevant EU directive threshold.

The aggressive use of outsourcing must be embraced. Government has made substantial investments into projects, such as the Management Information Framework, which allow the benefits of outsourcing to be easily integrated into service delivery. A strong return on Government's past investment in ICT can now be obtained by subcontracting relevant operations to public sector centres of excellence and to the private sector. In order to ensure a level playing field, the barriers to outsourcing arising from the treatment of VAT should also be addressed.

Local government in Ireland must become more efficient by improving the quality and effectiveness of its services and by cutting the cost of providing such services. The *Report of the Local Government Efficiency Review Group* identified a mere 7% in cost savings (€346 million) to the €5 billion current spending budgets of local authorities. Dublin Chamber recommends that in addition to the swift implementation of the Report's recommendations that each local authority be given a reduction in current spending target of 3% per annum. If both of these targets are delivered over a five year period, it would be possible to achieve an overall all reduction in local government current spending of €1 billion. Dublin Chamber believes that dividends from making local government more efficient should directly lead to supporting jobs and businesses by reducing commercial rates and charges. Central government must allow local authorities retain some of the savings that they make from innovations in service provision.

Furthermore, more meaningful performance evaluations need to be put in place which includes comprehensive value for money analysis. An audit of the range of services and programmes that local authorities currently deliver must be undertaken to ascertain whether they are the most appropriate agency to deliver such services. The question of whether there is a market failure or public good argument to support the local authorities' involvement in the delivery of certain services, and also whether other organisations and/or the private sector are better placed to deliver these services or programmes, must be addressed.

The review of the services provided by Dublin's local authorities should be completed in time to be implemented in 2011.

7. Broadening the local tax base

Dublin Chamber has long supported the broadening of the local government tax base. We believe that by ensuring all households contribute to the running of local government, local representatives will be held more accountable for the efficient running of local government. However, Dublin Chamber is concerned that current discourse on a **Site Value Tax**, which is contained in the Programme for Government, has moved towards a property tax which will prove fiscally and politically unsustainable. However, it is important that the introduction of the annual site value tax be tax neutral so that overall tax burden on a region is not increased.

The introduction of a Site Value Tax provides an opportunity to ensure that the cost of providing public infrastructure and services is taken into account. Dublin Chamber believes that the proposed Site Value Tax should be aligned with the strategic direction of the Planning and Development (amendment) Bill 2009. This would encourage households to be more sustainable being linked to locally run services. If the system does not take into account the environmental externalities and the cost to serve (e.g. based on square footage and local government efficiency in the region), the Site Value Tax will counter act the Government's other policies aimed at ending urban sprawl and supporting sustainable levels of community density.

It would be preferable that as the system matures that the rate charge be set by each local authority so that interests of residents are better aligned with an efficiently run local authority. Local authorities and councillors would be directly accountable to local taxpayers for what is collected and how it is spent.