

Submission to Public Consultation on Draft National Risk Assessment 2015

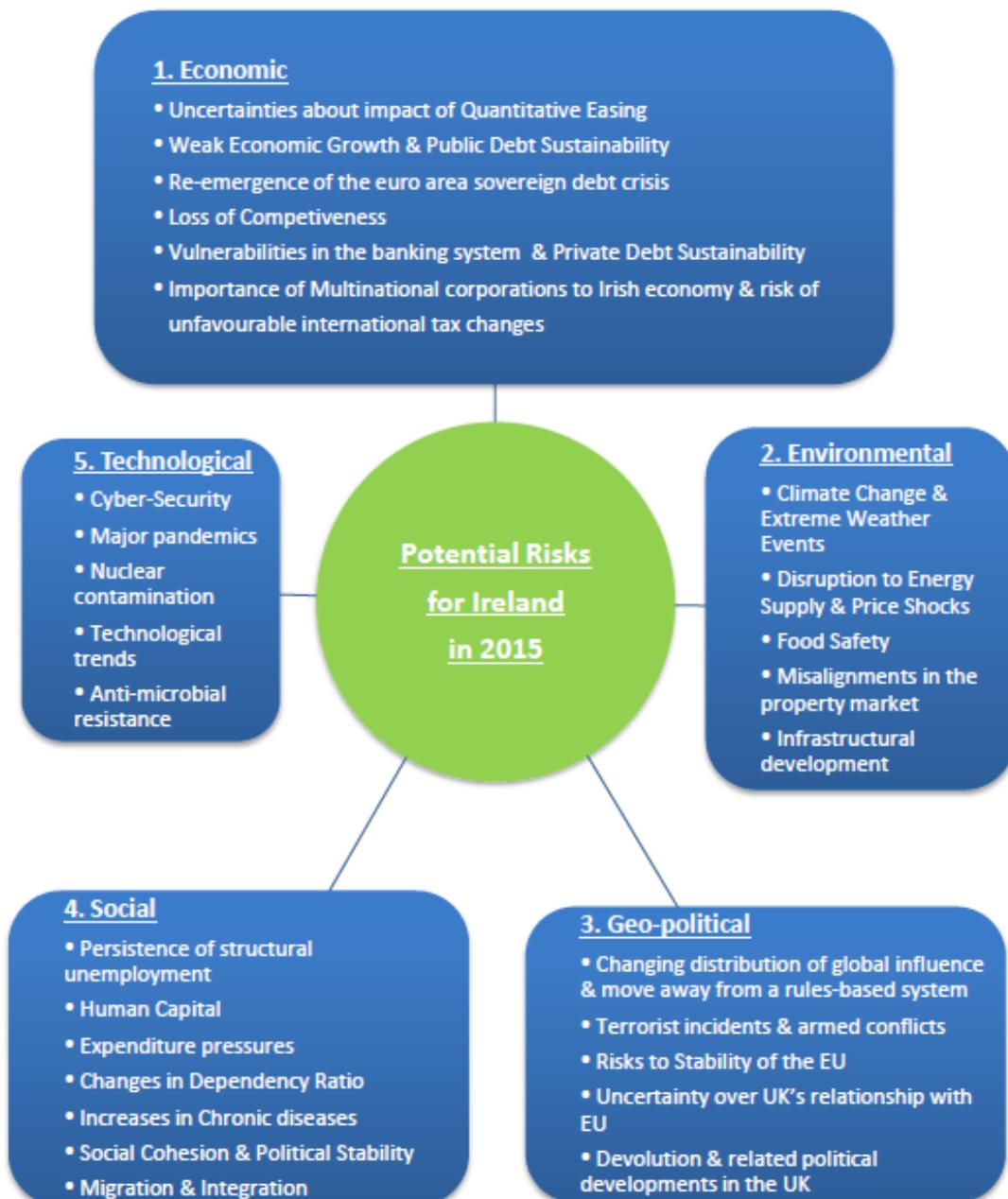
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Introduction

In this submission, Dublin Chamber of Commerce offers comment on selected sections of the Draft National Risk Assessment 2015, identifying the areas it considers to be the principal risks facing Ireland in the future.

Specifically, this submission will deal with issues relating to 1.Economic risks and 2.Environmental Risks as set out in Figure 1 below.

Figure 1: Potential Risks for Ireland



ECONOMIC RISKS

4. Loss of competitiveness

High labour costs

Ireland is competitive on many fronts. Despite the pressures of the recession, it has succeeded in retaining an attractive business tax regime which is built upon the foundation stone of the 12.5% rate of corporation tax.

However, the top rate of personal income tax combined with USC and PRSI is 52%, applying from an income level of €33,800. This actual rate of tax is one of the highest in the world, and the income level at which this rate applies is very low. By comparison, the top rate in the UK comes into effect at approximately €182,000 and in the US at €290,000. The rate is perceived as unfair, appearing to take over half of executives' income starting from a low level.

Entrepreneurs, both domestic and foreign, can and do move location based on the taxation environment. Irish entrepreneurs considering where to locate their business may look to Northern Ireland with its low relative cost base, or mainland UK.

The table below illustrates the tax reasons why an individual might prefer to establish a new business in the UK or Northern Ireland rather than in Ireland.

	Ireland	UK & NI
Income tax		
Effective total tax rate on dividends	55%	c32%
Marginal income tax rates	40%	40%
Salary at which rate changes (at €1.40 per £1)	€33,800	€44,498
Capital Gains Tax		
CGT rate on exit after 5 years	33%	28%
CGT rate first Stg10M on exit after 5 years	33%	10%
CGT exemption for EIIS / EIS	No	Yes
CGT Rollover relief for future investments	No	Yes
Corporate tax issues		
Patent box income	12.50%	10%
CT rate (Proposed future rate for Northern Ireland)	12.50%	20% (12.50%)
Taxation of foreign dividends / branch profits	Credit for foreign tax	Exempt
VAT	23%	20%
Treaty Network – number of countries	~70	~130

Many of the above advantages have been implemented within the last five years, as the UK has delivered on its express commitment to “roll out the red carpet” for foreign entrepreneurs (quotation from David Cameron, June 2012). This policy aspiration has become a reality. Several of the UK's competitive advantages over Ireland in the table above have only arisen in the past five years.

ENVIRONMENTAL RISKS

10. Misalignments in the residential property market

Housing

Dublin needs to build between 7,500 and 10,800 units per annum in order to keep pace with demand. The average figure across the main research studies points to a need for 8,720 units per annum.

Housing is critically important for ensuring that growth is supported and sustainable. Ensuring an adequate supply of affordable housing offers both direct and indirect benefits.

- Direct benefits

Housing affects an employer's ability to attract and retain employees. This has implications for regional economic competitiveness. Furthermore, the jobs created both during construction and through new consumer spending after the homes have been occupied contribute to a short-term economic boost.

Conversely, a shortage of affordable housing can force workers to live further away and commute by car, leading to congestion.

- Indirect benefits

Providing housing below market rates increases the money available for purchasing goods and services in the local economy.

Building new homes in an area can lead to appreciating values for nearby homes, thus creating a more robust tax base.

Improved housing standards due to adherence to new regulations for construction.

11. Infrastructural development

Water

In 2015 for the first time the World Economic Forum's *Global Risk Report* identified water crises as one of the most pressing issues facing the global economy. By 2030, the world is expected to need 40% more water than will be available.

Ireland is distinct from most countries due to the level of fresh water available, a benefit we can turn to our advantage by creating a world class water sector that can attract water-intensive industries such as ICT, pharma-chem and agri-food to Ireland. These industries already sustain well over 200,000 jobs between them.¹

The global trend is towards urbanisation. 54% of the world's population was living in urban areas in 2014. Europe is 73% urbanised. By 2050, 66 per cent of the world's population is projected to be urban.²

As more people cluster in urban areas, pressure is placed on natural resources especially the supply of fresh water. Urban water use has increased five-fold since 1950, as per capita consumption of water rises in tandem with living standards.³

If Ireland is to remain an attractive location for Foreign Direct Investment (FDI), the country needs to retain every possible competitive advantage and a lack of certainty over the future price of water is weakening the country's hand. FDI companies who may choose to commit to Ireland in the long-term need assurances on the cost of water and security of its supply. Many companies, particularly those in manufacturing, are highly sensitive to price changes in water.

¹ Quote from Aodhán Ó Ríordán TD, 12th June 2015, Water Services (Amendment) (No. 2) Bill 2014: Second Stage [Private Members], accessible at <https://www.kildarestreet.com/debates/?id=2015-06-12a.5>

² UN World Urbanization Trends 2014 <http://esa.un.org/unpd/wup/Highlights/WUP2014-Highlights.pdf>

³ Stanford study

- Investment in a new water supply for the East and Midlands

The risk of water shortages in the Dublin Region was identified in the early 1990s. Dublin City Council commissioned the 'Greater Dublin Water Supply Strategic Study' as far back as 1995, which found that a new source of water was needed for Dublin and its neighbouring counties – and soon.

Despite the compelling evidence for this risk, no new supply has yet been delivered. In the meantime, Dublin has grown beyond its county boundaries such that any new water supply would now need to service the entire East and Midlands area.

Leakage reduction efforts are extremely important, and Irish Water has set a target of reducing leakage from a national average of 47% to 25% by 2021. Current leakage levels in Dublin are the lowest in Ireland, at 33%. This compares with Roscommon, which loses 62% of its water through leaks.

However, leakage reduction is a long, inexact and costly process and the savings that can be achieved are uncertain. Furthermore, leakage reduction alone will not be enough to solve headroom issues and address increased demand.

As things currently stand, if Dublin was to deploy the maximum capacity of its water treatment plants, it would still fall short of its long-term water needs. Maximum output currently stands at 623 megalitres per day and by 2050, the GDA will need 870 megalitres (870 Olympic size swimming pools) per day simply to function.

Irish Water has provided the below figures in relation to this issue:

- More than 84% of water supplied in the Dublin metropolitan region is drawn from just one source, the River Liffey.
- The two largest elements of the existing system, Ballymore Eustace (providing 310 megalitres of water per day) and Leixlip (215MI/d), both abstract from a single source, the River Liffey.
- Pollaphuca is the primary storage reservoir on the River Liffey system. The reservoir is large in comparison to its contributing catchment and so it carries a particular risk that dry winters, such as occurred in 1975-76, may fail to fully replenish water levels in the impoundment.
- The catchment of the Liffey is crossed by the M4 and M7 motorways, by rail links from the south and west, and hosts substantial communities, with associated wastewater treatment plants and industries. These are risk factors for potential supply disruption.

Investment is key to addressing these issues. As cited in the Draft National Risk Assessment paper: "it has been estimated that 530 of the existing 856 water treatment plants require additional investment."

Transport

A recent study by Siemens sought to "put an economic value on the cost of inefficient transport to a city's economy and in turn, the economic benefits investing in transport improvements would bring".⁴ Some key findings of the study were that:

- Cities that invest in transport will reduce economic costs and drive economic growth;
- Cities that have transport plans in place will reduce the economic cost of infrastructure;
- The scale of economic benefits should dictate the level of investment;
- Governance should be effectively integrated to create successful plans and bring them to fruition; and

⁴ *The Mobility Opportunity*, available at <http://www.siemens.com/press/pool/de/feature/2014/infrastructure-cities/2014-06-mobility-opportunity/Study-mobility-opportunity-preview.pdf>, Siemens 2014

- Cities should act now and should not be afraid of the upfront investment cost, since the economic benefit is likely to repay that investment many times over.

Above all, these findings highlight the importance of a developing and implementing a long term strategy. This is why the NTA's consultation on the Greater Dublin Area (GDA) is so welcome and timely. For many of the cities assessed in the Siemens report, the economic cost of transport is expected to increase by 2030. Where cities have not already put plans in place to react to increased demand by 2030, or where current plans are insufficient, transport costs will consume an increasingly large portion of economic output. Dublin must not allow itself to fall into this trap.

- Long-term planning

Government must recognise that infrastructure delivered in the next ten to twenty years will be used for the next hundred. The passage of time sees the emergence of different mobility trends and demands, and while we cannot predict the future, we can plan for the most likely scenarios. For the GDA, this means planning for growth as all international trends point to the continued success and importance of city regions.

The strategy for the Dublin region must be integrated. Infrastructure projects should be selected on an incremental, complementary basis and evaluated based on how they will interact with future projects and the network as a whole. All projects must be placed within a strategic transport network to ensure demand is adequately met and avoid duplication of services. Similarly, ongoing projects must be taken into consideration. For example, an M50 demand management scheme would affect traffic on regional roads in the Swords and N2/Ballymun/Finglas area. This should be clearly accounted for.

- The case for investment

In its submission to the Department of Transport on their Land Transport Strategy, Dublin Chamber raised concerns about "the scale of the gap between available funding levels and the level of investment that is necessary to maintain the existing transport network in adequate condition". The transport capital envelope for Dublin, which the National Transport Authority puts at approximately €150m p.a., is significantly lower than what an international city region needs.

Benchmarking Dublin against other cities on a per capita basis highlights the level of underinvestment: London will invest €462m, and Manchester, €367m. Moreover, this comparison does not account for the fact that both of these cities have already implemented significant investment programmes. This means that they are investing from a much stronger base. Dublin's current investment programme must be tripled to keep competitive pace.

The situation is now urgent. Under current government planning, the commencement and delivery of major projects is at least ten years away and, in the interim, the GDA will continue to grow without the necessary infrastructure. Capacity has been rapidly filled in recent years and it is clear that action is required now to prevent Dublin coming to a standstill.

Contrary to popular belief, Dublin has not received over and above its 'fair share' in public capital expenditure. In fact, investment the GDA has been considerably lower than per capita levels across Ireland. A paper prepared by Edgar Morgenroth of the ESRI for the Department of Transport studied the level of per capita expenditure across the regions, finding that the Midlands region received the highest expenditure in 2009 and Dublin received the lowest per capita expenditure.⁵ These findings are illustrated in the below graph. This analysis is offered to counter

⁵ "The Regional Development Impacts of Transport Infrastructure: A Literature Review and Policy Implications", Edgar Morgenroth (2014). Paper was issued by the Department of Transport, Tourism and

a commonly held view. Dublin Chamber wishes to emphasise that a 'pie cutting' approach to regional transport investment is wrong in principle. Decisions must be made according to the costs and benefits for the national economy.

Real per capita public capital expenditure by region

Source: *The Regional Development Impacts of Transport Infrastructure*, Edgar Morgenroth, 2014

