

infrastructure



childcare



education



Dublin Chamber of Commerce
Submission to Government
Budget 2005



taxation



DUBLIN
CHAMBER
of Commerce

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This submission is addressed to Government in the context of the 2005 Budget, and is aimed at ensuring that the Irish economy remains competitive and continues to have the capacity for continued economic growth..

It addresses the critical areas that should be addressed in the forthcoming budget – childcare and early education, infrastructure and the public finances.

The Chamber is grateful to David Carson, Chairman of the Budget Working Group and the rest of the group's members for their work in preparing this submission.

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SUMMARY

Budget 2005 should outline a clear strategy to maintain and enhance competitiveness. Key strategies include:

- Introduce a set of measures to increase the supply of childcare and to provide relief for childcare costs incurred by working parents.
- Accelerate investment in infrastructure to above 5% of GNP.
- Increase in the standard tax band and limit the growth in current spending to the nominal growth in GNP.
- Ensure Government policy does not add to prices in order to reduce inflation to eurozone levels.

Childcare

- Working parents face two critical childcare issues: availability and affordability.
- Measures to increase the supply of childcare should be introduced.
- Tax relief for working parents using childcare facilities should be introduced.
- A task force should be established to carry out further research on the social and economic benefits of providing early stage learning facilities.

Investment in Infrastructure

- A sustained investment programme in infrastructure is critical for the ongoing competitiveness and sustainability of the economy. Priority areas for investment in Dublin are transport, communications infrastructure, environmental projects and housing.
- There is a strong case for additional Exchequer borrowing for infrastructure, within the limits of the Stability and Growth Pact.

Value for money

- Limits on current spending in 2005 must remain if competitiveness is to be maintained.
- The standard tax band should be increased to reverse the erosion in real terms over recent years.

Reduced inflation

- The Budget should not add to inflation in 2005.

1. BACKGROUND

1.1 Why Dublin ?

Dublin Chamber of Commerce is the principle representative body for business in Dublin and this submission focuses on the importance of Dublin to the national economy.

Dublin has been the engine of Ireland's economic growth, with the leading sectors of the economy - software, electronics, financial services, and tourism - clustered in the greater Dublin area. The area has attracted international attention as a centre of excellence in new economy industries.

The Greater Dublin Area accounts for 48% of national Gross Value Added and more than 40% of national employment.

Dublin is also Ireland's leading centre for tourism, reflecting the growth in urban short breaks and event-related tourism.

Dublin has the potential to continue to drive the Irish economy through new investment and new tourism opportunities. However, that potential is under threat. The Greater Dublin Area has severe infrastructure deficits – in housing, transport, e-infrastructure and waste management facilities. This submission outlines a series of measures to address the deficits. The message is clear – there must be a sustained drive for competitiveness at all levels of the economy. Otherwise, both Dublin's and Ireland's economic potential could be eroded.

1.2 Budget Strategy 2005

The 2005 Budget must outline a clear direction and a strategy to maintain competitiveness.

Much of the economic success of the late 1990s was due to a pro-business fiscal environment, which encouraged the development of indigenous enterprise and foreign direct investment. There was a clear programme to reduce taxation on enterprise in order to stimulate growth, coupled with medium term plans for investment in infrastructure. Tax increases which were introduced in the last two budgets contributed to an erosion of business confidence.

2. TAXATION

2.1 Taxation strategy

Considerable progress had been made in previous budgets in bringing Irish average tax rates, particularly income taxes, to more sensible levels. There was a clear taxation strategy in place, aimed at encouraging enterprise and resulting in strong economic growth, high levels of inward investment and increased employment opportunities.

A medium term strategy for the Irish economy should be based on the following principles:

- The tax regime must underpin competitiveness - this means competitive tax rates on business activities where Ireland competes internationally (corporation tax, income tax, capital gains tax and others);
- Government should avoid adding to inflation through indirect taxes and through excessive increases in current expenditure;
- The tax system should support efficient use of resources and innovation. This would avoid taxes on technology, innovation, and the efficient use of the housing stock; and
- A competitive tax regime can be supported only by moderate increases in current spending.

2.2 Stealth Taxation

Ireland's approach to taxation on business and enterprise had established a favourable reputation for the country as a place to invest and do business. However, that reputation is being damaged through a series of "ambushes" on business in recent years. These include:

- The increase in employer's PRSI in 2001, introduced after the Social Partnership deal had been agreed;
- The increase in the higher rate VAT rate in 2002, despite having been reduced the previous year;
- The increase in the lower VAT rate from 12.5% to 13.5% last year, which impacted particularly on the tourism sector and came at a time when both tourism numbers were falling and concerns were mounting about Ireland's higher prices;
- The introduction of a special levy on the banking sector in 2002 – which damaged Ireland's credibility as a location for financial services;
- The non indexation of tax bands in Budget 2003; and
- The introduction of a variety of higher taxes and charges.

2.3 Childcare

Working parents face two critical childcare issues: availability and affordability.

Today, the largest cohort of our population is in the 20 to 24 year old age bracket. In 10 years many of these people will be working parents. It is estimated that, by 2010, a total of around 210-220,000 childcare places, formal or informal, will be needed. Given the current number of places in nurseries, playgroups and childminding, this suggests an additional demand for around 76,000 places.

One third of workers with children now pay more for childcare than they spend on their mortgage or rent, with crèche costs running at between €600 and €900 a month.

If the supply and cost of childcare are not tackled, a significant barrier to labour force participation will develop and Ireland's potential for future economic growth will be seriously affected.

- Tax relief for workers using childcare facilities should be introduced; and
- A review of the current guidelines governing the setting up of childcare facilities should take place, to facilitate an increase in the supply of childcare facilities.

The provision of childcare in itself is insufficient to meet the future needs of an Irish economy, based on its move towards higher levels in the value chain. Basic affordable provision needs to be fully augmented by support for the learning aspects of early childcare provision. All research in this area indicates clear evidence that failure to provide stimulating learning environments at this age level can lead to a lifetime of educational under-achievement to the disadvantage of the individual concerned, and the economy as a whole. This is particularly the case in respect of children from socio-economically disadvantaged areas, where this early learning deficit is compounded through life, resulting in the reinforcement of inter-generational disadvantage, evidenced by difficulties when children enter primary school and subsequent levels of education. This deficit should be tackled by way of a targeted, funded initiative, particularly in the Clar and Rapid areas already identified by Government policy for priority treatment.

- Childcare should go beyond purely minding children and provide an educational aspect to children's development. A task force should be established to carry out further research on the social and economic benefits of providing early stage learning facilities.

2.4 Education

A key aspect of Government policy is the upskilling of our workforce to enable Ireland compete globally at levels that are further up the value chain of economic activity. This policy direction is clearly identified by the O'Driscoll Report "Beyond the Curve". Recently published research, completed by Amarach Consulting on behalf of the National College of Ireland, indicates that 56% of current or intending part-time students found fees to be the major obstacle in their decision to participate in further education and upskilling. The research further identifies that 82% of the group are from the socio economic classes of C1 or below, making this a major constraint to our capacity to raise workforce skills to meet Government economic and social policy objectives. There is a clear need for a

Government intervention to assist the workforce in accessing part-time education through further tax credits or the introduction of fee support.

- Further tax credits or fee support for part-time students.

2.5 Higher taxes

There have been a number of increases in taxes and charges in recent years. Examples of these include:

- The increase in rates of stamp duty on non-residential property;
- Increase in stamp duty on cheques, credit cards and ATM cards;
- The extension of PRSI to benefits in kind;
- Increases by local authorities in commercial rates well above the level of inflation. This will be exacerbated in 2004 by the failure to provide funding to local authorities to pay the benchmarking awards. If this continues to be the case, the funding burden is likely to fall on the business sector, adding to business costs and further eroding Ireland's competitiveness; and
- The landfill levy, water charges and other environmental charges imposed by local authorities. These charges have increased by 26% in the past year.

The net effect of these taxes is to add to the overall tax burden and, in particular, to the cost of business. As these costs are added, Government is, in effect, adding to inflation, and diminishing Ireland's competitiveness.

2.6 Income Tax

Considerable progress has been made in recent years in bringing income taxes close to desired levels. However, that progress is now being gradually reversed. The failure to increase tax bands in Budget 2003 and Budget 2004 means the number of higher rate taxpayers has increased significantly.

Official estimates show that more than a third of income tax payers are paying the top rate of 42% in the current year - well above the Government's long-term target that only one in five workers should be on the higher rate. Just over 30% of income tax payers were on the higher rate at the end of last year.

Earlier estimates showed that the percentage of top rate taxpayers had fallen from 32% in 1999/00 to 27% in 2002. Thus, this progress has been completely eroded over the past two years.

- The standard tax band should be increased to reverse the erosion in real terms over the past two years.

2.7 Employers' PRSI

Taxation policy should encourage increases in employment. In that context, there should be no increase in employers' PRSI contributions in 2005.

2.8 International Conferences

Dublin Chamber of Commerce has welcomed the decision by Government to proceed with the development of an International Conference Centre. Estimates show that a Conference Centre could boost economic activity by up to €50 million annually through incremental expenditure by conference delegates, sustain over 3,000 extra jobs and generate an additional €140 million for the Exchequer in tax revenues. The 2005 budget should provide for appropriate mechanisms, either fiscal incentives or direct financial provision, to ensure that this project may proceed as soon as possible.

For Ireland to attract mobile international conferences, it needs to have a VAT regime which is competitive with the main European countries. Specifically, VAT on expenditure in Ireland by overseas conference attendees should be recoverable by the attendee. This provision should be included in the 2005 Budget.

2.9 Taxation and Inflation

The rise in consumer prices in Ireland –now positioning the country as the most expensive in the eurozone – is posing considerable threats to the tourism industry in particular and to the competitiveness of the economy in general. Most of this inflation derives from the non-traded sector of the economy which is not subject to the full forces of competition

Reducing inflation should be established as a priority for 2005 and, accordingly, Budget 2005 should not be a contributor to inflation.

3 INFRASTRUCTURE

3.1 The Infrastructure Gap

Investment in infrastructure is critical if Ireland is to attract high-value foreign investment in the future.

The Irish economy is currently suffering a serious fall in competitiveness which is exacerbated by a seriously inadequate infrastructure. The public finances are sufficiently healthy to accommodate the infrastructure investment required and the stalled National Development Plan should be reinvigorated as a matter of national priority.

The Irish economy has achieved extraordinary success over the past ten years. Record levels of economic growth and increased prosperity has made the Irish economy the envy of most developing countries in the world. Building on this success is the critical challenge facing the Government.

There are two broad economic options open to Government. It can pursue a course of containment – the primary focus being on maintaining Exchequer finances at or close to balance on a year-by-year basis. The alternative is to take a more radical visionary approach and fully commit to the investment in infrastructure that is an urgent priority and a pre-requisite to a continued and sustained national economic growth.

In embarking on this course two critical questions arise:

1. Is a major increase in infrastructure investment merited?
2. Is the economy able to afford the investment required?

The answer to both these questions is yes. The need has not only been established through countless studies but is clearly apparent to every citizen in almost every sector of infrastructure. On the question of affordability, a more strategic and longer term line of thought is required.

It is noted that the Government may be restricted by the terms of the Stability and Growth Pact as to the level of its borrowings. At present, Government borrowing is close to 1% of GDP – well within the maximum band of 3%. While it is argued that there is scope to increase borrowings closer to 3%, the objective of the Pact is for economies – particularly those on the upward scale of the economic cycle – to stay as close as possible to zero deficits.

It is the Chamber's view that:

1. Ireland's balance sheet is the lowest borrowed of all our major trading partners and in an era of historic low interest rates this is the time to borrow.
2. Under all available projections, Ireland does not come close to breaching the requirements of Stability and Growth Pact (SGP).
3. The SGP is not appropriate for a high growth economy with a major infrastructure deficit with ample borrowing capacity.

At present, Ireland's borrowings as a proportion of GDP, at 35%, is the lowest of our trading partners. The EU average is 64% and many countries have debt levels substantially in excess of this level. If borrowing was increased to a level within the maximum terms of the SGP, an additional €3bn could be available to invest in infrastructure in 2005. It is no longer tolerable that policies can be built on the assumption that it is not affordable. A substantial increased spending on

infrastructure simply must occur if economic growth in the remainder of the decade is to be generated.

3.2 Investment Priorities - Key priorities for investment in infrastructure are as follows:

(a) **Transport**

- The construction of the metro line from Dublin city centre to Dublin Airport and on to Swords.
- The upgrade of the M50
- Dublin suburban rail enhancement programme, including phase two of the DASH programme (upgrade of the city centre signalling system)

(b) **Communications**

- An integrated plan to deliver the “New Connections” aspiration
- Encouragement of genuine public private partnership approach to finance infrastructure
- Drive to build and use applications such as Government e-health and e-payments
- Focused support for applications start-ups, with common standards to provide a platform

(c) **Environment**

- Waste to energy thermal treatment plant
- Additional recycling facilities
- Investment in clean landfill facilities

(d) **Housing**

- Housing in Greater Dublin Area is a critical issue for the ongoing development of the economy. The population of the Greater Dublin Area (GDA) is currently in excess of 1.5 million people. This has increased by more than 185,000 since 1991 when the GDA’s population was 1.35 million. The population of the GDA represents some 39.2% of the total population of the State. Current demographic trends suggest a population in the GDA of 1.9 million by 2020, out of a national population of 4.4 million, and a population of 2.2 million by 2020, out of a national population of 5 million.
- The current level of private house completions in the Greater Dublin Area, at c.20,000 units p.a., is a major achievement. However, the requirement for social rented accommodation in Dublin City is greater

than ever with 14,700 'households' on the housing list and only 1,920 units 'in progress'.

- Enhanced services to facilitate housing development include: -
 - Road infrastructure
 - Public transport to be configured so that the Luas, Dart and Bus/ Rail networks all complement each other.
 - Environmental infrastructure, including provision of water and sewage facilities
- The social housing crisis needs to be addressed through an accelerated programme for the utilisation of derelict and partially utilised buildings throughout the city coupled with concentrated programmes to deal with long-term unemployment and socially excluded people.

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