



European Semester 2018

***Social Justice Ireland* response to the European Commission's 2018 Country Report for Ireland**





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Social Justice Ireland

Arena House
Arena Road
Sandyford
Dublin 18

www.socialjustice.ie

Tel: 01-2130724

Email: secretary@socialjustice.ie

Social Justice Ireland is an independent think tank and justice advocacy organisation that seeks to build a just society. We provide independent social analysis and evidence-based policy proposals, with the aim of creating a sustainable future for every member of society and for societies as a whole.

Membership of *Social Justice Ireland* is open to individuals and groups who share these objectives. We are always keen to hear from new members. Full details of what membership entails and how to join can be found at www.socialjustice.ie/members.



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Introduction

Social Justice Ireland welcomes the opportunity to respond to the European Commission's 2018 Country Report for Ireland, published on the 7th March 2018. The Report deals with a number of issues we have sought to highlight in policy arenas in Ireland and across the EU for several years.

Each year, we publish at least three studies focused on the EU:

- A review of developments across the EU-28 with special focus on poverty, unemployment, services and taxation. The 2017 review is entitled 'Europe: The Excluded Suffer while Europe Stagnates'. The 2018 publication is due to be released in the coming months.
- A study of a particular aspect of public policy in Ireland as part of EU-28 report on this issue led by Caritas Europa. The 2017 topic studied was poverty and social exclusion among young people.
- An annual review of how Ireland is performing vis a vis the Europe 2020 Strategy.

The 2017 edition of each of these studies has been published and is available to the European Commission. The 2018 editions are due to be released in the coming months.

Country Specific Recommendations

CSR 1 - Broadening the Tax Base

Social Justice Ireland welcomes the re-statement by the Commission of its recommendation to broaden the tax base. This is a policy area on which we have been advocating for quite some years. It is only through a strategic and determined effort to reform Ireland's taxation system that previous mistakes can be avoided in the future. The narrowness of the Irish tax base resulted in almost 25 per cent of tax revenues disappearing, plunging the exchequer and the country into a series of fiscal policy crises. Tax revenues collapsed from over €63bn in 2007 to a low of €47.3bn in 2010; it has since increased to exceed 2007 levels reaching almost €65bn in 2016.

National debt increased from a level of 24 per cent of GDP in 2007 - low by international standards - to peak at 119.6 per cent of GDP in 2012. Documents from the Department of Finance, to accompany Budget 2018, project that the national debt will decrease to 69 per cent of GDP in 2018 and to 61.2 per cent by 2021. The large revision in GDP for 2015 has had a significant effect on this indicator. Despite favourable lending rates and payback terms, there remains a recurring cost to service this debt – costs which have to be financed by current taxation revenues. The estimated debt servicing cost for 2018 is €6.1bn. Furthermore, the erosion of the National Pension Reserve Fund (NPRF) through using it to fund various bank rescues has transferred the liability for future public sector pensions onto future exchequer expenditure. Although there will be some return from a number of the rescued banks, it is likely to be small relative to the total of funds committed and therefore will require additional taxation resources.

These new future taxation needs are in addition to those that already exist for funding local government, repairing and modernising our water infrastructure, paying for the health and pension needs of an ageing population, paying EU contributions and funding any pollution reducing environmental initiatives that are required by European and International agreements. Collectively, they mean that Ireland's overall level of taxation will have to rise significantly in the years to come – a reality Irish society and the political system need to begin to seriously address.

Social Justice Ireland believes that there is merit in developing a tax package which places less

emphasis on taxing people and organisations on what they earn by their own useful work and enterprise, or on the value they add or on what they contribute to the common good. Rather, the tax that people and organisations should be required to pay should be based more on the value they subtract by their use of common resources. Whatever changes are made should also be guided by the need to build a fairer taxation system; one which adheres to our already stated core policy objective.

There are a number of approaches available to Government in reforming the tax base. Recent Budgets have made some progress in addressing some of these issues while the 2009 Commission on Taxation Report highlighted many areas that require further reform, such as:

- Tax Expenditures / Tax Reliefs
- Minimum Effective Tax Rates for Higher Earners
- Corporation Taxes
- Site Value Tax
- Second Homes
- Empty Houses and Underdeveloped Land
- Taxing Windfall Gains
- Financial Transactions Tax
- Carbon Taxes

More detail on our proposals for reform under each of the above areas is detailed in our forthcoming Socio-Economic Review due to be published in early April 2018.

While it is important for Government to reduce the general debt ratio, it is equally, if not more, important to ensure that additional revenues gained as a result of any broadening of the tax base are put to use for the benefit of society, for improving public services and rights of access to adequate housing and healthcare to live a life with dignity.

CSR 2 - Targeting Government Expenditure, Enhancing Social Infrastructure, Delivering Employment Activation Policies

Successive Governments have used the economic recession and subsequent austerity measures as an excuse to significantly cut investment in public services, including healthcare, education, housing and transport. Recent increases in expenditure on these areas in Budget 2017 and Budget 2018 have been welcomed, however they are insufficient by pre-recession standards and completely inadequate to meet the needs of the current, growing population. *Social Justice Ireland* notes reference in the Report to the Water Services Act, which replaces the standalone water charges with funding from general taxation. As previously stated, Ireland's current tax take does not provide sufficient revenue for existing and future needs, without subsuming water charges into general taxation. The only possible avenue for Government is to increase the amount of general taxation collected, again by broadening the tax base, in order to cover the cost previously intended to be carried by water charges.

Government's response to Ireland's housing crisis has been grossly inadequate. Reference to increasing the provision of social housing units has meant an over-reliance on subsidising the private rented sector, rather than increasing the supply of social and affordable, public housing. Rent inflation remains in double-digits, currently at about 10 per cent, and rent subsidies such as the Housing Assistance Payment (HAP) are not sufficient to cover increasing rents. The number of households

officially enumerated as having a 'social housing need' was 85,799 in June 2017, however almost 30,000 more were in receipt of the HAP subsidy. The number of people accessing emergency homeless accommodation in January 2018 was in excess of 9,100, with 1,512 families and 3,267 children. These numbers do not count the number of people who are barely managing to pay their rent or who are 'couch-surfing' with family and friends – the 'hidden homeless'.

As a percentage of wages, net childcare costs in Ireland are the highest in the EU, this is particularly the case for lone parents with the OECD reporting childcare costs at 42 per cent of net income. While the introduction of the ECCE and Single Affordable Childcare Schemes are welcomed, reports of crèche fees increasing in line with, or more than, the amount of the subsidies are a concern. A review of these schemes is necessary to ensure that they are not being abused and to impose sanctions on childcare providers seen to be taking advantage of a policy introduced to support working parents, particularly those on low incomes. In addition, there are increasing demands on childcare workers to improve their skills and qualifications, leading to a realistic expectation of better pay. *Social Justice Ireland* believes that childcare staff should earn a decent wage and that Government should cover any such increases in pay, however care must be taken to ensure that any such subsidy aimed at improving conditions of childcare staff are not used to increase costs to parents.

Activation measures to increase participation in the labour force are to be welcomed, however *Social Justice Ireland* submits that there needs to be greater recognition by Government that the term "work" is not synonymous with the concept of "paid employment". Everybody has a right to work, that is, to contribute to his or her own development and that of the community and the wider society. This, however, should not be confined to job creation. Work and a job are not the same thing. Activation must also ensure the provision of sustainable, meaningful employment. There has been an increase in precarious employment in recent years. Since 2007 employment has fallen by 2 per cent; but this figure masks a bigger decline in full-time employment (3.3 per cent) and a growth in part-time employment (+3.3 per cent). Within those part-time employed it is worth focusing on those who are underemployed, that is working part-time but at less hours than they are willing to work. By the third quarter of 2017 the numbers underemployed stood at 116,200 people, almost 5 per cent of the total labour force and about one-quarter of all part-time employees.

While an element of these figures can be explained by the recession, and the suppressed levels of activity in some sectors, they also suggest the emergence of a greater number of workers in precarious employment situations. The growth in the number of individuals with less work hours than ideal, as well as those with persistent uncertainties concerning the number and times of hours required for work, is a major labour market challenge. Aside from the impact this has on the well-being of individuals and their families, it also impacts on their financial situation and adds to the working-poor challenges. There are also impacts on the state given, that the Working Family Payment (formerly known as Family Income Supplement (FIS)) and the structure of jobseeker payments tend to lead to Government subsidising these families' incomes, and indirectly subsidising some employers who create persistent precarious employment patterns for their workers.

Social Justice Ireland has been highlighting these issues at Government and European level for quite some time. We welcome the Commission's insight that there is more progress to be made and look

forward to working with Government and stakeholders to advance proposals for developments in each of these areas.

CSR 3 – Reducing Non Performing Loans

The issue of non-performing loans (NPLs) has received a considerable amount of media and political attention recently with the announcement by two pillar banks of their intention to sell more than 20,000 mortgages to unregulated ‘vulture’ funds in order to reduce the number of NPLs in line with EU targets. Opposition parties and consumer advocates have decried these sales on the basis that families in late stage mortgage arrears, or who are tenants of landlords in late stage mortgage arrears, will be evicted by funds looking for a short-term gain on their original investment. Initial Government response was to point to the contractual obligations of the original lenders and the provisions of the Consumer Protection (Regulation of Credit Servicing Firms) Act 2015, which requires that credit servicing firms guarantee the application of existing consumer protection protocols when engaging with borrowers in mortgage arrears. Unfortunately, this strategy has two serious issues: 1) funds that do not engage credit servicing firms regulated in Ireland to manage their loan portfolios will not be compelled to engage with any consumer protection processes; and 2) the current Code of Conduct on Mortgage Arrears is not fit for purpose, being as it is a set of guidelines to be complied with at the discretion of individual lenders. This is particularly evident in provision 39, the ‘Resolution’ provision, which provides that lenders must ‘explore all of the options for alternative repayment arrangements **offered by that lender**’ (emphasis added). Accordingly, if the fund, via the credit servicing firm, offers no more than lump sum settlements, out of reach of most borrowers in late stage mortgage arrears who cannot access alternative sources of affordable finance, they have complied with that provision of the Code.

Late stage mortgage arrears remains a problem in Ireland. In Q3 2017 the number of private dwelling house (PDH) loans in arrears was 72,489, a reduction of 49 per cent from the peak of 142,892 in Q2 2013. However, while the number of mortgages in arrears has almost halved, the monetary value of those arrears has **increased by 36.5 per cent**, from just over €2 billion to €2.76 billion, in the same period.

The European Commission’s Report refers to policy instruments such as the Personal Insolvency legislation as supports for insolvent borrowers, however the low-level of insolvency arrangements concluded is a clear indication that this legislation is not the solution, the processes are cumbersome, access to quality professional practitioners is limited, particularly for those with insufficient income (or indeed any income) above the Reasonable Living Expenses guidelines to provide for professional fees; and the creditor veto (notwithstanding amendments to the legislation to attempt to curtail it) act as barriers to access for many of the most in need who are too poor to access insolvency.

Pressure from European regulators to reduce the rate of NPLs by 2021 by over half its current rate has been cited by one lender currently proposing to sell over 18,000 loans, 14,000 of which are home loans, although the European Central Bank has stated that this was not the only way NPLs could be reduced (it is, however, the quickest).

Social Justice Ireland proposes a series of measures, at Government and European level, that could be introduced to reduce the rate of NPLs without compromising consumer protection:

- Reform of the Code of Conduct on Mortgage Arrears to both strengthen and clarify its consumer protection provisions and put it on a statutory footing;
- The introduction by the Central Bank of Ireland of a licencing system for owners of loan books which originated in the State;
- Revision of the Personal Insolvency legislation to address the balance of power between the borrower and the lender, and curtail the lender veto;
- The introduction of a Public Personal Insolvency Practitioner Service to support borrowers on low incomes to access insolvency solutions;
- Review of the classification of 'right-sized' loans by both the Central Bank of Ireland and the European Central Bank to allow lenders to engage with borrowers with some affordability to enable them to keep their homes while paying an affordable mortgage, without compromising the integrity of the bank's balance sheet;
- Incentivise banks to develop 'on balance sheet' solutions, such as internal work-outs, asset protection, or securitisation of loans.

Conclusion

Social Justice Ireland broadly welcomes the Commission's 2018 Country Report for Ireland and the progress identified in respect of the three country specific recommendations. However, there is much more to be done to ensure that Ireland can provide for its citizens and all who live here, can deliver high-quality essential services, adequate housing, affordable childcare and meaningful work, and can deliver on its fiscal commitments while ensuring consumer protection. We look forward to engaging further with the Commission and with Government to advance these issues.

Social Justice Ireland,
Arena House,
Arena Road,
Sandyford,
Dublin 18
Phone: 01 213 0724
Email: secretary@socialjustice.ie
Charity Number: CHY 19486
Registered Charity Number:
20076481
www.socialjustice.ie

