SUBMISSION TO

The Minister for Finance in advance of Budget 2011

The Construction Industry Federation

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Preface

The CIF's pre-Budget Submission to the Minister for Finance is written in the context of the ongoing imperative for fiscal consolidation in line with the Government's Stability Programme, and the need to underpin the economy's ability to recover and return to its medium-term growth and employment potential. The recommendations contained in the submission form key elements of a framework to maximise the contribution construction can make to the achievement of these objectives. In particular, the CIF identifies the role that capital investment will play in supporting employment in construction, and elsewhere in the economy, and the opportunity to address rigidities in the tax system to encourage renewed private-sector investment domestically, including in the residential and commercial property sectors. These measures will help balance the necessary adjustments in current expenditures and the need to broaden the tax net.

The CIF submission also reflects very grave concerns within construction about the immediate and future prospects for the sector and the wider implications for Ireland. Whilst the industry, like the economy in general, grew to levels that were simply not sustainable, particularly in the period 2004 to 2007, it is now experiencing a severe contraction that will continue in 2011, which will undermine Government action in other sectors to support domestic recovery.

In calling on the Government to make the achievement of a sustainable construction sector a budgetary priority, the CIF points to the fact that investment in the industry, whether directly by the Exchequer or the private sector, will be immediately repaid in jobs along with wider impacts in terms of confidence and people's spending in the economy. Moreover, repeated studies underline the high rates of returns on investment in public infrastructure and its critical role in laying the foundations for future, sustainable economic growth.

The Construction Industry Federation's Pre-budget Submission to the Minister for Finance in advance of Budget 2011 reflects the very grave concerns within construction about the immediate and future prospects for the sector and the implications for the wider Irish economy.

Summary of Recommendations

Context for Budget 2011

- Getting people back working should be a primary goal of policy.
- Budgetary policy should, in line with the stated position of Government, prioritise the delivery of much needed public infrastructure as the most immediate and effective way of supporting and creating employment in the Irish economy and restoring national competitiveness.
- Any new tax measures should be both sustainable and least likely to cause harm to economic growth and employment. In Budget 2010, the Government identified a number of measures to broaden the tax net that fulfil both of these requirements.
- International experience indicates that the balance of fiscal consolidation, in order to limit the damage to the economy's growth potential, should be on current expenditures. To this end, measures aimed at reform of the public sector, including increased productivity and reductions in size, should be prioritised.
- The Budget provides an opportunity to demonstrate that the tax system is responsive to, and capable of adjusting in line with, the new economic conditions in Ireland, with significant opportunity to boost employment, Exchequer revenues, confidence and future economic growth through measures outlined in the document.

State of the Market

- Construction output in 2011, in the absence of appropriate Government action, will be less than half its optimum size, resulting in unnecessary job losses and delayed economic recovery.

Public Capital Investment Programme

- The Government's recently published 'Infrastructure Investment Priorities 2010-2016' reconfirms the cost-benefit logic in favour of a strong capital investment programme that delivers much needed infrastructure whilst simultaneously getting workers of the Exchequer's social welfare.
- It is the view of the enterprise and construction sectors that funding has already been cut too far and that further cuts would severely undermine, domestically and internationally, the credibility of Ireland's infrastructure development plans.
- New sources of financing, particularly Infrastructure Bonds, are needed to help compensate for the reduction in direct Exchequer funding. Options include investment through the National Pension Reserve Fund, which would guarantee significant returns (gross returns per annum of approximately 10%) to that fund whilst accelerating domestic economic recovery.
- Government should also reform the PPP model to encourage greater use of private finance through this proven methodology. The industry is calling specifically for the establishment of a Task Force, centred in the Department of Finance, to oversee the reform of the process.
- Government should act on the opportunity, particularly having regard to the completion of the Inter-Urban Motorway Programme, to extend the competency and capacity within the National Roads Authority to other programmes with the objective of improving the management of priority public capital investment.
- The creation of a Centralised Water Authority to collect charges, manage water resources, direct investment in infrastructure and handle customer services provides a basis for pooling existing resources, with the potential for huge benefits in terms of efficiency.

Summary of Recommendations CONTINUED

- Procuring authorities must advance lead-in planning and design work and schedule programme delivery so as to ensure a viable multi-annual capital projects pipeline to support the maintenance of a cost effective construction sector and ensure value for money for the taxpayer.

Stamp Duty

- In the current environment persisting with stamp duty on property transactions represents a significant opportunity cost to the Exchequer.
- Budget 2011 should introduce a time limited 0% stamp duty rate on all property transactions as a revenue-generating measure with the view to its ultimate phasing out and replacement by a more reliable, sustainable and equitable form of taxation.

Property Markets

- The Government should consider a time-limited tax credit scheme, or savings scheme, to facilitate new home ownership amongst first time buyers. Such measures would be more than repaid to the Exchequer by the immediate release of trapped VAT on the closure of house sales. Further details on these proposals are set out later in the document.
- The Home Choice Loan Scheme should be clearly articulated and marketed to highlight the enhanced mortgage options available.
- The Government's proposal to end mortgage interest relief for new borrowers from June 2011 should be reconsidered, and extended for a further period of 12 months.
- The Government must pursue an integrated policy response to Ireland's social housing need, moving away from current one-size-fits-all models that have failed to deliver for either the intended beneficiaries or the tax payer.
- The VAT clawback arrangements in place in respect of temporary lettings of new homes by the developer should be reviewed so as to eliminate the existing anomaly whereby a double VAT liability arises on the eventual sale of the new home.
- New housing units which are let by the developer on a temporary basis pending sale should continue to be treated as new units for the purpose of stamp duty.
- Whilst the industry is supportive of improved standards of house building, more reality must be brought to bear on the constant review of Building Regulations, particularly Part L dealing with Conservation of Fuel and Energy. A simple analysis will reveal the significant increase in costs being imposed upon the industry with minimal benefits at a time when the industry, is seeking to improve its competitiveness. Any proposals to increase costs such as higher standards of Building Regulation requirements upon the construction sector must be deferred until the economic climate is fit to absorb such increased costs.
- The restoration of a fully functioning private construction and property development market is urgently required. The role of NAMA is central to achieving this.
- It is vital therefore that NAMA has adequate working capital effectively deployed to facilitate the restructuring of the construction and property development market, and so support its role in helping the economy grow.

The Budget provides an opportunity to demonstrate that the tax system is responsive to, and capable of adjusting in line with, the new economic conditions in Ireland, with significant opportunity to boost employment, Exchequer revenues, confidence and future economic growth.

Summary of Recommendations CONTINUED

- NAMA must be adequately resourced to effectively deal with the task entrusted to it so that timely and appropriate decisions are taken in the long term interests of the country. An overly ambitious debt reduction policy will not serve the interests of the economy, and indeed will make the effective work out of assets more difficult from a NAMA perspective.

The Black Economy

- A range of measures are recommended to help control and counter the resurgent black economy in construction, including:
  - A mandatory requirement that all construction clients should advise the Revenue Commissioners of the commencement of any construction project with costs of €3,000 or more, and identify the contractor employed
  - The payment of building grants and other incentives should be made conditional on work being carried out by tax compliant contractors
  - Tax assessment and tax relief should be made contingent on the provision of a certificate of building costs, which would identify all relevant building contractors
  - A provision that all main contractors should be required to identify sub-contractors engaged by them to the Revenue
  - A requirement for a mandatory site notice displaying the name of the client, contractor, architect/engineer, and planning reference number on all projects with a construction cost of €3,000 or more
  - Provision for recoupment of VAT by self-build developers, that is, owner-builders would be able to recoup VAT, but only where they can produce VAT invoices from sub-contractors and suppliers.

Sustainable Energy Initiatives

- Budget 2011 should adopt a ten year time horizon for the retrofitting of Ireland's existing built environment through the implementation of a range of fiscal and financial supports aimed at significantly reducing Ireland's carbon emissions and energy requirements, creating tens of thousands of jobs in the construction sector, and the wider economy, generating substantial savings for householders and businesses, and increased Exchequer revenues.
- Recommended measures include:
  - the more widespread implementation of demand reduction targets or 'utility obligations' requiring energy providers to reduce customer demand for energy
  - the ring-fencing of revenues under the Government's Carbon Tax to support the extension of existing grant-aided schemes
  - the introduction of targets for the issuance of 'green loans' on favourable terms by the covered Irish banks
  - the introduction of a new zero rating for VAT charges on materials purchased in order to undertake retrofitting work
  - the rollout of a scheme of retrofitting across Ireland's public buildings stock

Summary of Recommendations CONTINUED

Development Contributions and Reform of Local Government Funding

- Current levels of development contributions were set at a time when property prices were double today's values. Development Contribution Schemes should be revised to reflect new market conditions, requiring a 50% reduction in existing rates, to encourage investment and employment.
- A new system for financing local Government is urgently needed, including the introduction of domestic water charges ring-fenced to meet the capital cost of water services.

Export Support for the Irish Construction Industry

- A requirement exists for a short term, targeted and highly regulated Government Bonding Scheme to support the export of Irish construction services and skills.

Delivering a More Effective Planning System

- Government should act on the considerable scope for reform of Ireland's planning system with the view to increased efficiencies, reduced costs and improved outcomes.
- Reform should focus particular attention on: timeframes for delivery of decisions, vexatious appeals and delays resulting from disagreement between Public Bodies.

A requirement exists for a short term, targeted and highly regulated Government Bonding Scheme to support the export of Irish construction services and skills.

Context for Budget 2011

Given the pace at which unemployment continues to rise in the Irish economy, the Government should prioritise the delivery of its revised capital investment programme.

The Irish economy has technically exited recession but in reality there is no recovery domestically and all indicators point to further significant job losses in 2011. Preventing these job losses and getting people back to work should be the primary goal of policy. This requires balancing necessary fiscal consolidation with measures that stimulate economic activity. Put simply, it is not sufficient to focus on the public finances alone. Rather, **a range of specific measures are needed to reinvigorate the labour market, including targeting Government investment at areas with the most immediate payback in terms of jobs and exercising flexibility through the tax system to respond to Ireland's changed economic circumstances.**

The CIF recognises the significant progress that has already been made in terms of restoring order to Ireland's public finances and the fact that further adjustment, in line with the Government's medium-term Stability Programme, is needed. The CIF believes, however, that capital investment has already borne too great a share of the adjustment and argues that further budgetary savings should, in order to minimise the impact on employment and economic recovery, be achieved through a focus on current expenditures and by correcting the structural difficulties in the tax system.

The capital investment programme has been significantly reduced over the course of recent budgets and has been undermined further by the failure to advance planned projects. This is happening despite the fact that the Government itself has identified the major contribution that construction investment makes to supporting and creating jobs in the Irish economy. In the recently published, Infrastructure Investment Priorities 2010-2016[1], the Government estimates, for instance, that **every €1m invested in infrastructure creates between 8 and 12 jobs directly and indirectly during the construction phase, whilst studies elsewhere indicate that through the multiplier effect a further 3.2 to 4.8 jobs are created in the wider economy**[2].

These calculations demonstrate that the cost of reducing Government investment can be measured not just in human terms, but also in cash terms for the Exchequer. Every €1bn cut from the capital investment programme gives rise to 10,000 direct and indirect job losses in construction and a further 4,000 elsewhere in the economy[3]. In Exchequer terms, this equates to a cost of €520m in social welfare and lost taxes without any infrastructure being built. Conversely, the net cost for every €1bn invested in infrastructure is €480m plus vital public infrastructure is put in place, jobs are protected, and Ireland's growth potential, competitiveness and productivity are improved.

Given the pace at which unemployment continues to rise in the Irish economy, the Government should prioritise the delivery of its revised capital investment programme. It should also look to implement new financing sources to compensate for the reduction in direct Exchequer investment as a way of delivering badly needed projects and further boosting employment prospects in construction and for the economy as a whole.

Any new tax measures should be both sustainable and least likely to cause harm to economic growth and employment. In Budget 2010, the Government identified a number of measures to broaden the tax net that fulfil both of these requirements. In particular, the CIF supports the introduction of water charges, and other local charges, to help finance the provision of services by local authorities.

International experience indicates that the damage to the economy's potential growth rate will be much less if the balance of fiscal adjustment is focused on current expenditures. To this end measures aimed at reform within the public sector, including

[1] DEPARTMENT OF FINANCE, JULY 2010

[2] CONSTRUCTION INDUSTRY COUNCIL, 'JOBS AND INFRASTRUCTURE – A PLAN FOR NATIONAL RECOVERY', MARCH, 2009; US DEPARTMENT OF TRANSPORTATION FEDERAL HIGHWAY ADMINISTRATION

[3] BASED ON AN AVERAGE OF 10 DIRECT AND INDIRECT AND 4 INDUCED JOBS FOR EVERY €1M INVESTED

Context for Budget 2011 CONTINUED

increased productivity and reductions in size, must be considered.

Whilst broadening the tax net, the Budget also provides an opportunity to address rigidities in the tax system to make it more responsive to, and capable of adjusting in line with, the new economic conditions in Ireland so as to support employment retention and development. Stamp duty is a case in point. **The past over-reliance on transaction taxes, particularly stamp duty, is one of the main reasons tax revenues have declined more quickly than nominal GNP in Ireland**. Today, stamp duty accounts for less than 2% of monthly Exchequer income from 14% at the height of the property market. Persisting with stamp duty in the current economic environment is adversely impacting recovery in the commercial and residential property markets, and in turn the valuation of every property in the State and the ability of the Irish banking sector and NAMA to work out their property and mortgage loan books. In addition, the high rate of stamp duty on commercial property, particularly relative to neighbouring economies, impacts our ability to attract foreign investment into the Irish market. It is clearly also the case that continuing uncertainty in relation to property exerts a wider impact in the economy in terms of the curtailment of people's spending habits.

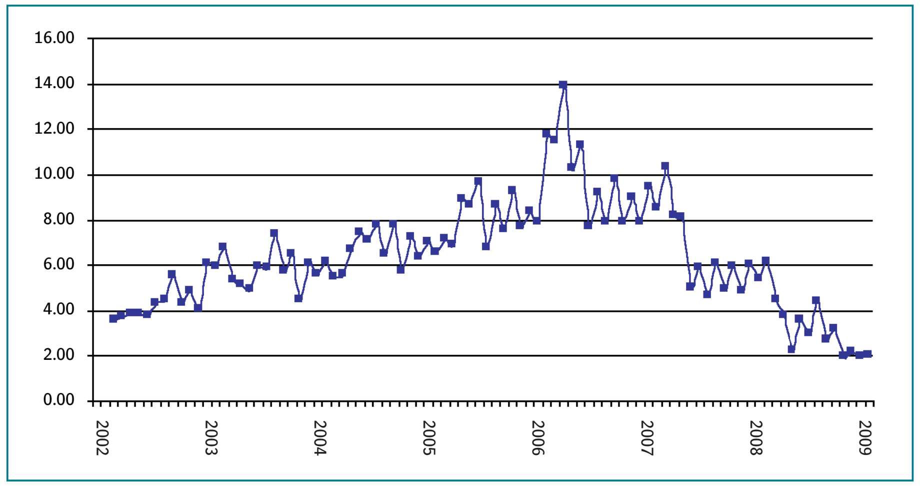

Fig. 1: Stamp Duty receipts as a percent of monthly exchequer income
SOURCE: DEPARTMENT OF FINANCE 2010

As part of the rebalancing of the tax system to provide a more stable tax base, **the Government is encouraged therefore to introduce a time-limited 0% stamp duty rate for both commercial and residential property with the view to its ultimate phasing out** and replacement by a more reliable, sustainable and equitable form of taxation on residential property.

The submission also argues that the time is now right for the Government to support ready and willing first-time buyers in the residential property market. The prices for new housing in the growth areas of the country have, in general, bottomed out, whilst new research by the Department of the Environment, Heritage and Local Government is likely to confirm that the supply of new homes would be quickly absorbed if confidence and lending could be restored to the market. However, in the absence of normal credit conditions in the economy, despite the major restructuring of the banking system, and continuing uncertainty about the future, the Government has an important role to play in bringing stability to this key sector. **Targeted supports in the Budget aimed at facilitating new home ownership amongst first time buyers would be more than**

Context for Budget 2011 CONTINUED

repaid to the Exchequer by the immediate release of trapped VAT on the closure of house sales.

The CIF is extremely concerned about the resurgent black economy in construction, particularly in the domestic sector, which as well as undermining the viability of compliant employers is costing the Exchequer substantially. A range of measures are recommended in the submission to help address this problem.

A programmed retrofitting of Ireland's existing buildings provides the biggest potential reduction in the country's carbon emissions and energy requirements, whilst providing the opportunity for tens of thousands of jobs in construction and additional indirect and induced employment in the wider economy. Additional fiscal and financial supports are required, however, if the impact of earlier Government support in this area is to result in the more rapid rollout of retrofit technologies throughout the Irish built environment.

The management capability of Irish construction firms has developed hugely and can now compete with the best internationally. Policy, in line with the Government's export focus, can support the exploitation of this capability through the implementation of a short-term, targeted and highly regulated bonding scheme to allow Irish construction companies compete successfully for major projects overseas. Globally, the construction and engineering sector is valued at €1,659bn with house building worth a further €4,092bn, representing a huge opportunity for the Irish economy.

Budget 2011 is also an opportunity to further the Government's competitiveness agenda by addressing a range of high business costs in the economy, including, inter alia, those resulting from uncertainty and delays within the planning system and the current approach to financing local authority services. **In a globalised economy, business leaders who make investment decisions and create jobs can easily look to other countries as alternative locations for investment.**

In a globalised economy, business leaders who make investment decisions and create jobs can easily look to other countries as alternative locations for investment.

State of the Market

The prospects for public and private building will remain extremely weak in 2011, leading to a further severe contraction in output with serious implications for construction employment, wider economic activity and the Exchequer finances.

All sub-sectors of the industry are severely impacted.

The various Government efforts to resuscitate the banking system in Ireland have not resulted in lending to credit worthy consumers, house buyers and businesses. Moreover, while the role of NAMA will be particularly critical in terms of supporting a viable commercial and residential construction sector, given the absence of alternative funding sources, there is significant uncertainty as to both the adequacy of the Agency's working capital and the strategy and timescales for its deployment.

The payment supply chain within the construction industry has been particularly badly hit because of the decisions of banks to stop lending. In this context **the CIF is strongly supportive of the initiative by Senator Feargal Quinn, whose Construction Contracts Bill is designed to address the growing incidence of late payment, under payment and non payment to contractors and sub-contractors and to overcome the often prohibitive time and costs involved in resolving construction disputes through existing mechanisms.**

In consequence of the factors outlined above, **there is virtually no private market for construction currently**. This fact is borne out by recent data from the ESRI showing that private investment in the Irish economy fell from an average of 24.6% of GNP over the period 2005-2008 to less than 14% in 2009. Within this, the value of construction and building investment fell by 42% and a further decrease of 36% is forecast for 2010[4].

The impact of this on construction has been severely aggravated by the substantial cuts to the public capital investment programme. **The €5.5bn capital budget for next year, of which €3bn relates to actual construction activity, is 32% less than that envisaged for the year in 2008. Taking the period 2011 to 2013, direct Exchequer investment has been reduced by 39% when compared to targets set in 2008.**

Fig. 2: €bn Planned Capital Investment NDP, Budget

SOURCE: NDP; BUDGET 2009 (OCTOBER 2008); SUPPLEMENTARY BUDGET (APRIL 2009), BUDGET 2010 (DECEMBER 2009)

[4] ESRI, QUARTERLY ECONOMIC COMMENTARY, JULY 2010

State of the Market CONTINUED

Furthermore, the credibility of this reduced programme is being undermined, both domestically and internationally, by the lack of clarity on the capital projects pipeline and the failure to advance sufficient new construction projects, and the vital lead-in planning and design work required for future projects, over the course of the past 18 months.

Whilst the full effect of this from a national accounting perspective will not become apparent until later in 2011 as existing contractual commitments are concluded, the absence of a viable projects pipeline has resulted in a damaging hiatus for the investment programme.

As a result of these factors, **construction output next year could fall to as a low as €7bn, which would represent an 80% decline in activity in the four years between 2007 and 2011**, meaning that the construction industry is now significantly undershooting its optimum size.

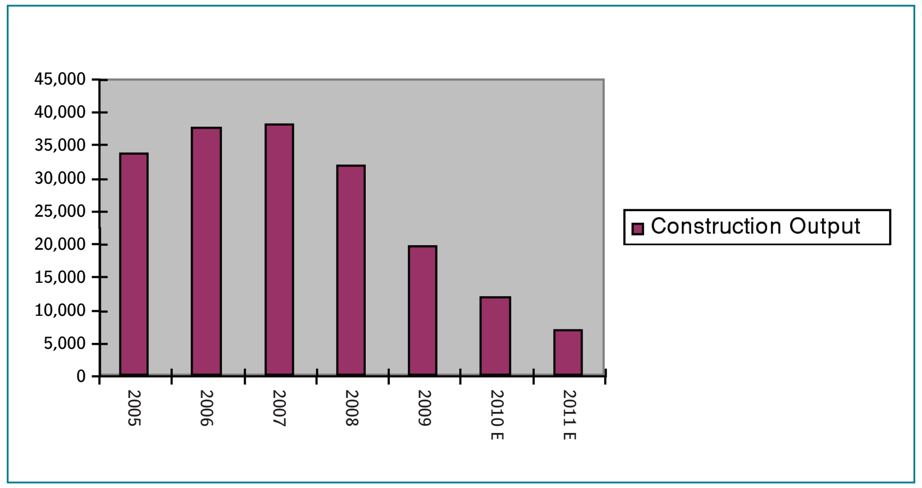

Fig.3 Value of Construction Output

SOURCE: DKM ECONOMIC CONSULTANTS, 2009; CIF 2010

According to Eurostat, in European countries such as France, Belgium and Germany, which boost significantly higher capital stock levels than Ireland, the construction industry is worth around 12.5% of GDP. In Ireland, given the difference in Irish GDP and GNP and the country's relative infrastructure deficit the construction industry should be around 12-15% of GNP[5]. **Based on projected output next year, Ireland's construction industry could be less than half this optimum level.**

The €5.5bn capital budget for next year, of which €3bn relates to actual construction activity, is 32% less than that envisaged for the year in 2008. Taking the period 2011 to 2013, direct Exchequer investment direct Exchequer investment has been reduced by 39% when compared to targets set in 2008.

[5] CONSTRUCTION INDUSTRY COUNCIL, MARCH 2009

State of the Market CONTINUED

The most immediately noticeable impact in the wider economy has been the surge in construction unemployment.

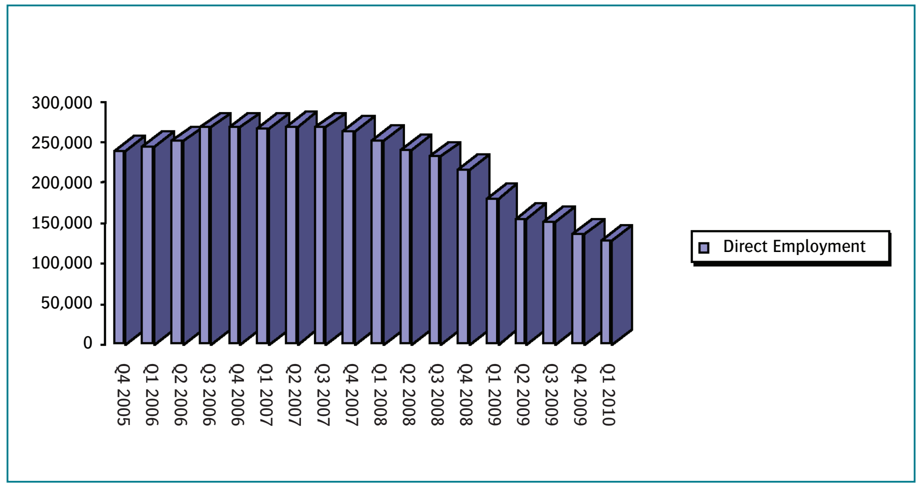

Fig. 4: Direct Employment in 2010

SOURCE: CENTRAL STATISTICS OFFICE 2010

Most recent data from the Central Statistics Office's (CSO) Quarterly National Household Statistics series, relating to Q1 2010, shows that direct employment in construction has more than halved since its peak in Q2 2007. Direct job losses in the sector have continued unabated over the intervening period. When direct and induced employment in the economy is accounted for, the numbers employed by the industry will have fallen from over 400,000 in 2007 to below 150,000 by the end of this year. The impact of this in the wider economy can be seen most clearly in the fact that over two-thirds of the reduction in total employment in the Irish economy, since the peak in Q2 2007 to Q4 2009, came from construction[6]. **In the absence of policy initiatives to reverse the downturn in the sector, total employment by the end of 2011 will have fallen to just 80,000.** This surge in unemployment is quickly becoming a serious structural problem in the Irish economy, which, if left unchecked, may permanently frustrate the achievement of Ireland's economic growth potential with long-term societal costs.

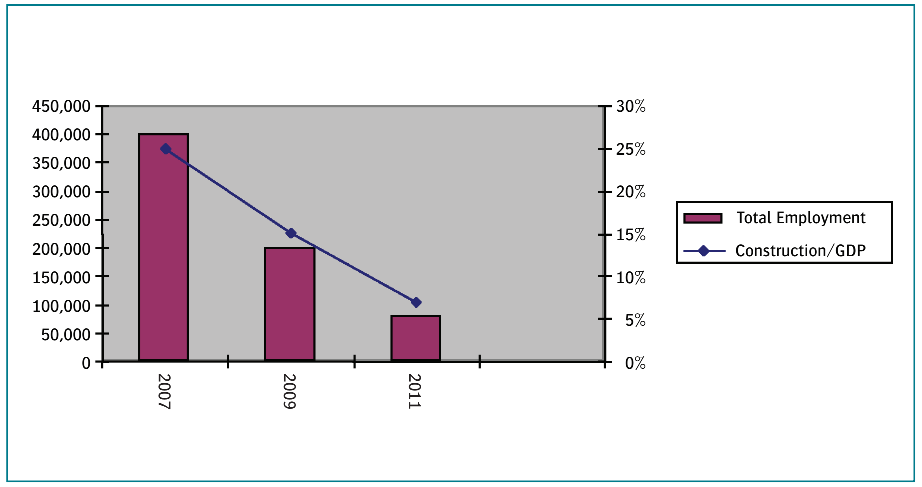

Fig. 5: Total Construction

SOURCE: CONSTRUCTION INDUSTRY COUNCIL 2009

[6]CSO, MARCH 2010

State of the Market CONTINUED

As new projects have become increasingly scarcer, contractors are being forced to bid for projects below cost. Bruce Shaw calculates that, on average, companies are tendering 15% to 20% below cost[7]. Anecdotal evidence from the industry suggests that the figure is probably as high as 30%, which is not sustainable.

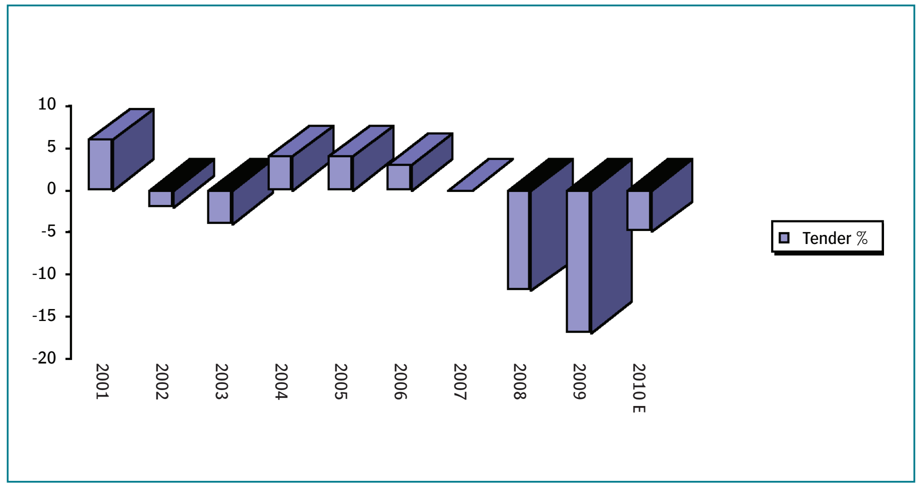

Fig. 6: Tender Price Inflation

SOURCE: BRUCE SHAW 2010

In terms of house prices, massive reductions have taken place since 2008 and the current housing market represents a period of affordability which has not been matched for a considerable length of time. New research by CB Richard Ellis confirms the same trends in the private non-residential property market[8].

Against this backdrop, **the CIF submission reflects the grave concerns within the sector about the immediate and future prospects for construction and the implications for the wider Irish economy**. The Irish economy needs a cost effective and viable construction sector. The submission explicitly calls, therefore, on the Government to make the achievement of a sustainable construction industry a priority within the overall and necessary reorientation of the Irish economy that is underway.

[7]2010

[8]AUGUST 2010

Main Recommendations

PUBLIC CAPITAL INVESTMENT PROGRAMME

JUSTIFICATION:

The Government has reviewed the National Development Plan and identified the key priority areas for infrastructure investment, recognising prevailing economic conditions, over the years 2010 to 2016. The Government points out that the revised investment priorities are essential in terms of growing Ireland's productivity and competitiveness, thus laying the foundations for the next economic upturn, and directly and indirectly supporting and creating employment. It is critical therefore that the Government's plans are now implemented.

The industry however has significant concerns about the capital projects pipeline. The bulk of capital expenditure in 2010 will be expended on projects that are already underway, and in some cases, complete. This would in normal circumstances be balanced by new projects yet to commence, and for which payment would be carried over into next year, but research by the industry indicates that fewer than half the number of projects needed to achieve the Government's annual commitments over the years 2011 to 2016 have been tendered. Moreover, data for the nine months to the end of August indicates that capital spending is 11% down on the same period in 2009 and almost 24% behind Department of Finance plans for 2010. The industry's experience is that this 24% relates, primarily, to new projects that were intended to be commenced in 2010. The industry is equally concerned about the quality of delivery in a number of key areas of the programme.

The cost-benefit logic for delivering planned infrastructure investment and additional projects through new financing sources is widely accepted. The ESRI demonstrates, for example, that for every €1bn spent on infrastructure GNP goes up by €0.4bn per annum in the long run[9]. A range of other reports have calculated the real economic return on investment in infrastructure to range between 11% and 29%[10]. Infrastructure investment has a more immediate impact on the Exchequer. A construction worker who loses his or her job goes from paying, on average, €18,458 in taxes to receiving €18,254 in social welfare payments. The cumulative impact of this is such that it is actually cheaper, in many instances, for the State to build a piece of vital public infrastructure than to decide not to (this is clearly illustrated in the appendices to the Submission).

Key Recommendations:

Funding already cut too far: it is the view of the enterprise and construction sectors that the capital investment programme has already been cut too far. Any further cuts, in addition to sending a very negative signal domestically and internationally as to the timescales for addressing Ireland's infrastructure deficit, would cause further severe damage to Ireland's construction sector.

New funding sources required: new sources of financing, such as Infrastructure Bonds and PPP, are needed to help compensate for the reduction in direct Exchequer funding if Ireland.

In April 2009, the construction industry presented an Infrastructure Bond proposal to the Government setting out a methodology for a formal stimulus plan, with the potential to save 70,000 construction jobs, using funding sourced from the private pension funds. Irish pension funds currently allocate up to 80% of their assets outside Ireland[11]. **The CIF and ICTU have formally asked the Government to immediately pilot this proposal and this submission repeats this call.**

RECOMMENDATION:

To support employment, economic recovery and the restoration of national competitiveness, the Government must ensure that funds committed under the revised capital investment programme start flowing through the economy as quickly as possible and that new financing sources, such as PPP and Infrastructure Bonds, are adopted to compensate for the reduction in direct Exchequer funding.

[9] MID-TERM EVALUATION OF THE NATIONAL DEVELOPMENT PLAN (NDP) AND THE COMMUNITY SUPPORT FRAMEWORK (CSF) FOR IRELAND FOR THE PERIOD 2000-2006, OCTOBER 2003

[10] APPENDIX 1

[11] CONSTRUCTION INDUSTRY COUNCIL, JOBS AND INFRASTRUCTURE - A PLAN FOR NATIONAL ECONOMIC RECOVERY', MARCH 2009

Main Recommendations CONTINUED

In addition, private finance raised through the National Solidarity Bond should be strongly promoted as a way of accelerating infrastructure delivery rather than reducing the level of direct Exchequer investment, particularly when the returns to this public infrastructure investment greatly exceeds the returns available elsewhere.

The CIF also strongly encourages the Government to consider the potential returns available to the National Pension Reserve (gross returns of 9-10% and the impacts in the wider economy of increased capital investment) by investing in Irish public infrastructure projects.

Consideration should also be given to project-specific infrastructure bonds designed to attract domestic and international philanthropy into much needed capital investment projects in health, education, housing and urban regeneration.

PPP: greater use of private finance through the Public Private Partnership (PPP) model, where appropriate[12], offers a tried and tested way of accelerating the delivery of the public capital programme.

The PPP approach allows for greater flexibility in the procurement process, the cost of infrastructure can be spread over a longer time-frame without the need for large upfront payments, and, critically, PPPs can facilitate Government advancement of needed projects that could otherwise not be funded within existing capital envelopes without impacting on provision in other critical areas. The latter is central to the effective and appropriate utilisation of PPPs.

Reform is required to ensure consistency in the implementation of Ireland's PPP programme, with success in the provision of excellent road infrastructure, water and wastewater treatment, and environmental management services, signposting the basis for wider application of the model.

However, unlocking the full potential of the PPP model, particularly in terms of making Ireland more attractive from the perspective of the international PPP market, requires more dynamic financing arrangements and a streamlined process, in terms both of the time and costs involved. Towards this end, **the CIF requests the immediate establishment of a Task Force within the Department of Finance, and involving all key stakeholders, with the mandate of reporting quickly on ways of optimising the use of private financing in meeting Ireland's infrastructure development needs.** Appendix 2 sets of a range of practical considerations relating to the current PPP model in Ireland.

Ultimately, **a sufficient flow of projects is essential for the development of a mature PPP market in Ireland.** Currently, the State is concluding two to three deals per year, which is not sufficient to maintain the interest of PPP providers given the international nature of the PPP market. The market in Ireland has, in consequence, reached a critical juncture, with existing PPP providers identifying deal flow as the primary reason for reassessing their continued presence here. The National Development Finance Agency (NDFA), which can point to significant success in respect of the standardisation of documentation and rigorous assessment, requires renewed investment to allow it to progress more than one competition at a time.

[12]PPPS SHOULD BE USED WHERE THERE IS A DEMONSTRABLE CASE THAT THEY BRING BENEFITS, OVER AND ABOVE THOSE AVAILABLE THROUGH TRADITIONAL PROCUREMENT, IN TERMS OF ADDITIONAL FUNDING, INNOVATIVE DESIGN AND CONSTRUCTION, AND MORE EFFICIENT OPERATION/MAINTENANCE OF PUBLIC SERVICES AND INFRASTRUCTURE

Main Recommendations CONTINUED

More efficient and effective programme delivery: the delivery of the Inter-Urban Motorways Programme within a decade represents a significant achievement. The National Roads Authority (NRA) merits particular mention in this regard, having demonstrated the ability to deliver extensive and complex infrastructure projects within time, both by traditional procurement and PPP. **An opportunity now exists, particularly having regard to the completion of the Inter-Urban Motorway Programme, to extend this competency and capacity to other programmes with the objective of improving the management of priority public capital investment. The rationale for amalgamating the NRA and the Railway Procurement Authority has been identified by the Report of the Special Group on Public Service Numbers and Expenditure Programmes. The CIF believes, however, that greater efficiencies and economies of scale can be achieved by extending the remit of this new body beyond transport.**

The CIF also supports the establishment of a dedicated public utility authority to deliver water resources. **The creation of a centralised authority to collect charges, manage water resources, direct investment in infrastructure and handle customer services provides a basis for pooling existing resources, with the potential for huge benefits in terms of efficiency.** The CIF believes that the new authority should be financed through the levying of water charges, allowing it to raise investment money and removing the need for direct Exchequer involvement in developing water infrastructure.

Main Recommendations CONTINUED

STAMP DUTY

RECOMMENDATION:

Budget 2011 should introduce a time limited 0% stamp duty rate on all property transactions as a revenue-generating measure with the view to its ultimate phasing out and replacement by a more reliable, sustainable and equitable form of taxation.

JUSTIFICATION:

In the current environment persisting with stamp duty on property transactions represents a significant opportunity cost to the Exchequer.

Stamp duty receipts this year will fall to just 5% of what was gathered at the height of the boom. Total residential and commercial property stamp duty receipts for the year are unlikely to exceed €150m. The continued application of stamp duty, however, is having a pervasively negative impact on economic activity, including acting as an impediment to movement and mobility in the housing market and a significant barrier to foreign investment in Irish commercial property at a time when the re-pricing that has occurred in the market has attracted increasing interest from overseas investors.

The introduction of a time-limited 0% stamp duty rate is a revenue-enhancing measure. Given the collapse in stamp duty receipts, its abolition would have negligible impact on Government revenues and would be more than offset by taxes and spending generated across the economy by the increased levels of transactions and the uplift in confidence that stability in the property markets would bring.

It is further the case that **an undue reliance on stamp duty exposes the Exchequer to significant volatility in terms of the level and value of property transactions in the State, and is neither a reliable nor sustainable form of taxation.**

Main Recommendations CONTINUED

PROPERTY MARKETS

RECOMMENDATION:

A time limited tax credit scheme or savings scheme should be introduced to facilitate new home ownership for first-time buyers. The cost to the Exchequer would be more than repaid by the immediate release of trapped VAT on the close of house sales.

JUSTIFICATION:

The lack of mortgage lending and ongoing uncertainty about the prospects for the economy and job retention continue to frustrate recovery in the residential property market despite the significant price adjustments that have occurred – new homes have seen their prices reduced by up to 50% in most cases. Residential construction activity has, in consequence, reached a virtual standstill. In 2010, just 10,000 new homes will be built, which amounts to just 2.7 units per thousand of the population, one of the lowest levels anywhere in the developed world. The Department of the Environment, Heritage and Local Government (DoEHLG) is currently quantifying and categorising the distribution of unfinished and vacant new housing developments nationwide. The data will reveal the quantum of new vacant stock countrywide.

A report published by Sherry Fitzgerald (September 2010 Market Update) in relation to the quantum of second hand housing units for sale in the country established that there were 53,900 second hand units for sale across the country in July 2010. The industry anticipates that the total number of houses for sale or vacant in the country will sit substantially lower than the sensational figure of 300,000 units, previously reported. Having regard to international standards, whereby a market availability rate of 6% of total housing stock represents equilibrium, it is anticipated that the total housing stock for sale countrywide will reveal significant regional variations, with stock levels in the growth centres falling short of the reported gross oversupply levels. Contrary to public opinion, the housing stock levels (new and second hand) for sale in Ireland today is close to market equilibrium on a national scale. However, when one examines the statistics of stock levels available in, for example the Dublin area, it is evident that the stock of dwellings for sale is below equilibrium rates. For reference, second hand stock for sale in the Dublin area is 7,000.

It is in the industry's and the government's interests that supply of unsold stock should be maintained at close to equilibrium rates or otherwise the overall market will be subject to spikes in prices which are not in anybody's interest. Government action is warranted to stimulate transactions, generate VAT receipts from unsold new stock, and stimulate new construction activity particularly in those areas of sustainable demand where stock levels in the market have fallen below market equilibrium rates. This will stimulate general activity, increase employment, generate additional revenues for the Exchequer, and facilitate NAMA in the work out of assets.

Budget 2011 presents the Government with the opportunity to introduce measures to restore confidence and transaction activity amongst prospective ready and willing first-time home buyers to purchase new homes. The cost to the Exchequer would be more than repaid by the immediate release of trapped VAT on the close of house sales; through the considerable additional revenues for Government in terms of the VAT content of increased retails sales to fit out the new homes; and the increased employment in retail, legal and real estate services; and through the wider impact on people's spending arising from a stability in the residential property market.

The following options are suggested for consideration:

Tax Credit Scheme: the proposal is for a tax credit of €5,000 per annum for a period of four years to a first-time buyer who purchases a new home up to 125m^2, provided the transaction is committed to prior to 31st December 2011. For those who purchase

Main Recommendations CONTINUED

between 1 January 2012 and 31st December 2012, the tax credit would amount to €5,000 per annum for a period of two years.

Implementation of this suggested scheme would result in a gradual payout of benefits by the Exchequer with an immediate cash return to the Exchequer in respect of VAT due on transactions completed.

Under this proposal, based on increased sales of 15,000 in each of 2011 and 2012, the total net benefit to the Exchequer over the two years would be €589m.

Savings Scheme: now that the maximum loan to value mortgage has been restricted to 92% or lower, many first-time buyers do not have the required deposit to enable them to qualify for a home loan. An option for consideration by the Government is the introduction of savings scheme to assist prospective buyers to assemble their deposit. A scheme, with a very limited lifespan, could be introduced reflecting the nature of the special savings account scheme introduced by the Government some years ago (see attached appendix).

The following additional issues are also raised for consideration:

Home Choice Loan Scheme: the CIF also recommends, in light of the decision of the main Irish banks to increase mortgage interest rates, that the Government backed Home Choice Loan Scheme should be clearly articulated and marketed to its intended beneficiaries to highlight the enhanced mortgage options available in the market.

Mortgage Interest Relief: the Government's proposal to end mortgage interest relief for new borrowers from June 2011 should be reconsidered, and extended for a further period of 12 months.

An Integrated Policy Response to Social Housing Provision: Existing approaches to the provision of social housing in Ireland, including Part V of the Planning and Development Act 2000, as amended, have failed to result in optimal outcomes, either for the intended beneficiaries of the various schemes or for the taxpayer. The one-size-fits-all approach prescribed under the Part V mechanism has proven particularly restrictive for local authorities, with many now unable to meet outstanding financial commitments whilst being unable to utilise units acquired under previous agreements for their intended purposes. In many cases also, the current basis for determining Part V requirements means that new developments will not, because of the cost burden imposed, commence in the current marketplace. The comprehensive survey of vacant new homes being carried out by the Department of the Environment, Heritage and Local Government, alongside existing data relating to local population targets and projected housing requirements, will provide a basis for an integrated policy response to social housing provision in Ireland, including reform of existing schemes.

VAT Clawback for Temporary Letting of New Residential Property: Current VAT rules provide for a clawback of 5% of VAT recouped on the construction of a new housing unit. In addition, when the new housing unit is eventually sold, no credit is available for the VAT clawback already repaid to the Exchequer. The operation of this system should be urgently reviewed so that this anomaly can be eliminated.

Furthermore, new housing units which are let by the developer on a temporary basis should continue to be treated as new for the purpose of stamp duty.

80% Betterment/Rezoning Tax: While this provision was first mooted in the NAMA legislation, the industry must point out that an 80% tax rate simply does not work in

Main Recommendations CONTINUED

the economy. An 80% tax rate will stymie any initiative on the part of any landowner to seek an improved zoning in the current marketplace. This makes the borrower's and NAMA's task for the most effective work out of assets all the more difficult in the current economic environment.

Higher Standards of Building Regulations: Whilst the industry is supportive of improved standards of house building generally, more reality must be brought to bear on the constant review of Building Regulations and in particular, Part L dealing with Conservation of Fuel and Energy. A simple cost benefit analysis will reveal the significant increase on costs being imposed upon the industry with minimal benefits at a time when the industry is doing its utmost to reduce input costs. Any proposals to increase costs such as higher standards of Building Regulation requirements upon the construction sector must be deferred until the economic climate is fit to absorb such increased costs. In this respect, there is scope for greater focus by government departments on improved standards for the existing build rather than the new build sector where greater reductions in CO^2 emissions can be achieved within the existing build sector.

NAMA: The restoration of a fully functioning private construction and property development market is urgently required. The role of NAMA is central to achieving this. Under current market conditions in Ireland, there is no recycling of working capital from completed into new development projects and no prospect of new bank lending to the sector in the foreseeable future. Moreover, NAMA has effectively a 100% monopoly on development so, with no alternative sources of funding, its working capital requirements must be seen as those for the industry as a whole. The working capital of NAMA needs, therefore, to be sufficient to fund viable projects in order to realise their economic potential. Even allowing for development of a very small proportion, less than 10%, of available projects NAMA would require working capital considerably in excess of €5bn.

It is vital therefore that NAMA has adequate working capital effectively deployed to facilitate the restructuring of the construction and property development market, and so support its role in helping the economy grow. Moreover, NAMA must be adequately resourced to effectively deal with the task entrusted to it so that timely and appropriate decisions are taken in the long term interests of the country. An overly ambitious debt reduction policy will not serve the interests of the economy, and indeed will make the effective work out of assets more difficult from NAMA perspective.

Main Recommendations CONTINUED

THE BLACK ECONOMY

RECOMMENDATION:

A number of initiatives are required by Government to control and counter a resurgent black economy within the construction industry.

JUSTIFICATION:

These measures include:

- A mandatory requirement that all construction clients should advise the Revenue Commissioners of the commencement of any construction project with costs of €3,000 or more, and identify the contractor employed
- The payment of building grants and other incentives should be made conditional on work being carried out by tax compliant contractors
- Tax assessment and tax relief should be made contingent on the provision of a certificate of building costs, which would identify all relevant building contractors
- A provision that all main contractors should be required to identify sub-contractors engaged by them to the Revenue
- A requirement for a mandatory site notice displaying the name of the client, contractor, architect/engineer, and planning reference number on all projects with a construction cost of €3,000 or more
- Provision for recoupment of VAT by self-build developers, that is, owner-builders would be able to recoup VAT, but only where they can produce VAT invoices from sub-contractors and suppliers

Main Recommendations CONTINUED

SUSTAINABLE ENERGY INITIATIVES

JUSTIFICATION:

In the midst of an economic crisis, a programmed retrofitting of Ireland's built environment provides the biggest potential reduction in the country's carbon emissions and energy requirements, whilst offering tens of thousands of jobs in the construction sector, and additional indirect and induced employment in the wider economy. Moreover, there are several knock-on benefits for society and economy, including significant savings for Irish home owners and businesses, favourable impacts on the country's balance of trade, and increased energy security.

Current grant-aided programmes have generated enhanced awareness of the cost-benefits of energy retrofitting in the residential sector but the scale of the problem requires a more ambitious strategy. Research by the Institute of International and European Affairs (IIEA) finds, for example, that at current levels of investment it would take 85 years to retrofit the approximately 1.2 million homes in Ireland that would potentially benefit from an energy efficiency upgrade to C1 on the Building Energy Rating (BER)[14]. The CIF believes that the Government should adopt a ten year time horizon for the retrofitting of these homes. Moreover, the Government should extend existing initiatives to promote the retrofitting of public and commercial buildings.

From the end users perspective, investing in energy efficiency saves far more over the lifetime of the investment than the initial installation cost. This is true across the economy, from the public sector, to private industry, to the residential sector. The IIEA estimates that bringing Ireland's residential stock up to a minimum C1 BER would save home owners, on average, €1,100 a year in energy costs, a saving of about €1.4bn per annum in the Irish economy. The achievement of this target would, furthermore, mitigate up to 4.8m tonnes of CO2 annually. Retrofitting Ireland's public building, including every school and hospital in the State, would save the Exchequer money over time through reduced liability for energy bills.

International experience tells us that improving the energy efficiency of buildings is above all a question of demand, rather than offer. Indeed even if further improvements must be encouraged from the offer side, new technologies and innovative solutions are already available to respond to most of the current needs in the field. What are lacking are sufficient incentive policies (e.g. financial and/or fiscal support) to rapidly roll out these technologies throughout the Irish built environment, and without which a high number of home owners and businesses are not able to undertake the retrofitting of their house or business premises because of the high upfront costs involved. It is therefore argued that the Government should seek to incentivise the achievement of critical mass in retrofitting by adopting a multi-policy approach including, for example:

- the more widespread implementation of demand reduction targets or 'utility obligations' requiring energy providers to reduce customer demand for energy
- the ring-fencing of revenues under the Government's Carbon Tax to support the extension of existing grant-aided schemes
- the introduction of targets for the issuance of 'green loans' on favourable terms to consumers and businesses by the covered Irish banks
- the introduction of a new zero rating for VAT charges on materials purchased in order to undertake retrofitting work

Alongside these measures, the State should initiate a scheme of retrofitting and energy demand reduction - including the engagement of Energy Service Companies - across the public building stock.

RECOMMENDATION:

Budget 2011 should adopt a ten year time horizon for the retrofitting of Ireland's existing built environment through the implementation of a range of fiscal and financial supports aimed at significantly reducing Ireland's carbon emissions and energy requirements, creating tens of thousands of jobs in the construction sector, and the wider economy, generating substantial savings for home owners and businesses, and increased Exchequer revenues.

[14] 2009

Main Recommendations CONTINUED

RECOMMENDATION:

Development Contribution Schemes should be revised to reflect new market conditions, requiring a reduction of at least 50% to existing rates, to encourage investment and employment.

A new system for financing local government is urgently needed, including the introduction of domestic water charges to meet the capital cost of water services.

DEVELOPMENT CONTRIBUTIONS AND REFORM OF LOCAL GOVERNMENT FUNDING

JUSTIFICATION:

Ireland's local government revenue at 7.7% of GDP is one of the lowest rates across the Eurostat countries. In consequence, a crisis in local authority funding has been looming for a number of years, and local authorities have become increasingly reliant on development levies as a means of delivering vital capital investment. In the best of times, this placed a significant cost burden on the commercial and residential development sector and amounted to an annualised tax on end users, including businesses and house buyers. Despite the decline in the construction tender prices and house prices, there has been no attempt to reflect current market conditions in the setting of levies, and indeed some local authorities have sought to increase their charges to the development sector to compensate for the decline in total receipts. The result has been to make proposed developments unviable and to discourage investment, including foreign investment, and job creation at a time when both are urgently needed in the Irish economy.

Moreover, the administration of schemes across local authorities has been characterised by a lack of transparency and consistency in the calculation and application of charges, and the use to which they have been put. The Comptroller and Auditor General found in 2007, for instance, that some €1.2bn of development levies remained unspent by local authorities.

A new system for financing local government is urgently needed, including the introduction of domestic water charges to meet the capital cost of water services. The need for such reform is explicitly recognised in the Revised Programme for Government 2009 and in the two most recent reviews of local government, Indecon (2005) and the Commission on Taxation (2009).

Main Recommendations CONTINUED

EXPORT SUPPORT FOR IRELAND'S CONSTRUCTION INDUSTRY

JUSTIFICATION:

An opportunity exists to develop a leading global construction services industry from an Irish base. However, the country's leading civil engineering and building firms, which represent a key competitive advantage for the Irish economy, are being hindered in their attempts to internationalise by the demonstrable market failure in the provision of construction bonds as a result of the economic/credit crisis. This problem has been recognised in other jurisdictions and Irish firms are losing business to foreign competitors because they have cover as a result of state backed schemes in their countries. There is, in consequence, a requirement for a short-term, targeted and highly regulated Government Bonding Scheme to support Irish based companies to undertake major construction projects internationally.

RECOMMENDATION:

A requirement exists for a short-term, targeted and highly regulated Government Bonding Scheme to support the export of Irish construction services and skills.

Main Recommendations CONTINUED

RECOMMENDATION:

Government should act on the considerable scope for reform of Ireland's planning system with the view to increased efficiencies, reduced costs and improved outcomes.

DELIVERING A MORE EFFECTIVE PLANNING SYSTEM

JUSTIFICATION:

The Irish planning system, as currently constituted, is characterised by uncertainty, inconsistency and delay, which impact Ireland's competitiveness and undermine its attractiveness as an investment location for both existing and new business. In the current economic environment, and a time when competitor economies are actively streamlining their planning and regulatory frameworks to encourage inward investment, it is imperative that the Government act on the considerable scope, at no cost to the Exchequer, for reform of the Irish system.

There are three main areas in Planning which have a direct and immediate impact on the implementation of Government fiscal policy:

(a) serious delays in the decision making process.

(b) vexatious appeals.

(c) delays resulting from disagreement between Public Bodies.

Delays in decision-making within An Bord Pleanala, and the proliferation of vexatious appeals must be tackled to allow projects to commence to the construction stage. In particular, legislation must be introduced to establish the bona-fides of appellants and determine whether they are vexatious/anti-competitive. In addition, statutory timeframes should be put in place for the preparation of Local Area Plans, dealing with compliance documentation and the appeals process within An Bord Pleanala to provide certainty and reduce unnecessary costs in the planning process.

Further details on reforms of the planning appeals process in the context of restoring Ireland's competitiveness are dealt with as an appendix to this submission.

Appendix 1

JOB CREATION THROUGH INVESTMENT IN CAPITAL INFRASTRUCTURE PROJECTS

	NUMBER OF JOBS CREATED PER €10M INVESTMENT
Waste water/sewerage treatment	80
Inter-urban road	80
Hospital	100
School	120
Local Authority building/Garda station	130

SOURCE: DEPARTMENT OF ENVIRONMENT, HERITAGE AND LOCAL GOVERNMENT

SELECTED ECONOMIC RATES OF RETURN

The World Bank and the ESRI have calculated the real economic rate of return on investment in public infrastructure. Overall, an investment of 7% GNP for two years increases GNP 3% higher than it otherwise would have been.
Roads = 14%
Hospitals = 13%
Electricity projects = 11%

COST TO THE EXCHEQUER OF CUTTING CAPITAL INVESTMENT - CIC INFRASTRUCTURE BOND PROPOSAL

OPTION 1: DO NOTHING		OPTION 2: DO SOMETHING	
Stimulus package	€0bn	Stimulus package	€5bn
Direct and indirect jobs lost in construction	50,000	Direct and indirect jobs saved in construction	50,000
Induced effects on jobs in wider economy	20,000	Induced effects on jobs in wider economy	20,000
TOTAL JOB LOSSES IN IRELAND	70,000	**TOTAL JOBS SAVED IN IRELAND**	70,000
Social welfare costs (@€18,254 per person)	€1.3bn	Social welfare savings (@€18,254 per person)	€1.3bn
Total tax lost (@€18,458 per person)	€1.3bn	Total tax saved (@€18,458 per person)	€1.3bn
		Total avoided cost	€2.6bn
TOTAL COST OF DOING NOTHING	€2.6bn	**NET COST OF €5BN STIMULUS PACKAGE**	€2.4bn

- Government should explore mechanisms to raise bonds to create incentives for private Irish finance to invest in public infrastructure, giving a return on their investment and saving jobs and building infrastructure to assist national economic recovery.

Appendix 2

REFORMING IRELAND'S PPP MODEL

In terms of informing the work of the proposed PPP task force, the following observations are made:

- The use of exemplar designs can help remove unnecessary ambiguities and enhance the attractiveness of PPPs from both a contractor and financing perspective.
- The Competitive Dialogue Process, as currently practiced, creates undue subjectivity and adds significantly to the time required to conclude bid processes.
- Risk should be retained by the parties best placed to manage it. By securing planning on exemplar designs before going to the market and providing adequate ground works surveys, for example, the State can remove significant risk and, by extension, costs in the bid process, ensuring greater value for money for the taxpayer.
- Similarly, the State, as the party best placed to procure finance, should consider separating financing and technical competitions with a view to removing duplication at bid stage and generating more certain outcomes at the conclusion of the bidding process.
- Earlier involvement by the European Investment Bank (EIB) should be encouraged.
- To reduce further the cost burden on the Exchequer, the Government should:
  - Take a practical view of the actual securities required from the PPP provider
  - seek to refine its requirements within the maintenance lifecycle element
  - consider options such as leasing rather than buying land
- To encourage greater stakeholder buy-in the Government should limit the PPP process to 'hard facilities management', thus allaying union fears. From the PPP provider perspective, certainty on this point is critical

Appendix 3

TAX CREDIT SCHEME FOR FIRST-TIME HOME BUYERS – NET BENEFIT TO EXCHEQUER

Action:

- Tax credit of €5,000 per annum for a period of 4 years to a First Time Buyer who buys a new home up to 125m^2 where the transaction is completed on or before 31st December 2011.
- For any FTB who purchases in 2012, the tax credit of €5,000 per annum would be payable over a reduced period of two years only.
- Tax credit to be payable directly to lender during respective period

FIRST ASSUMPTION:	2011	2012	2013	2013
15,000 First Time Buyers avail of 4 year tax credit option and purchase new home up to 125m^2 during 2011	€75m	€75m	€75m	€75m
Total VAT payable to the Exchequer following purchase of 15,000 new housing units at current national average house price of €201,364	€407m			
Less total cost of tax credit during year	€75m			
Net Benefit of tax credit scheme in 2011	€332m			

SECOND ASSUMPTION:	2011	2012	2013
15,000 First Time Buyers avail of 2 year tax credit option and purchase new home up to 125m^2 during 2012		€75m	€75m
Total VAT payable to the Exchequer following purchase of 15,000 new housing units at current national average house price of €201,364		€407m	
Less total cost of tax credit during year 2		€75m	
Less total cost of tax credit from second year of scheme beginning in year 1 (2011)		€75m	
Net Benefit of tax credit scheme in 2012		€257m	
Combined Total Net Benefit to the Exchequer in 2011 and 2012 based on sale of 30,000 housing units	€589m		

Appendix 4

MAIN FEATURES OF PROSPOSED FIRST-TIME BUYER SAVINGS SCHEME

A scheme with a very limited lifespan could be introduced which would reflect the nature of the special savings account scheme introduced by Government some years ago, but with the following provisions:

- Non owner occupiers who open special savings accounts with their proposed lending institution and save up towards deposit for their new home could qualify for a non taxable bonus (inclusive of interest accrued) of up to 50% of the overall amount saved
- This bonus (inclusive of interest accrued) of 50% will only be payable by Government to the borrowers lending institution on satisfactory draw down of their mortgage to purchase their new home
- The overall savings accumulated plus bonus payable to be used as deposit required to facilitate closure of the sale of the new home in conjunction with drawdown of mortgage
- The maximum bonus payable under this scheme shall be restricted to €7,200 (equivalent to a saving of €600 per month)
- Special savings accounts should be opened not later than 30 June 2011

An example of how this might operate in practice is as follows:

Sales Price of New House/ Apartment	€250,000
Mortgage at 92%	€230,000
Deposit Required	€20,000
Borrower saves €600 per month for 2 years:	€14,400
Bonus inclusive of accrued interest:	€7,200
Total:	€21,600

Benefits associated with this scheme are as follows:

- It stimulates a savings culture for proposed purchasers of new homes with immediate effect.
- The special savings scheme applies to institutions which are in the market of offering loans to first time buyers.
- The cost of the bonus does not arise until a mortgage is drawn down for the sale/ purchase of the new home. This cost can be paid for by the Exchequer from the VAT receipts to be collected upon closure of sale.

Appendix 5

PLANNING APPEALS PROCESS IN THE CONTEXT OF IRELAND'S COMPETITIVENESS

(a) Delays in the Decision making Process

The Ministerial guidelines to An Bord Pleanala state that the Board should decide on all appeals within a period of four months from the date of the appeal. It is a well known fact that An Bord Pleanala seldom succeeds in meeting this timeframe. In fact, in the case of larger developments, such as a major new industry and office based industrial developments, ABP can often take twice as long (and, often even longer) as the four month period recommended in the guidelines, to decide on such planning applications. This, in effect, means that between the period it takes the local Planning Authority to decide on an application and the appeal period, it can often take a major new industry well over a year to obtain planning permission in Ireland. The extra costs which result from such inordinate and unnecessary delays process are huge and greatly reduce our competitiveness in encouraging new indigenous enterprises and attracting foreign direct investment. Contrast this unacceptable situation with many other competing countries where new developments are fast tracked so that they will not be lost to the economies involved. Even worse, the opportunity cost can be even greater still in the case of those companies which will not consider Ireland as a potential destination because of its growing reputation for long and unnecessary delays in the planning process.

An Bord Pleanala does not seem to be sufficiently conscious of the huge cost to business of delays of the type mentioned. Take, for example, a project with land acquisition and all the other associated costs involving expenditure of, say, €50 million up to the planning stage. For every month that the decision is delayed, the extra interest costs can be as much as €300,000 per month.

With the current downturn in the economy, the number of planning applications and, consequently, the number of planning appeals has reduced greatly. It is, therefore, a very opportune and necessary time to introduce a statutory provision, rather than a guideline which is seldom adhered to, requiring An Bord Pleanala to decide on all planning applications within four months. Never was it so necessary for Ireland to have a reputation nationally and internationally as a first class location to do business in, including a fast and efficient planning system.

(b) Vexatious Appeals

In addition to the serious problem of unacceptable delays in the planning appeals process, a further very serious problem is that of vexatious appeals which have become increasingly prevalent over the past ten years. Take, for example, the following absurd situation which our legal system allows to happen on a regular basis, without any challenge or disincentive whatsoever, namely:

- A business which will employ, say, 500 persons applies for planning permission to the Local Authority to build a factory or office development.
- The Local Authority decides on the application within seven weeks.
- The development in question is totally in accordance with the Development Plan for the area.
- The development proposed is located in County Donegal.
- An individual from Cork, with no locus standi whatsoever, providing they have put in an objection / observation to the Local Authority within five weeks of the date of the application, can appeal the decision of the Local Authority to An Bord Pleanala, without any difficulty. As a result, the development can be held up for maybe even a year.
- During all of this protracted process, the promoters get disillusioned and frustrated and decide to pull out.
- The end result - 500 jobs are lost.

There have been instances where the situation illustrated in the above example, have actually happened. How can any modern country allow the above type of situation, not alone to happen but to be prevalent and, at the same time, be attractive and competitive as a location in which to do business?

Appendix 5 CONTINUED

The Planning and Development Act 2000, contains the following provisions in relation to vexatious appeals:

Section 138 -

(1) The Board shall have an absolute discretion to dismiss an appeal or referral –

(a) where, having considered the grounds of appeal or referral, the Board is of the opinion that the appeal or referral –
(i) is vexatious, frivolous or without substance or foundation or
(ii) is made with the sole intention of delaying the development or the intention of securing the payment of money, gifts, consideration or other inducement by any person.
Or
(b) where, the Board is satisfied that, in the particular circumstances, the appeal or referral should not be further considered by it having regard to –
(i) the nature of the appeal (including any question which in the Board's opinion is raised by the appeal or referral), or
(ii) any previous permission which in its opinion is relevant.

(2) A decision made under this section shall state the main reasons and considerations on which the decision is based.

(3) The Board may, in its absolute discretion, hold an oral hearing

To the best of our knowledge, never even once, have the above provisions been given effect by An Bord Pleanala. One can only conclude from this, having regard to the fact that there have been thousands of appeals since the provisions in question were brought into law, that either (a) the legal provisions in question are not sufficiently strong and clear to be implemented in any meaningful way or (b) An Bord Pleanala is simply not prepared to implement them because of the legal risks involved or (c) a combination of both.

Because of the damage which vexatious appeals are doing to the local, regional and national economies of the country, this problem should now be adequately addressed once and for all through comprehensive amending legislation. Such legislation should set out, in sufficient detail, the types of appeals which would be considered vexatious, for example, (i) appeals which are based on hindering competition (eg the serial appeals by RG DATA which are solely designed to prevent or delay new outlets by retailers), (ii) third party appeals where, on the face of it, the appellant has no locus standi, (iii) serial appellants, (iv) appellants whose motivation for appealing is that of extracting money from the planning applicant under the guise of compensation, (v) where the third party appeal is motivated as a result of a personal or other dispute between the third party and the individual but has nothing to do with pure planning issues.

In the same way as the Courts system operates, where an appeal is found to be vexatious then the appellant should be required under law to pay all of the costs associated with the appeal including those of An Bord Pleanala.

The entire planning system has been brought into serious disrepute as a result of vexatious appeals and the credibility of the system must now be restored through the suggested amending legislation. It is imperative that the opportunity be taken to now act upon this matter as there is absolutely no doubt that, for many years, the planning appeal system has been used (a) to extract seriously large amounts of money from planning applicants who cannot afford the delay involved in the planning appeals process and/or cannot take the chance of an unfavourable determination from An Bord Pleanala, having received a favourable decision from the Local Planning Authority, (b) to allow persons to use this system as a grudge mechanism against planning applicants, (c) as a means of blackmail to sort out totally unrelated disputes between, for example, neighbours and family members, (d) as a means by large business concerns to delay or prevent competition from their competitors, (e) by competing developers themselves and competing businesses against one another for purely business reasons which have nothing to do with planning.

Appendix 5 CONTINUED

(c) Unnecessary Delays Caused by Disagreement Between Public Bodies
Over the past number of years, in particular, the National Roads Authority would appear to have a Planning Officer engaged full time on lodging observations / objections to Planning Authorities in relation to planning applications for development along National Primary and National Secondary roads. In a large proportion of these cases, the NRA then lodge appeals to An Bord Pleanala against the Decision of the Planning Authority in question. In any situation, but particularly during a period of one of the worst economic downturns in history, it is absolutely absurd that one arm of the State at national level should have a unit within it engaged full-time in "fighting" with other local arms of the State throughout the country (local Planning Authorities). What is happening is extremely wasteful and costly, directly and indirectly, to the State and urgent steps should be taken to stop this type of wasteful and unnecessary practice. It is extremely wasteful and costly to the State and private enterprise and totally unnecessary. Both sides should stand back and think the entire matter through by engaging sensibly with one another and agreeing on overall policies at a high level which would be common to the best interests and objectives of both the NRA and Planning Authorities. It is ironic that this type of wasteful disagreement should be allowed to continue against a background where a representative of the City and County Managers' Association sits on the Board of the National Roads Authority. Surely it should be possible to set up a small working group to sort out the various policy differences which exist between the different parties involved. Such a working group would be comprised of very senior representatives of (a) the Department of the Environment, Heritage and Local Government, (b) the National Roads Authority and (c) Local Authorities. In other situations where tensions, disagreement and practices are arising between different arms of the State, the same model should be used to eliminate such wasteful and unnecessary conflict through proper engagement at the highest levels.

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