IRISH SMALL AND MEDIUM ENTERPRISES ASSOCIATION LTD

BUDGET 2011

SECURING A BETTER FUTURE

SEPTEMBER 2010

TABLE OF CONTENTS

ISME PRE-BUDGET 2011 SUBMISSION

EXECUTIVE SUMMARY

The details of this year's Budget will influence the direction of the economy over the next number of years. With the Government looking to cut a minimum of €3bn from the budget deficit it is essential that the Minister for Finance gets the balance right. The emphasis needs to be on generating the savings required, without doing further damage to the economy. This can only be done, in ISME's view, by concentrating the majority of cuts on current expenditure, mainly through public sector reform, as opposed to increasing taxes on individuals and companies, which will only do irreparable damage to an economy.

The reduction in our overall competitiveness from 5th 10 years ago to 29th today, needs to be urgently addressed, if the Governments plan to increase indigenous exports is to be realised.

Pro enterprise policies are essential to ensuring that SMEs, the backbone of the economy, are provided with the certainty and incentive to survive, invest and grow. This will require addressing the business cost base, the deteriorating labour market, and cashflow problems, which continue to hamper and undermine companies.

In short, ISME's policy for addressing the current economic difficulties can be summarised as:

- **Introducing policies to support enterprise, including, improving access to finance, addressing taxation anomalies and incentivising investment in R & D and Innovation.**
- **Creating a level playing field for SMEs, by addressing the level of state influenced business costs, including local charges, energy and transport.**
- **Addressing the deteriorating labour market, by introducing initiatives on employment retention and creation and supporting businesses in training and upskilling.**
- **Reforming the public sector by reducing the size and cost and by implementing and monitoring an efficiency drive.**
- **Maintaining and developing key, labour intensive, infrastructure projects.**

Specific Recommendations are summarized as follows.

SUPPORTING ENTERPRISE

Access to Finance

- The State should create a specific business lending bank, similar to ICC in the seventies, which would be manned by individuals with the experience of dealing with SMEs and able to meet their requirements accordingly.
- Capital invested by family members for the purpose of establishing or expanding a new or existing family business should also receive some form of favourable tax treatment. There should also be favourable tax incentives for individuals or pension funds that would invest in SMEs.

- Seed Capital Relief should be extended to sectors outside those that are currently covered by the scheme.

Taxation

- The discrimination against Directors and the self-employed with regard to not being able to avail of the P.A.Y.E. tax allowance is unacceptable and needs to be rescinded as a matter of priority.
- Broadening the tax base to include the introduction of a property tax and water charges.
- There should be no further increases in income or business taxes.

R&D and Innovation

- A funding scheme should be introduced to provide funding to help low R&D performers to assimilate new technologies already available in the marketplace.
- The introduction of double tax relief on all expenditure on R & D.
- A specific innovation voucher scheme should be introduced for the majority of small businesses outside the R&D scheme.

Approved Profit Sharing Scheme for SMEs

- ISME proposes the introduction of a simple to apply profit sharing scheme, whereby SMEs could provide for a percentage of net profits exempt of taxes to accumulate in a fund for key employees, which could not be drawn down for a three year period.

COST COMPETITIVENESS

Local Charges

- A 10% reduction on all local charges on businesses for 2011.
- A redistribution of the burden of commercial rates and water charges to other sectors, including the State and domestic households.

Energy

- Every effort should be made to increase the level of competition in the energy sector in order to stimulate price competition.
- Access to the grid for private sector energy projects must be guaranteed in a time frame that is commercially viable.
- Tax incentives should be offered to companies who are independently verified as meeting energy efficiency standards. This was first proposed in 2005 as a c-tax.

Carbon Tax

- The decision to introduce a carbon tax should be reviewed as a matter of urgency.

LABOUR MARKET

Funding

- A reduction in employers PRSI to help alleviate the cost of employment.
- The reintroduction of the Enterprise Support Scheme, fully funded and extended to companies with less than 10 employees.

Training & Upskilling

- A double taxation allowance should be provided to companies for their training requirements in order to promote upskilling and development in the workforce to take advantage of future economic growth.
- Funding for Skillnets and other State training initiatives should be returned to pre 2009 levels.
- Introduce paid educational/training leave, funded through the social insurance fund and a broadened national training fund.
-

REFORMING THE PUBLIC SECTOR

Employment

- The Association would like to see a plan to reduce Public Sector numbers by 40,000 over the next three years.

Pay & Pensions

- The incremental system of rewarding public servants for service in years needs to be abolished.
- A complete reassessment of public sector pensions, ensuring that the current practice whereby increments are increased post retirement must be ceased immediately. The reform of public sector pensions, which was outlined in Budget 2010 and subsequently overturned in March this year, needs to be revisited.

Delivering Efficiencies

- The introduction of an overseeing body with responsibility for ensuring that there is genuine, transparent and accountable reform of the public sector, highlighting measureable savings in efficiencies.
- The principle of 'jobs for life', should be abolished, with non-performers' contracts terminated in line with the State's industrial relations due process.
- A number of services, including administration, should be outsourced to the private sector.
- Greater flexibility of employees with regard to transferability of jobs.
- Increased use of ICT and longer public opening hours.

INFRASTRUCTURE

- Prioritise projects on the basis of return on investment. This is far more beneficial than routinely cancelling projects across the board.
- Government Departments should publish their list of priority projects and the timelines for their implementation.
- Speed up the building of new schools and hospitals in order to create and maintain employment for the construction sector.
- Introduce a Residence Related Employment Scheme (RRES), similar to the one that existed in the 1980s.

INTRODUCTION

This year's Budget will be formulated against the backdrop of a continuing difficult environment, with significant economic challenges remaining. The challenge for Government is to reduce the budget deficit by a minimum of €3bn, without unduly impacting on future economic growth. This is a tall order that requires a significant balancing act between making the necessary cuts, without doing untold damage to the economy, by targeting the wrong areas, or introducing tax increases.

From an SME perspective what is critically important is that the decisions taken to address the deficit do not create further uncertainty and in the process erode both business and consumer confidence. For instance, the Association believes that the bulk of the savings required should come from cuts in current expenditure. It would be detrimental in the extreme to focus on increased taxation, particularly income taxes, which act as a deterrent to employment, reduce spending and slow economic growth. There is a strong argument to widen the tax base and introduce measures, like water charges that will provide an element of certainty to future tax revenues.

With exchequer finances in a mess, there is absolutely no option but to reduce the cost of the public sector. By increased efficiency we should be able to get "more for less" and not as can happen where we get "less for more" as a result of the cost of delivering the public service does not diminish and so cuts are applied to the benefits that they administer. This means cutting the public sector pay bill, numbers employed and moving quickly to address inefficiencies. Prioritising cuts in social welfare will also have to be considered, in light of the deteriorating financial situation.

While accepting that significant adjustments need to be made, the Association believes that it is imperative that future growth will be determined on the success of our businesses, particularly smaller indigenous companies, the backbone of the economy. It is essential that we plan for the future by introducing pro enterprise policies that will support business to grow and to retain and create employment.

Rebuilding confidence is essential in ensuring that we provide the proper platform for SMEs to survive, prosper and grow. This will mean addressing the core issues of concern to enterprise. including our cost competitiveness, access to finance and implementing measures to stimulate and encourage enterprise together with addressing the jobs crisis. The economy needs to be consolidated by a continuing commitment and funding of vital infrastructure, necessary in a modern open economy.

While much of the focus by Government at present is on the future stabilisation of our banking system and much effort has been made in ensuring that aim, the Government should not lose sight of the importance of the role of entrepreneurs and innovators in rebuilding the economy. These industries will be instrumental in getting us out of the current economic crisis. But they must be given support and direction to ensure they can compete with the best and achieve overseas success.

This year's Budget needs to reflect the vital importance of the SME sector and the significant contribution the sector can make to secure a better future.

SUPPORTING ENTERPRISE

There are 230,000 small and medium sized companies in the Country contributing over €10 billion to the Exchequer annually and employing 900,000 people, more than the numbers employed in larger companies. It is an extremely important component within the economy and there will be an increasing reliance on these companies for future growth and employment creation, particularly with the level of foreign direct investment reducing.

These companies have consistently demonstrated that if provided with the right economic conditions, they have the ability to deliver us out of the current economic situation as employment and wealth creators, with a loyalty to the local economies that they serve. The Government therefore must shift their focus from the 'multinationals at all costs' approach to adopting a policy that assists in the promotion of indigenous enterprise and in particular the development of SMEs.

The sector should be viewed in its totality for the significant contribution it makes to employment, revenues, economic growth, purchasing power and to society as a whole. This should be at the centre a National Enterprise Strategy so oft discussed at Government without any appreciable action being taken. Part of this policy must be to support existing businesses through the current environment.

The Minister therefore needs to create a supportive environment for indigenous SMEs, not only to assist them to survive and trade during the current downturn, but also to start introducing policies to assist in stimulating these businesses to develop and grow, taking advantage of the economic upturn when it arrives.

RECOMMENDATIONS

Access to Finance

Access to finance remains a massive issue for SMEs, with lack of credit a serious impediment to the day to day running of thousands of businesses. Companies are suffering due to a refusal from the banks to lend money or from debtors deferring payments for as long as possible. In both scenarios the company develops serious cashflow issues, which if not addressed, will inevitably lead to the company's demise.

Over the last number of years, particularly since the onset of the recession, the banking sector has significantly reduced the level of finance available to SMEs. This is reflected not only by anecdotal evidence but from also ISME research of members companies. The problem is compounded by the closure of Bank of Scotland (Ireland) and plans to reduce lending by Anglo Irish Bank.

The present situation therefore is leading to an overall lack of confidence with regard to business planning and is undermining the SME sector. Consequently, investment has dramatically reduced as companies are uncertain as to availability of credit to finance and maintain projects. Part of the solution to the problem, should include;

- **The State creating a specific business lending bank, similar to ICC in the eighties, that would be manned by individuals with the experience of dealing with SMEs and able to meet their requirements accordingly. Part of this policy could involve the State, taking control of Bank of Scotland (Ireland), using the business lending expertise of their personnel and branch network to set up a specific bank for business lending.**
- **The State needs to investigate alternative sources of finance for business as opposed to relying on the banks. Seed capital and venture capital offers an alternate way of funding a new business. By offering favourable tax incentives, a wider mix of investment strategies in private investment could be encouraged.**
- **Capital invested by family members for the purpose of establishing or expanding a new or existing family business should also receive some form of favourable tax treatment. There should also be favourable tax incentives for individuals or pension funds that would invest in SMEs.**
- **Seed Capital Relief should be extended to sectors outside those that are currently covered by the scheme.**

Taxation Measures

Taking into account the Government needs to save a minimum of €3bn in this year's Budget the Association would warn against increasing income tax rates, which would act as a disincentive to employees and add further pressure on employers, with wage demands, during a period when companies are trying to control costs.

- **The Association would favour a broadening of the tax net to include, over a period of time, the introduction of property taxes, once there was a corresponding reduction in income taxes.**
- **There should also be no increase in indirect taxes, due to the negative impact that this would have on consumer demand.**

Proprietary Directors

- **The discrimination against Directors and the self-employed with regard to not being able to avail of the P.A.Y.E. tax allowance is unacceptable and needs to be rescinded as a matter of priority, as it unfairly penalises business owners and directors without justification**

R & D and Innovation

The failure to innovate is rated as being among the main risks that face businesses over the next number of years. In a rapidly changing world it is paramount that Irish companies, particularly SMEs, are ahead of the curve when it comes to participating in research and development activity, in order to provide them with a competitive edge, SME businesses, particularly manufacturers, are continually being informed by Government and State agencies that the only way to effectively move up the value chain is to invest in innovation and research & development.

Presently, it is extremely difficult for many SMEs to avail of assistance both financial and non-financial in order to improve or adapt their products to compete globally. The Association acknowledges that initiatives have been undertaken over the last number of years, specifically with regard to the RTI initiative available through Enterprise Ireland and the introduction tax credits in recent budgets. The reality however is that while these are worthwhile initiatives they still do not even closely meet the requirements of SMEs. In order to assist in addressing this issue ISME would recommend the introduction of the following:

- **A funding scheme should be introduced to provide funding to help low R&D performers to assimilate new technologies already available in the marketplace.**
- **In order to make it more attractive and to promote greater innovation and investment in R & D the Association proposes the introduction of double tax relief on all expenditure on R & D. The credit to be offset against any tax liability including payroll, VAT or corporation tax for the year in which the expenditure was incurred, or carried forward for offset against future liabilities.**
- **A specific innovation voucher scheme should be introduced for the majority of small businesses outside the R&D scheme, who still need to be innovative in order to compete in the global economy.**
- **Return the exemption threshold limits on patent royalties back to €250,000, from €125,000, the limit set in the recent Finance Act.**

Approved Profit Sharing Schemes for SMEs

Even in the current environment, it is extremely difficult for SMEs to compete for and retain key individuals, due to the ability of big business and the Multinationals to provide gain sharing initiatives that are not feasible or available to smaller companies.

Multinationals and larger organisations are in a position to provide share incentives to remunerate staff in a tax efficient manner and to make it attractive to remain in their employment.

In its present format it is difficult for the vast majority of small companies to introduce share option schemes, due to the method of valuing shares, the lack of a market and their complex nature.

ISME therefore proposes the introduction of a simple to apply profit sharing scheme, whereby SMEs could provide for a percentage of net profits exempt of taxes to accumulate in a fund for key employees, which could not be drawn down for a three year period.

The proposed initiative would provide the following advantages amongst others,

- Allow SMEs' to reward key employees in line with the growth in company profits
- Secure the employees commitment and loyalty over a medium term period
- Act as a savings scheme, the benefits of which would be released tax free at the end of a three year period

- Would provide an incentive for the company and employees to grow over a three-year period.
- Would help in creating productivity and would allow SMEs' to become more competitive.
- Would not impact on current inflationary pressure.

COST COMPETITIVENESS

The Association has been arguing for a number of years that our competitiveness has been out of kilter with our competitors and needs to be radically addressed. According to the Global Competitive Index Report over the last 10 years Irish competitiveness has eroded dramatically, dropping from being the fifth most competitive country globally to the 29th. In the last 12 months alone we have dropped four places in the rankings.

The level of cost increases that have impacted on businesses have consistently over the years eclipsed the rate of inflation. What is most noticeable, in particular, is the impact that Government controlled costs are having on small businesses, particularly in the areas of energy, waste and local charges. For example even taking into account recent reductions in electricity and gas, our energy costs continue to be well in excess of the EU average and are a hindrance to trade.

The average cost of consolidated water charges rose 10.5% between 2008 and 2009.

Ireland is among the most expensive countries in the EU in 2008 for waste treatment costs, being the most expensive of 10 locations benchmarked by Forfas.

Our harmonised competitiveness indicator remains 19 percentage points above its 2000 level.

State influenced costs on business are having a devastating impact on the small business sector, which does not have the price setting ability to increase revenues, thereby undermining their competitiveness and leading to job losses and company closures. The consequences of all these factors that have undermined our competitiveness are that output per head dropped in Ireland around 9% between 2008 and 2009.

The cost environment and the subsequent erosion of competitiveness is one of the biggest immediate threats to business. It is vitally important that the root causes of the dramatic increases in production costs witnessed over the last number of years, including Government controlled costs, are brought under control or else we run the risk of continuing to price ourselves out of the market.

Serious action is therefore needed to ensure that our current competitiveness trend is reversed so that we are in a position to compete when the world economy eventually rebounds, as it surely will. With the rate of inflation due to remain relatively benign over the next number of months, it is now absolutely essential that the Irish business cost base be brought into line, to allow us to compete. **The Government has a key responsibility in this area and it is imperative that action is taken to control costs under their remit and to introduce incentives that will assist in increasing productivity.**

RECOMMENDATIONS

Local Charges

Commercial rates in particular are viewed as a direct tax on business and do not have any appreciable benefits. These charges are foisted specifically on the business sector, with the burden being borne primarily by local businesses. With 26% of local government income coming from commercial rates it is imperative that other sources of funding, including a property tax for domestic households and extending water charges to domestic consumers, is introduced to reduce the considerable burden on business.

It should be noted that rates are based on the value of the property through the rents they can command. As rents have fallen steeply, this should be reflected in the rateable charge, which is not the case at present.

The Association recommends that the following measures are introduced;

- **A 10% reduction on all local charges on businesses for 2011.**
- **A mechanism whereby local charges including rates can be appealed as no mechanism currently exists.**
- **A redistribution of the burden of commercial rates and water charges to other sectors including the State and domestic households.**

Energy

While there have been improvements in the costs of electricity and gas over the last 18 months, these have been offset to an extent by increases in electricity levies and the introduction of a carbon tax. Our electricity prices are 15% ahead of the EU average, which puts us at a distinct disadvantage to our international competitors, putting further pressure on Irish jobs and livelihoods. It is obvious therefore that efforts to introduce competition to the energy sector has failed dismally and has only resulted over the years in significant cost increases to business.

- **Every effort should be made to increase the level of competition in the energy sector in order to stimulate price competition. What is also required is the immediate reversal of the recent 5% levy on electricity, which will only increase the costs of electricity vis-à-vis our international competitors.**
- **Access to the grid for private sector energy projects must be guaranteed in a timeframe that is commercially viable.**
- **Tax incentives should be offered to companies who are independently verified as meeting energy efficiency standards. This was first proposed in 2005 as a c-tax.**

Carbon Tax

The decision to introduce a carbon tax in the last Budget was regrettable and is already adding to business costs in the form of a 6% increase in gas prices and five cents per lire added to the price of petrol and diesel. These costs are invariably borne by business, which are not in a position to pass the increased costs on to customers. Consequently, jobs are being put at risk due to a tax that experts acknowledge will have very little if any influence in reducing carbon emissions. It is beyond comprehension that the Government is continuing with another tax on energy and transport while businesses struggle to stay open. The national carbon emission has already reduced due to the increased energy efficiencies of SMEs and the effects of the recession on business, thereby eliminating the need for a tax.

- **This particular tax is directly reducing our competitiveness, costing jobs and the association recommends that the decision to introduce it is reversed for the sake of the economy.**

THE LABOUR MARKET

The Irish labour market remains in a very weak state. Overall, employment has fallen 270,000 since its seasonally-adjusted peak in Q4 2007. Consequently the unemployment rate has increased from 3.5% in 2001 to 13.8% at August 2010.

The scale of the unemployment crisis is brought into stark focus when one compares Ireland's performance with that of our international competitors. Two years ago, Ireland was among the countries with the lowest level of unemployment. Now we are the second highest in the Eurozone behind Spain. The reasons for this can be put down, not only, to the severity of the recession in Ireland compared with other countries, but also to a lack of Government policy to address the jobs crisis.

The level of Unemployment and the threat of unemployment are among the biggest issues that will adversely affect the performance of the Irish economy. The level of unemployment has serious ramifications for the wider economy resulting in a significant increase in social welfare payments, a significant reduction in tax revenues together with less consumer spending and an increase in savings levels. All these issues are very evident at present in the Irish Economy, but unfortunately little has been done at official level to address this ongoing crisis.

From an SME perspective the cost of labour is hindering many companies ability to survive through the current recession. With demand down and increases in general business costs, companies have no option but to reduce hours or make wholesale redundancies. Ironically, companies who put employees on a 3 day week and now have enough orders to return to a 5 day week are finding it difficult to get employees to return due to competing with the social welfare system and the black economy.

The Government need to realise that the labour market is in crisis and that the problem will not be solved by forced emigration and a reduction in the labour market, which only blurs the picture and undermines the true extent of the problem. What is required is clear and targeted policies to include employment maintenance, job creation and invariably moving individuals from the dole queue back into employment. What is urgently required is an overall employment strategy that will tackle the negative factors that are impacting on the business sector. The Association recommends that the following initiatives are introduced to assist businesses in both recruiting and maintaining employment.

RECOMMENDATIONS

Employers PRSI

The recently announced Employers PRSI Exemption Scheme, while a step in the right direction, will only have limited success in assisting in addressing unemployment and needs to be expanded to all new hires and not just for taking employees off the live register. What is required is assistance for companies to reduce the actual cost of labour, which is a vital element with regard to employment numbers within the firm. Employers PRSI acts as a direct tax on labour and needs to be reduced across the board to assist in companies maintaining employment and eventually increasing numbers employed.

- **The Association recommends the introduction of a reduced rate of 5% for Employers' PRSI for salaries up to the average industrial wage of €33,000, to be phased in over a three year period. Above this rate, PRSI should reduce to 10% from the current rate. While there is a cost involved to the exchequer circa €300m annually, the benefits of increased employment would we argue well offset the cost over the period concerned.**

Employment Subsidies

The Employment Subsidy Scheme was introduced to assist employment maintenance with a budget of €250m. The scheme, while not perfect, recognised the difficulties that businesses were going through and assisted in maintaining numbers in employment that otherwise would have ended up on the live register. It is incomprehensible that six months after the scheme was introduced, it was shut down, having only committed just half the budget allocated.

- **The Association would like to see the reintroduction of the Employment Subsidy scheme fully funded and extended to companies with less than 10 employees.**

Training & Upskilling

Training and upskilling are vital components in increasing productivity, maintaining employment and contributing to the success of companies. Training supports for enterprises over the last number of years has declined significantly in other areas. For instance there has been a dramatic reduction in funding from FAS to almost nil, and Skillnets has had its budget significantly reduced.

Over the last number of years much of the finance from the National Training Fund, which accrues on average €252m annually, based on contributions from Employers through the PRSI system, has been diverted away from training those in employment into training the unemployed. While it is accepted that there is a requirement to train those in unemployment for future employment, it should not be at the cost of those who continue to work. It is fundamentally essential that the level of training in SMEs is maintained and is supported by funding and other initiatives to enable SMEs to upskill and maintain employment. The Association recommends the introduction of the following initiatives;

- **A double taxation allowance should be provided to companies for their training requirements in order to promote upskilling and development in the workforce, to take advantage of future economic growth.**
- **Funding for Skillnets and other State training initiatives should be returned to pre 2009 levels.**
- **Introduce paid educational/training leave, funded through the social insurance fund and a broadened national training fund.**

REFORMING THE PUBLIC SECTOR

With exchequer finances in a mess, and a requirement for a further adjustment of €3bn required in the upcoming Budget, there is absolutely no option but to reduce current expenditure, including the cost of the public sector. This means cutting the public sector pay bill, numbers employed and moving quickly to address inefficiencies.

The public sector pay and pensions bill has increased dramatically in the last 10 years, rising from €8.63bn in 2000 to €18.3bn at the end of 2009, an increase of 112%. The pay and pensions bill currently accounts for 46% of current expenditure.

As a percentage of GDP and GNP the wages element has increased dramatically. For instance in 2000 public sector pay and pensions represented 8.2% of GDP, by 2009 that figure had increased to 10.7%. With GDP currently back at 2006 levels it puts into perspective the dramatic increase in the cost of funding the public sector. The argument could be put therefore that the cost of running the public sector should be back at 2006 levels. This would mean a reduction in the cost of running the service on an annual basis of €2.1bn.

With the public sector pay bill representing almost one half of all current expenditure, it is imperative that a new framework for delivering public services at a reasonable cost and budget needs to be introduced as a matter of urgency, to restore confidence and protect jobs, in other parts of the economy.

With the upcoming budget in mind, and taking account of the severe limitations imposed by the Croke Park Agreement, the Association is of the view that the public sector pay bill will need to be reduced further over the next number of years, to prevent the introduction of damaging tax increases, particularly income taxes. Badly needed cuts in government expenditure can only be achieved through addressing the cost of the public sector, including the public sector pay bill. One way this can be done is to cancel the policy of awarding pay increments to public servants, which are estimated to cost in the region of €250m in 2009 alone.

The exercise should fully take into account the value of pensions and job security which, public servants benefit from, and international comparisons in public sector pay.

While the Association advocates rewarding efficiency, it most certainly is fundamentally opposed to paying for inefficiencies, particularly at a time when a significant exchequer deficit exists, tax revenues are down and the business sector is suffering

A review of pay and recruitment, together with an efficiency drive, is urgently required to reduce the burden of a sector that threatens to strangle the rest of the economy, if immediate action is not taken. The following initiatives need to be immediately introduced.

RECOMMENDATIONS

Employment Numbers

There has also been a dramatic increase in numbers employed. For instance including health the numbers of employed have gone up 74,000 between 1999 and the end of 2009, an increase of 25%. The biggest increases in employment over the last 10 years were in Health (51%) and Education (36%).

- **The Association would like to see a documented and specific plan to reduce Public Sector numbers by 40,000 over the next three years. This would save in the order of €700m per annum.**

Pay & Pensions

The Croke Park agreement has significantly restricted the scope for Government to reduce the pay of public servants. The pay and pensions Bill alone for 2009 was almost €19bn, or 60% of all tax income. Measures need to be introduced to reduce the cost of the bill significantly without adversely affecting services. The Association recommends that as part of this policy,

- **The incremental system of rewarding public servants for service in years needs to be abolished.**
- **A complete reassessment of public sector pensions, ensuring that the current practice whereby increments are increased post retirement is ceased immediately. The reform of public sector pensions as was outlined in Budget 2010 and which was overturned in March this year needs to be revisited.**

Delivering Efficiencies

Through benchmarking and national agreements, the taxpayer has already paid for reform of the public sector. In return there has been no return in delivery with a non integrated public service. There is a requirement for a root and branch review of the whole public service in order to measure efficiency and productivity. This will require that different parts of the Public Service work cohesively together, with a more integrated approach at the national and local levels. The Association would also recommend;

- **The introduction of an overseeing body with responsibility for ensuring that there is genuine, transparent and accountable reform of the public sector, highlighting measureable savings in efficiencies.**
- **The principle of 'jobs for life', should be abolished, with non-performers' contracts terminated in line with the State's industrial relations due process.**
- **A number of services, including administration should be outsourced to the private sector.**
- **Greater flexibility of employees with regard to transferability of jobs.**
- **Increased use of ICT and longer public opening hours.**

INFRASTRUCTURE

With sharp reductions in exchequer finances over the last number of years and the requirement to bridge a substantial exchequer deficit, the temptation is to cut back on capital expenditure and to reduce allocated expenditure for key infrastructure and cancel other major projects. Unfortunately, the Government seems to have followed this path with a substantial reduction in capital expenditure over the last 12 months.

The planned public capital investment programme as outlined in the Government's Infrastructure Investment Priorities 2010-2016 (July 2010) has already been reduced from €10.7bn to €6.4bn, and in 2012 from €10.6bn to €5.5bn. But the latest Exchequer figures show that while tax returns are roughly in line with expectations, capital expenditure is already running 25%, or €600m, below target.

Ironically, the retraction in the economy has provided the perfect opportunity to undertake infrastructural projects with an extremely competitive tendering environment and an abundance of highly skilled individuals available for work. It is estimated that tender prices have reduced by on average 30%, ensuring more bang for the government's buck. Consequently, projects can now be delivered on or under budget and on time.

A unique window of opportunity exists to plan for and build much needed hospitals, schools, water plant, transport and energy facilities and infrastructure, all of which guarantee long term returns to the government. This is also a chance to provide badly needed employment, reduce the cost of the social welfare pay bill and revive confidence and activity in the local economy. The Association is disappointed that the capital budget has been so drastically cut, even taking into account the exceptional financial position the Country finds itself in.

If Ireland wants to compete the economy requires international standard infrastructure in all areas including transport, communications, education and health. Ongoing investment is required to correct our infrastructure deficit and action has to be taken to speed up major projects, which are essential to our competitiveness. The Association would recommend that the Minister in the upcoming Budget introduces the following measures to address our ongoing infrastructure deficit:

RECOMMENDATIONS

- **Prioritise projects on the basis of return on investment. This is far more beneficial that routinely cancelling projects across the board.** For example the Atlantic Road Corridor is essential not only as part of the National Spatial Strategy, but as an essential element of opening up a significant part of the Country to a first class road network, which will help improve trade among the regions and encourage companies to set up along the western corridor.
- **Government Departments should publish their list of priority projects and the timelines for their implementation.**
- Investment in infrastructure provides a significant opportunity to generate employment, remove individuals from the dole queues and inject badly needed cash into the economy. It is in fact the only real opportunity to introduce stimulatory measures into the economy. For instance research shows that every €100m spent on construction projects creates 1000 jobs and generates nearly €50m for the

exchequer through income, taxes and social welfare savings. Infrastructure improvements also ensure the future tax income of the economy by improving competitiveness and attracting inward investment. The Association would recommend that the Government;

- **Speed up the building of new schools and hospitals in order to create and maintain employment for the construction sector, which would maintain many skilled employees in the Country until the building sector starts to show signs of growth in the next number of years.**
- **Introduce a Residence Related Employment Scheme (RRES), similar to the one that existed in the 1980s, whereby householders would receive a tax break for contracting legitimate small contractors and self employed allied to the building industry**. The introduction of such a scheme would assist in reducing black economy activities, sustain employment and business for legitimates companies, incentivize householders with a tax break and increase Government tax revenues, which otherwise would be foregone. In short, it would stimulate employment and tax revenue at little or no cost.