Chambers Ireland Pre-Budget Submission 2016

CHAMBERS IRELAND
IN BUSINESS FOR BUSINESS

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Introduction

Chambers Ireland represents the largest network of businesses in the State. With almost 50 Chambers located in every major town and city in the country, we are uniquely positioned to understand the needs of the business community and how Ireland's recession and developing recovery have affected them.

Since early 2014, we have seen strong growth in our economy and further progress in our national recovery. We have seen increasingly strong performance in GDP and exports, but crucially, we have finally witnessed an increase in domestic demand. Perhaps most importantly of all, unemployment levels have reduced below the watershed level of 10%.

The forecasts for 2016 again show a strong growth trajectory for GDP, increased tax buoyancy and further employment growth. There is a general perception that Ireland has come through the worst of the recession and that we are entering a new phase of economic growth.

Chambers Ireland believes that Budget 2016 must leverage the positive momentum of our recent economic growth to instil a new dynamism to the national economy. The biggest risk to Ireland's economy now is complacency. While our recent economic performance has been robust, there are a number of factors that could serve to undermine our future economic and social growth. Our economic recovery has been geographically patchy and youth unemployment remains a problem. Our network of Chambers throughout the country provides us with an insight into the mixed fortunes of the counties and towns that have not yet fully recovered. Ireland is still borrowing half a billion euro a month to fund current expenditure, and even with improved tax receipts we are projected to require further borrowing of €3.1 billion for 2016 and €3.9 billion for 2017. Our economic performance is heavily reliant on external factors such as increasing demand from our trading partners and maintaining international competitiveness. Rising costs to businesses threatens this. Ireland appears to be experiencing a new iteration of the property crisis, with both residential and commercial property in short supply in key areas. Finally, we have an aging population which will place increasing demands on our public services in the coming years.

Budget 2016 should be viewed as an opportunity to reinforce Ireland's growth, generate a new energy amongst our indigenous industries, and insulate the economy in so far as possible from internal and external risks. Chambers Ireland believes that this can be achieved by implementing a number of targeted actions that can be grouped into four broad categories:

Supporting our entrepreneurs and small businesses

We must incentivise a new generation of entrepreneurs to establish businesses and generate indigenous growth and employment. Through a series of targeted tax adjustments that will have a limited impact on the exchequer, we believe entrepreneurs and small businesses can begin to thrive. Section 2 of this submission outlines these adjustments.

Supporting local economic development

There has been a pronounced disparity in how some towns and counties in Ireland have experienced the recovery. Output and employment remain low in many areas, and many of our Chambers outside of large urban areas report that their members are still struggling. There has been a renewed focus nationally on local economic development, and we outline two measures identified by our Chamber Network as best practice that can be implemented nationally to support this process.

Investing in physical and social infrastructure

Ireland needs the right social and physical infrastructure if it is to maintain its international competitiveness. We are competing against the top countries in the OECD for investment and for markets, and letting our infrastructure depreciate is not an option. Equally, if we are to position ourselves as a knowledge economy, our human capital must be developed to its fullest. We highlight areas where we believe investment and reform are required urgently to maintain our capital stock.

Enhancing efficiency in our public service

Our public sector has made terrific progress in implementing necessary reform and delivering more services with fewer resources. The public sector should be commended for this vital contribution to Ireland's recovery. We believe that this process should continue, and that appropriate outsourcing to the private sector can support the public sector in streamlining its service delivery.

Key Recommendations

Supporting our entrepreneurs and small businesses

- Ensure equity in the USC treatment of owner-directors and self-employed
- Reform the tax system for owner-directors and the self-employed by introducing a similar tax credit to PAYE workers
- Introduce social protection for owner-directors and self-employed people
- Reduce the marginal tax rate to below 50%
- Merge income tax and USC into a single income tax
- Align employee remuneration with company performance by incentivising employee share schemes
- Allow investors who use the Employment and Investment Incentive to claim full relief up front
- Reduce Capital Gains Tax to 20% for non-passive investments
- Remove restrictions on the CGT entrepreneurial relief and align it more closely with UK model

Supporting local economic development

- Incentivise Local Authorities to ring fence a portion of commercial rates for local economic development with matching funding from the Exchequer
- Develop state supported crowd-funding programmes to fund social investments

Investing in physical and social infrastructure

- Make childcare affordable by introducing direct public subvention and reforming the ECCE scheme
- Refocus the National Training Fund to up-skill those currently in employment
- Ensure affordability of health insurances by calculating the Risk Equalisation Scheme Levy as a percentage of the value of the plan rather than a flat fee
- Temporarily reduce VAT on the construction of residential properties from 13.5% to 9% and suspend development levies for a period of two years in strategic areas
- Prioritise investment in infrastructure to ensure we can support our future economic growth

Enhancing efficiency in our public service

- Continue the reform of the public sector and examine the potential benefits of appropriate outsourcing to the private sector

1. Support Entrepreneurship and Small Businesses

1.1 Ensure Equity in USC for Owner-Directors and Self-Employed

Current Irish tax structures discriminate against the self-employed and owner directors on a number of fronts. Firstly, those earning over €100,000 are faced with an additional USC burden of 3% over and above what PAYE workers earning the same income must pay.

In order to encourage and support entrepreneurs and investors, the USC for self-employed earnings over €100,000 should be brought in line with that of PAYE workers (currently at 11% vs. 8%).

Our tax structures should recognise and reward the risks taken by entrepreneurs in establishing businesses and creating employment. Not only does a discriminatory tax code push those who are self-employed to accept ever greater risk when starting up a company, it also sends a message that entrepreneurship is not truly valued in our economy.

Key recommendation:

Reform the tax system to ensure equity in USC rates for owner-directors and the self-employed.

1.2 Equity in Tax Credits for Self-Employed

In addition to the inequitable application of USC, owner-directors and the self-employed cannot avail of a tax credit in the same fashion as their PAYE counterparts.

Given that the Government in its National Policy Statement on Entrepreneurship acknowledges the critical role of entrepreneurs for the future Irish economy, it would be appropriate that the tax system is adjusted to also reflect this outlook. A tax credit similar in size to that available to PAYE workers (€1,650) should therefore be made available to the self-employed.

Chambers Ireland encourages Government to ensure that the tax system does not punish those willing to take the risk of establishing a company and creating jobs. We acknowledge that the Government has opened a consultation process on entrepreneurship, but we believe that these measures are long overdue and can be introduced in Budget 2016.

Key recommendation:

Introduce a tax credit similar in size to that available to PAYE workers for the self-employed.

1.3 Ensure Entrepreneurs can avail of a Social Protection Net

Thirdly, the self-employed and owner-directors cannot avail of full social welfare entitlements should their business fail.

The present discriminatory approach to taxation is out of step with modern taxation practices and the necessity for our economy to support entrepreneurship and small businesses. Owner-directors should be allowed to opt-in to a scheme to pay additional social contributions that will entitle them to social protection should their business fail.

Key recommendation:

Allow for voluntary opt-in social welfare protection for owner-directors and self-employed.

1.4 Simplify Personal Taxation

At present, an individual who is subject to the higher rate of income tax will see their income subject to six distinct rates of taxation, charges and social insurance. These include income tax at the lower and higher rate, PRSI, and three different rates of USC. Multiple taxes and charges at multiple rates are unnecessarily complex and make it difficult for employees and employers to accurately calculate their effective tax liability. The complexity of the system also renders it difficult to navigate the interaction of employment and social welfare entitlements. Given the long term commitment to reduce USC rates, in order to promote tax transparency, we suggest merging income tax and USC into a single income tax.

Key recommendation:

Promote tax transparency by merging income tax and USC into a single income tax.

1.5 Reduce the Marginal Tax and USC Rate below 50%

In parallel with simplifying income tax rates, we believe that rates should be reduced. We welcome the indications given that both income tax and USC are to be reduced. At present, PAYE workers earning above €33,800 p.a. are faced with a rate of tax of 52% (the self-employed are faced with an even greater rate of tax of 55%). If we are to encourage entrepreneurship, innovation and enterprise, individuals must be rewarded for their labour and innovation. It is imperative that the proposed reductions bring the total marginal tax rate for higher earners (both the self-employed and PAYE workers) below the headline rate of 50%. We believe that bringing the rate below 50% will stimulate entrepreneurship, improve our international competitiveness and make Ireland an attractive location for highly skilled workers. By reducing the marginal rate of tax, we also believe that employees will be encouraged to develop new skills, strive for betterment and thus improve productivity, and that businesses will find it easier to persuade recent emigrants to return to Ireland.

Key recommendation:

Reduce the marginal tax rate to below 50%.

1.6 Incentivise Employee Share Schemes

There has been much recent public commentary on calls for increases in wages throughout the economy. We believe that the next twelve months will prove a crucial period in Ireland's economic recovery. There is a risk that a general upward pressure on wages throughout the economy will lead to an erosion of Ireland's international competitiveness. Ireland already has high wage costs relative to our competitor nations and further increases to companies' wage costs will ultimately hinder Ireland's competitiveness and ongoing economic growth. Many industry sectors and most small businesses are not yet in a position to increase their wage bill.

A methodology to link employee remuneration directly with increased company productivity and performance would mitigate the potential erosion of competitiveness arising from general increases to wages. This could be achieved through incentivising employee share ownership schemes. The increases to CGT rates over recent years and the fact that employee shares are liable for both PRSI and USC have diminished their value relative to non-share based remuneration. To incentivise the uptake of share based remuneration schemes, liability for PRSI and USC on shares should be reduced.

The cost to the Exchequer of this measure would be negligible while the effect would be increased competition and productivity.

Key recommendation:

Align employee remuneration with company performance by incentivising employee shares schemes.

1.7 Further reform the Enterprise and Investment Incentive (EII)

The changes made to the Employment and Investment Incentive in last year's budget were to be welcomed and should open the scheme up to a wider audience. However, we believe that the scheme can be made more effective by considering two further revisions to be implemented as part of Budget 2016.

Investing in a start-up or new enterprise is inherently risky even with a 30% relief, and the requirement that the investor wait for three years before being potentially able to reclaim the balance of 11% relief pushes the risk profile of the proposition beyond many investors. The full 41% relief should be granted from the date of the investment.

Following the EII's three year removal from the high income earner restriction in 2014, it is worth assessing the impact that this has had on investment levels thus far. Increasing the annual investor cap above €150,000 may then become a viable means of expanding the scheme.

Reforming the EII would have no consequences for the Exchequer overall, but would require that investment relief is granted upfront. We expect the measure to have a positive impact on increasing investments and thus contribute to economic growth and job stimulation.

Key recommendation:

Allow investors who use the Employment and Investment Incentive to claim full relief up front.

1.8 Reduce Capital Gains Taxes to Stimulate Investment

Capital Gains Taxes (CGT) – particularly for active investors in business – are too high. This creates a disincentive to invest in start-ups and small businesses with high growth potential. If we are serious about instilling a culture of entrepreneurship in Ireland, we also need to support a culture of investment. Failure to have a tax system that supports investment will stifle entrepreneurship and hinder the growth of those businesses that are capable of expanding.

Given the high numbers of micro and small businesses in the Irish economy, it is important that we focus on how best to ensure that there is a diverse range of funding options open to them. Non-bank lending will become increasingly important in the coming years, and to secure private equity investment, the CGT regime must be revaluated. This is particularly the case given the low rates in effect in the UK.

We must ensure that our tax system rewards entrepreneurship and recognises the risk associated with business assets and business share disposals. Chambers Ireland advocates reducing the Capital Gains Tax rate to 20% for non-passive investments to incentivise investment and reward entrepreneurship.

CGT raised €561 million in 2014 and we believe that buoyancy in revenues and increased investment activity would outweigh any reduction in taxation to ensure no material impact on this tax head.

A reduction in the CGT rate from 33% to 20% would have implications for Exchequer revenue stemming from active capital investment. However, we believe that the impact of a reduced rate on non-passive investment will considerably outweigh any revenue loss and ultimately be self-financing given increased investment and potential for job creation.

Key recommendation:

Reduce CGT to 20% for non-passive investments.

1.9 Reform Capital Gains Tax Entrepreneurs Relief

The introduction of the Capital Gains Tax Entrepreneurial Relief in Budget 2014 was a welcome initiative to encourage serial entrepreneurs to establish further enterprises. Efforts to support entrepreneurship and incentivise investment in start-ups are positive, but this initiative could be greatly improved and expanded if two key reforms were made to it.

One of the requirements for an individual to avail of the relief is that the person must be a full time executive director in the new company in which they invest. We believe that this restriction precludes many potential serial investors from taking part in the scheme. We believe it is far more likely that a successful entrepreneur will be more positively inclined to avail of the scheme and invest their capital and time in several ventures simultaneously rather than confine themselves to becoming a full time executive in one start-up for a partial relief on their CGT.

We also believe that the scheme could be brought more closely in line with the UK's system of Entrepreneurs Relief. This scheme allows for qualifying directors who own 5% or more of a company to avail of a reduced rate of CGT of 10% rate on disposal of company shares up to a lifetime limit of £10 million.

We consider the potential costs of this measure to be minimal as there is a relatively small cohort of individuals to whom this relief will apply while the effect of the measure would stimulate investment for the creation of jobs.

Key recommendation:

Remove restrictions on the CGT entrepreneurial relief and align more closely with the UK model.

2. Supporting Local Economic Development (LED)

2.1 Match Fund a Portion of Commercial Rates for LED

The role of Local Authorities and local economic actors in advancing the growth of their communities has never been more important. Locally focused actors have always played an integral role in the economic development of their area, but with the ongoing reform of Local Government and the development of Regional Action Plans for Jobs, a renewed emphasis has been placed on Local Authorities and communities as drivers of local economic development.

Drawing on the examples of Cork City and County Councils and international best practice, the establishment of a development fund in each Local Authority can be effectively used to support local enterprises and projects with growth potential. This practice should be incentivised by centrally match funding a portion of the fund.

Development funds could then focus on driving business growth throughout a region by providing supports into targeted projects to enhance the business environment subject to applications detailing stated objectives for each initiative. For example, funds could be utilised to invest in initiatives such as start-ups, festivals and markets, arts/craft studios, start-up hubs, etc.

We suggest that development funds form part of a national local economic development system which with the support of Central Government could be rolled out via Local Authorities across the country.

Key recommendation:

Incentivise Local Authorities to ring fence a portion of commercial rates for local economic development with matching funding from the Exchequer.

2.2 Develop State Supported Crowd-Funding Programmes

Similarly, there is scope to develop local microfinance and crowd-funding programmes to fund social investments in local areas.

Across the Atlantic, US Local Authorities already utilise crowd-funding to regenerate local areas and promote the take-up of underused or vacant properties. In San Francisco, for example, the Mayor's Office of Civic Innovation used a crowd-funding platform to seek inspiration from the public for ideas to put free spaces into use. Businesses or groups were invited to bid to use designated public areas on a temporary basis to showcase innovative projects. Potential partners included non-profits, entrepreneurs, local businesses and community groups.

Closer to home, the opportunities presented by crowd-funding have also been embraced by UK local councils. Faced with budgetary constraints, British councils have turned to crowd-funding platforms to rejuvenate high streets and realise much-needed regeneration projects. Using crowd-funding platforms, Councils can pitch ideas to the local community so that the cost of the project is shared among those who benefit. Councils use this approach to top up available funding from Exchequer funded grants, while others may look for the full cost associated with a project. Successfully funded projects in the UK include a new community centre in South Wales, public art installations in East London, the roll-out of free WiFi in Nottinghamshire, and the conversion of an empty property into an entrepreneur hub in High Wycombe. More information on and inspiration for the range of civic projects which can be achieved using crowd-funding can be found at www.spacehive.com.

In order to trigger and enhance locally focused crowd-funding programmes, some seed capital could be provided from central funds with guidelines as to what types of projects it should support. As an added benefit to local economic development, crowd-funding also facilitates and encourages citizen engagement in local planning and development.

Key recommendation:

Develop state supported crowd-funding programmes to fund social investments.

2.3 Support LED through Strategic Public Procurement

Chambers Ireland believes that there is a particular opportunity to facilitate and support local economic development through the strategic application of public procurement processes. While we recognise that there remains an imperative amongst contracting authorities to reduce costs, there are strong arguments for developing more nuanced procurement processes in order to stimulate economic activity and ensure better long term returns for the tax payer. Tenders should be reviewed by their overall benefit to the economy rather than just the upfront price. Local economic development also has the potential to be supported by the inclusion of social clauses in tenders for public contracts. For example, weight could be given to use of local suppliers or providing employment to the long term unemployed. However, while social clauses have the potential to support the local economy and provide social value, Government must make sure it is applied in a way that doesn't become onerous or disadvantage SMEs.

Although this measure possibly would have a small short-term effect on costs, the impact on local job creation and retention would be greater than any upfront additional expenditure.

Key recommendation:

Support local economic development through strategic public procurement focusing on the overall benefit to an economy rather than just upfront price.

3. Improving our Social and Physical Infrastructure

3.1 Make Childcare Affordable

Inaccessible and unaffordable child and afterschool care remains a major issue for the Irish economy. If we are aiming for a highly skilled, knowledge economy we must address this issue. The lack of affordable childcare was recently flagged by the European Commission in its country specific recommendations for Ireland. If we are to reach Government's target of full employment by 2018 we consider it crucial that an effective childcare policy is implemented first.

Proper access to affordable childcare services has positive implications for female labour market participation, the social well-being of children, the gender-pay gap, and Government revenues due to higher labour participation rates and reduced social problems.

Chambers Ireland recognises the free ECCE programme as a major step in improving the availably and affordability of early childhood care and education in Ireland. The universal nature of this programme is particularly welcomed, the success of which is illustrated through a take-up rate of 95% of eligible children.

However, Chambers Ireland strongly encourages Government to go further in ensuring more widespread and comprehensive provision of affordable child and afterschool care. While a number of different models can be adopted to ensure affordability and accessibility, we consider direct public subvention the best option since this model can make affordability conditional upon quality standards being met. This view is supported by the OECD, which following a study of 20 countries concluded that the most effective way of ensuring affordability and to raise standards of care (the economic return on investment is higher where the quality of care is high) is for Governments to directly subsidise care providers in order to ensure that fees are lowered or covered.

Chambers Ireland therefore recommends Government to:

- Provide direct Government subsidies to the providers of child and afterschool care in the form of capitation grants.
- Make subsidies conditional upon educational quality standards being met.
- Vary the level of the grant per child in accordance with parents' income to ensure that services become affordable for low-income households.

Although we recognise that a complete reform of the child and afterschool care sector will take time and a large scale investment, we suggest that Government in the short term build on the existing ECCE model by extending it to 48 weeks and expand the scheme to cover a second year.

Furthermore, we suggest that the level of funding for the ECCE scheme should be increased by €30 per child per week to allow for the recruitment and retention of qualified staff. Current funding levels are insufficient to cover the cost of high-quality childcare which has caused some service providers to operate at a loss and may ultimately force some providers out of business.

While the long term objective should be to bring Government investment into early childhood education in line with UNICEF guidelines (1% of GDP), the short term cost of reforming the existing ECCE model to cover 48 weeks over two years year at a weekly capitation rate €93 per child would amount to approximately €424 million. The return on investment will, however, far outweigh both short-term and long-term costs as affordable child and afterschool care will positively impact female labour market participation, the social well-being of children, the gender-pay gap, and Government revenues as a result of higher labour participation rates and reduced social problems.

Key recommendation:

Make childcare affordable by introducing direct public subvention in the long-term while reforming the ECCE scheme in the short-term.

3.2 Refocus the National Training Fund

Despite being established "to give skills to, or raise skills amongst those in, or seeking employment"[1] and being sourced through a levy on employers, approximately 77% of funds from the National Training Fund (NTF) are allocated towards training for the unemployed. Given the high rates of unemployment facing the country over the past number of years, it was appropriate that the majority of funding was directed towards training for the unemployed. While it is right and proper that some of the funding still is used to train the unemployed, we believe it is time to refocus the NTF now that unemployment levels have fallen.

Chambers Ireland advocates that a commitment be made to ensure that the majority of funding from the NTF is committed to up-skilling those within companies to ensure companies in Ireland are developing the skills necessary to expand, grow and compete internationally.

This measure would have no impact on Exchequer funding and would support the competitiveness of our enterprises.

Key recommendation:

Refocus the National Training Fund to up-skill those currently in employment and allow businesses to remain competitive.

3.3 Ensure Affordability of Healthcare and Health Insurance

Ireland will face significant demographic challenges in the medium to long term with an aging population and an increasing dependency ratio. Ireland's population and their increasing average life expectancy will put ever greater strain on our public services, particularly in areas such as healthcare. To meet our future healthcare needs, we must ensure that our health service is well funded and that we have an effective private health insurance market.

The Risk Equalisation Scheme (RES) is designed to support the implementation of community rating and to allow the older cohort of our population access to affordable healthcare. The scheme is funded through a stamp duty levied on each health insurance policy. The current stamp duty payable under the Risk Equalisation Scheme is calculated on a flat fee basis. There is a fee of €240 for those 18 and over on Non-Advanced Plans, and a higher fee of €399 for those 18 and over on Advanced Plans. This fee structure has a relatively higher impact on lower value plans, and does not accurately reflect a consumer's capacity to pay. A stamp duty calculated as a percentage of the value of a plan would be more progressive and encourage those on lower incomes to take out private health insurance policies.

Key recommendation:

The Risk Equalisation Scheme Levy should be calculated as a percentage of the value of the plan rather than a flat fee.

1 http://www.irishstatutebook.ie/pdf/2000/en.act.2000.0041.pdf

3.4 Address Bottlenecks in Construction

The steep rise in both residential and commercial property prices is once again causing concern with the OECD flagging the recent price increases as reminiscent of Ireland's property bubble. Although extreme upward price pressures are primarily evident in cities and large urban areas, the negative impact will be felt throughout the economy. Rising residential property prices push home ownership beyond the purchasing capacity of most urban workers. As increasing numbers of people are forced into the rental market, there is a corresponding increase in rent costs. The higher accommodation costs feed through into higher wage demands for workers in both indigenous and FDI companies. This results in higher wage costs and reduced competitiveness for Irish companies. It also makes it difficult to attract key personnel to relocate to Ireland as they assess relative cost of living internationally. On the commercial property side, higher commercial rent costs make Irish companies less competitive internationally, and make Ireland less attractive as a location for FDI.

The primary driver of higher property prices is a lack of supply. There are a number of reasons for this lack of supply, such as over restrictive planning requirements, a lack of suitable financing for developers, and a lack of land available for development. These need to be tackled as part of a medium term policy strategy without resorting to market damaging measures such as rent controls. We must address the problem of lack of supply immediately. Incentives could be introduced to encourage refurbishment of existing commercial stock, or if companies have excess capacity, to sublet. In order to resolve the core issue of supply, we propose that two measures be introduced on a temporary basis:

First, the rate of VAT on the construction of residential properties should be temporarily reduced from 13.5% to the lower rate of 9%. This would make potential developments that are currently on the margin in terms of profitability viable.

Secondly, consideration should be given to a temporary suspension of development levies for a period of two years in areas deemed as strategically important for residential or commercial development.

A reduction in the rate of construction VAT for construction of housing from 13.5% to 9% can be self financing with an increase in construction activity and reduced costs to the Exchequer in providing short term social housing solutions.

Key recommendation:

Temporarily reduce VAT on the construction of residential property from 13.5% to 9% and suspend development levies for a period of two years in strategic areas.

3.5 Prioritise Investment in Strategic Infrastructure

The scaling back of public finances has hampered centrally funded capital expenditure, and the consequences of this are now beginning to show. Between 2008 when investment peaked at 5.3% of GNP and 2014, Government has reduced capital expenditure by 60%.

Although Budget 2015 saw increased provision for capital expenditure, the additional funding has primarily been set aside for social housing. While undoubtedly there is a strong need for more investment in affordable housing and our public services, we must be careful not to neglect investment in our strategic infrastructure.

Current budget provision is far from sufficient to meet the investment levels needed. In a 2015 report on transport trends, the Department of Transport, Tourism and Sport acknowledges that a minimum €300 million budget shortfall currently exists in order to maintain the current land transport network as is.

This level of underfunding is obviously unsustainable. Unless we increase investment in transport, we risk undermining our ability to generate economic growth in a sustainable manner as well as damaging our national competitiveness.

Chambers Ireland therefore recommends Government to:

- Increase investment in economic infrastructure and borrow to do so where necessary.
- Prioritise strategic projects with strong long-term economic benefits for investment having been appraised with a rigorous cost-benefit analysis.
- Fully engage with the European Investment Plan as a means to fund Irish strategic infrastructure projects.
- Ensure that investment decisions today reflect the strategic objectives of Ireland's economic future.

By investing smartly and strategically, Ireland will be put on the right track to attracting further inward investment while supporting indigenous businesses to grow their output.

Although increased investment would involve upfront costs and borrowing from European lenders, we consider the long-term return on investment higher than the cost since the development of key infrastructure projects will improve our national competitiveness.

Key recommendation:

Prioritise investment in strategic infrastructure projects to ensure we keep pace with our recovery.

4. Supporting Efficient Public Service Delivery

Over the past number of years the public sector has made a significant contribution to Ireland's economic recovery and this should be recognised. However, it is important that the Government is realistic about the consequences of restoring public sector pay to pre-crisis levels. Taking into account both public and private debt, Ireland is still amongst the most indebted countries in the world. The State will be required to borrow €6.5 billion euro in 2015 to fund the Exchequer (or roughly half a billion a month).[2] The Department of Finance has projected that further borrowing of €3.1 billion for 2016 and €3.9 billion for 2017 will also be required.[3]

Reducing our reliance on government borrowing to fund the State will require budgetary prudence in the years to come. We suggest two methods in which progress can continue to be made in this area:

Firstly, the process of public sector reform and modernisation must continue, with future increases to public sector wages being contingent on meaningful and measurable productivity targets being achieved.

Secondly, efforts being made to block any outsourcing of public sector activities must be resisted. If it can be demonstrated that certain services are more effectively and efficiently provided by private sector operators, they must be allowed to tender for the work. The potential savings derived from outsourcing could be used to increase investment in services or to hire additional personnel where there are skills gaps within the public sector. The Department of Finance and Department of Public Expenditure and Reform should commit to undertaking accurate cost benefit analyses of potential outsourcing opportunities that reflect the true cost and savings to the taxpayer.

Efficiencies delivered through outsourcing solutions can generate significant long term savings for the Exchequer.

Key recommendation:

Continue the reform of the public sector and seriously analyse the cost and productivity benefits of outsourcing to the private sector.

2 http://budget.gov.ie/Budgets/2015/Documents/141014%20Economic%20and%20Fiscal%20Outlook%20REV%202.pdf
3 Ibid.

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