TUARASCÁIL ón gComhchoiste Fiosrúcháin i dtaobh na Géarchéime Baincéireachta

An tAcht um Thithe an Oireachtais
(Fiosrúcháin, Pribhléidí agus Nósanna Imeachta), 2013

REPORT of the Joint Committee of Inquiry into the Banking Crisis

Houses of the Oireachtas
(Inquiries, Privileges and Procedures) Act, 2013

Volume 1: Report
Volume 2: Inquiry Framework
Volume 3: Evidence

Oireachtas
OIR : Core Book 52

January 2016

Table of contents – by line of inquiry

R5: Clarity and effectiveness of the Government and Oireachtas oversight and role

R5c: Analysis of the key drivers for budget policy

THEME: R5

Clarity and effectiveness of the Government and Oireachtas oversight and role

LINE OF INQUIRY: R5c

Analysis of the key drivers for budget policy

Programme for Government 2007-2012

This Programme for Government sets out in clear and ambitious terms our shared vision for Ireland's development over the coming five years.

The hard work of Irish people has helped to create a dynamic society and a strong economy. This Government will work with the Irish people to safeguard the gains made, and to build a strong and sustainable nation for future generations.

We believe that the contents of this Programme will act as a blueprint for the next five years. It addresses the major challenges which we face, and sets out how these challenges can be addressed and overcome. Working with energy and commitment, we believe that Ireland can now turn the challenges we face into opportunities.

Time and again the Irish people have shown their ability to succeed despite adversity, and to adapt to achieve their goals.

Areas of particular importance include:

- rolling out infrastructure nationwide,
- combating climate change, and
- delivering a fully modern, patient-centred health service.

These are areas upon which we will place particular focus, and areas where we have ambitious plans that will be delivered during the lifetime of this Government.

Along with addressing the major challenges that we now face, we are more mindful than ever, that all of our shared ambitions must be matched by a strong and growing economy. This Government will ensure that Ireland's economic success over recent years is continued and strengthened.

We believe that this Programme of Government is one which every Irish person can be proud of. It provides a clear direction for the country, and will deliver a stronger, more caring and environmentally sustainable Ireland for generations to come.

Bertie Ahern T.D.
Leader of Fianna Fáil

Trevor Sargent T.D.
Leader of the Green Party

Mary Harney T.D.
Leader of the Progressive Democrats

The Economy

Long-term responsibility is the foundation on which the new Government's economic policy is built. We must accept the reality that Ireland cannot and must not compete on the basis of low wages. If we are to compete effectively and in a sustainable way, we will have to do so through even greater competitiveness in knowledge-driven industries.

Our guiding economic principles for the next five years are:

- We will aim to achieve further significant, sustainable growth with our programme based on an aver age growth rate of 4.5%.
- We will operate a responsible fiscal policy characterised by broad budget balance and a declining debt burden.
- We will deliver the *National Development Plan* in full, on time and within budget to raise our productivity, to enhance our competitiveness and to secure our future prosperity.
- We will invest in increasing the productive capacity of the economy, particularly in terms of ensuring high-levels of high-quality employment.

Budgetary Policy

Our guiding principles for fiscal policy for the next five years are to:

- Keep the budget in broad balance and fully within our commitments under the Stability & Growth Pact.
- Retain the flexibility to deal with any future shocks.
- Set aside a minimum of 1% of GNP per annum to provide for the future pensions of today's workers.
- Implement a series of significant and sustainable increases in key public services such as pensions, health and schools.
- Keep the overall tax burden low and implement further changes to enhance the rewards of work while increasing the fairness of the tax system.

Building the Public Wealth

Once our current prosperity is safeguarded, policy must seek to build for the future by raising our productive capacity and in so doing improve our potential to enjoy a better quality of life. That is the context in which the new *National Development Plan* was framed. With a total cost of €184 billion over seven years, the Plan involves a major acceleration of Government capital investment.

We believe that the full implementation of the NDP must be the first priority of this administration. The NDP will make our economy and our society stronger and will substantially increase the probability that our good fortune will benefit future generations. It will protect and sustain our prosperity, not threaten it.

Ireland is now an income-rich country. However, we are still poor in terms of our public wealth due to decades of under-investment in infrastructure. To correct this imbalance, we have committed to investing 5.4% of GNP in public infrastructure through the NDP. This will be implemented through a coordinated, multi-annual programme which is subject to rigorous value for money and quality oversight.

Through sound management of the economy, we will ensure that this resource commitment is maintained over the lifetime of the Government. Closing the infrastructure gap as expeditiously as possible has significant benefits and will enhance quality of life and economic competitiveness for generations to come. We will deliver the public infrastructure which this country needs if it is to sustain and consolidate the gains of the past decade.

Competitiveness and Innovation

Ireland's future prosperity is critically dependent on our ability to trade with the world. The Government will underpin Ireland's success as a highly-productive, trading nation by the following measures:

- Through the *National Development Plan*, we will invest over €8.2 billion in Science, Technology and Innovation. This investment will transform the type of R&D and innovation taking place across our enterprise sector.
- Our ongoing investment in education and training will ensure that our workforce is equipped with the necessary skills to enhance our productivity and competitiveness.
- Under *Transport 21*, our national infrastructure will be overhauled and upgraded with positive consequences for business costs and productivity.
- We will instigate a review of the entire economic regulatory environment. This review will be designed to ensure that the existing regulatory regime is operating efficiently, is balancing the needs of users with the requirements of producers and is not imposing excessive costs on the economy.
- Recognising the importance of small business to our economy, we will continue to support and enhance the Business Expansion and Seed Capital Schemes.
- We recognise the vital role played by low taxes in our economic success. We guarantee that the 12.5% rate of corporation tax will remain.
- We will resolutely oppose any attempt to introduce tax harmonisation within the European Union, either directly or through technical measures.

Ireland's dynamic and flexible economy will continue to be one of the most attractive locations in the world to invest, to employ and to do business in.

A Fair Tax System

Subject to the controlling economic and fiscal framework, the Government will implement the following specific approach to tax:

- Our first priority remains low and middle income earners – therefore our first task will be to use tax credits and bands to keep low income earners out of the standard rate band and average earners out of the higher band.
- PRSI, as currently devised, is not a fair tax as it is not levied on incomes above €48,800. Consequently, it is most lightly borne by those on the highest incomes. To eliminate this inequity, we will abolish the PRSI ceiling for full rate payers and reduce the rate at which this tax is levied from 4% to 2% over the lifetime of the Government. We will also reduce the rate of PRSI paid by the self employed to 2% from 3%. These moves will eliminate the remaining inequality in the income tax system and enhance its progressive nature. The Social Insurance Fund will be reimbursed by the Exchequer for the cost of this reform.
- Once these commitments are met, any additional resources will be targeted at further enhancing the rewards of work. Specifically, we are committed to reducing the standard rate of income tax to 18% and the higher rate of income tax to 40% over the lifetime of the Government if economic resources allow.
- We will introduce measures to further weight VRT and motor tax in favour of cars with lower emissions.
- Appropriate fiscal instruments, including a carbon levy, will be phased in on a revenue-neutral basis over the lifetime of this Government.

Commission on Taxation

In order to review the efficiency and appropriateness of the Irish taxation system, the Government will establish a new Commission on Taxation. While the Commission will have a wide remit to consider the structure of the taxation system, it will be specifically charged with considering and making recommendations on the following:

- Examine the balance achieved between taxes collected on income, capital and spending and report on it.
- Review all tax expenditures with a view to recommending the discontinuation of those that are unjustifiable on cost/benefit grounds;
- Consider options for the future financing of local government;
- In the context of maintaining a strong economy, investigate fiscal measures to protect and enhance the environment including the introduction of a carbon tax.

Value Added Tax

The current VAT classifications will be examined with a view to reducing the rate of VAT applied to certain environmental goods and services from 21% to 13.5%.

Supporting Home Ownership While Protecting House Values and Jobs

We are determined to help first-time buyers directly and substantially without disturbing market conditions, driving increases in house prices, and putting the more than 260,000 construction jobs at risk.

We will legislate immediately to abolish stamp duty for all first-time buyers and make this change retrospective for all deeds presented for stamping to the Revenue Commissioners on or after 30th April 2007. We will also implement major changes in mortgage interest relief for first-time buyers and those who bought a house in the past seven years. We will increase in Budget 2008 the ceiling on mortgage interest relief for first-time buyers and those who bought a house in the past seven years, from €8,000 to €10,000 for single people and from €16,000 to €20,000 for couples or widowed persons. As income tax rates are reduced, we will keep the rate of mortgage interest relief at 20% for all home owners.

Keeping Ireland Working

We are committing ourselves as a Government to a coordinated series of steps to support the creation of 250,000 jobs over the next five years.

Guiding Principles

Our policies to achieve this target will fit within a key set of principles:

- Keeping taxes on employment low.
- Investing in research and development.
- Significantly upskilling the Irish workforce at all levels.
- Developing a growing focus on the dynamic SME sector.
- Where possible reducing the regulatory burden faced by business.
- Ensuring that employment standards are met throughout the economy.

Tax and Regulation

This Government will:

- Ensure that our regulatory framework remains flexible, proportionate and up to date.
- Keep Ireland's Corporation Tax at its current level at most and veto any EU proposal which might undermine this.
- Continue to enhance the Business Expansion Scheme and the Seed Capital Scheme.
- Examine measures to limit the ability of local authorities to impose punitive charges on local businesses.
- Implement procedures to ensure direct feedback from business on regulatory burdens and publish annual reports on how these issues have been addressed.

Small & Medium Enterprises

There are over 250,000 small businesses operating across the country, which employ a total of over 800,000 people or 40% of the workforce. This number is growing – businesses up by 50% and employment by 79% in recent years. We are committed to helping SMEs grow, to become more knowledge-based and to be a key driver of future success.

This Government will:

- Encourage financial institutions to provide European Investment Fund guaranteed loan finance to small businesses.
- Continue to enhance the Business Expansion Scheme (BES) and the Seed Capital Scheme (SCS) following on from changes introduced in Budget 2007.
- Make Innovation Vouchers available to small businesses in every sector, to be exchanged for advice, expertise and information from accredited knowledge providers. This will build on the initiative taken this year when Ireland became only the second country in Europe to introduce this scheme to help small businesses.
- Actively encourage more "Competence Centres" which will bring together companies that have similar research problems and team them with highly qualified researchers to produce new technologies, bring their results to market and deliver a competitive advantage to Irish industry.

- Provide Knowledge Acquisition Grants to enable small businesses in the manufacturing and internationally traded service sectors to gain access to research-based knowledge, expertise and facilities in higher education institutes.

Manufacturing

To help the manufacturing sector to compete more effectively, we will:

- Assist smaller manufacturing firms to realise the potential of information technology by appointing a Director for the R&D programme support structures.
- Support upskilling of low-skilled workers in the manufacturing sector by investing more than €2.8 billion over the next six years in upskilling.
- Fully co-operate with the High Level Group on Manufacturing established under *Towards 2016*.
- Ensure better exploitation of domestic opportunities to facilitate companies in applying for public sector contracts.
- Support the change process in companies through advice and assistance.
- Support the establishment of R&D units in manufacturing companies.

Competition and Consumer Protection

We believe that competition and consumer protection are essential parts of maintaining a vibrant economy. We are determined to ensure that competition thrives and that costs to the consumer are kept to a minimum.

We will:

- Ensure that prices of goods are labelled and transparent so that the consumer is well-informed.
- Make consumers more aware of their rights through information campaigns and through the education system.
- Prevent consumers from being charged extra for using a particular method of payment of their choice - either cash, credit or debit card.
- Maintain the ban on Pyramid selling and ensure that penalties are enforced including €500,000 fines and /or imprisonment.
- Introduce on-the-spot fines for breaches of consumer law.
- Ensure that Consumer Codes of Conducts are published by businesses.
- Ensure that -- via low-cost calls or web-sites -- the National Consumers' Agency is accessible to all people who have queries or complaints.
- Make sure that enforcement will be a core focus of the Agency.
- Ensure product safety by operating the EU Rapex scheme.
- Make sure that the needs of the consumer and national competitiveness are fully accounted for in the pricing decisions of regulators.
- Regulate property management companies to ensure that the interests of consumers are protected.

Managing Economic Migration

We are determined to manage economic migration in a way that protects the rights of all workers, maintains unemployment at the lowest possible level and ensures successful integration.

We will:

- Continue to issue green cards in respect of occupations where there are skills shortages, including those, for example, in the information technology, biopharma, engineering and health sectors.
- Only grant work permits where it can be demonstrated, following a rigorous labour market test, that suitable employees are not available within the EEA.
- Allow workers to apply for, and reapply for, their own permit and to transfer to another employment in cases of mistreatment. We will also provide for spouses of employment permit holders who are granted residence in Ireland to be granted an employment permit.
- Ensure that the employment rights of non-EEA students are protected by requiring them to have work permits which will allow them to work for a maximum of 20 hours a week.

- Re-establish an Intra-Company transfer scheme for temporary trans-national top management transfers to enable companies to meet short-term needs.
- Ensure that employment permit applications are not approved for wages below the REA/ERO rate or the National Minimum Wage, and that there is full enforcement of employment law to protect workers from being abused.
- Increase the number of Labour Inspectors to 90.
- Ensure that workers are made aware of their rights through initiatives such as printing the minimum wage on the work permit and providing information in a range of languages.
- Protect employees against employers deducting recruitment expenses from pay and retaining workers personal documents.

Skills for the Future

This Government will guarantee that our workforce becomes more skilled at all levels, to ensure that we make the transition to a competitive, innovation-driven, knowledge-based economy. To achieve this objective we will invest over €7.7 billion over the next 6 years in training and skills development and will:

- Expand the role of FÁS and Enterprise Ireland to increase the "employer commitment" to training, particularly in the SME sector.
- Invest in SME owner/manager Development Programmes.
- Expand the Competency Development Programmes, allowing more workers across all sectors and company sizes the opportunity to upskill.
- Fund Regional Skills Advisory Groups which consist of both firms and education/training providers so that the needs of each region are met.
- Utilise the National Training Fund to assist companies in improving their employees' skill sets.
- Ensure that FÁS expands the Excellence Through People programmes (ETP) to reach 500,000 workers by 2020.
- Expand the Training Networks Programme which will increase the number of training grants given to companies and the Skillsnet Training programme which allows companies to access training.
- Make it easier to access FÁS apprenticeship programmes by increasing the number of places across the country. We will add to the number of occupations to ensure the continued skills relevance and we will do this in consultation with the Social Partners.

We are also committed to updating the present apprenticeship programmes to keep them responsive, competitive and productive.

Keeping Ireland Ahead at the Cutting Edge

The Government will continue to invest to enable Ireland to compete seriously as a "Knowledge Economy". Over the next five years we will:

- Double investment in R&D.
- Fully implement the *Strategy on Science Technology and Innovation*.
- Ensure a doubling of PhDs in Science, Engineering and Technology.
- Simplify grants and supports to businesses to conduct R&D.
- Double the spending on BERD (Business Expenditure on R&D) by 2013.
- Enhance the R&D Tax Credit scheme.
- Ensure that there is enhanced industry/academia collaboration to benefit business and secure growth.
- Establish cluster R&D groups to help further bring together both industry and academia.
- Endeavour to reach the EU Lisbon goals on R&D and Innovation.

Social Partnership

We are determined to maintain the success of Social Partnership in the years ahead by:

- Working with the social partners to ensure the full implementation of the *Towards 2016* Agreement.
- Committing in accordance with the terms of *Towards 2016*, to integrating environmental considerations into policy formulation and to providing for better environmental enforcement. The Government will, therefore, increase the resources available to Comhar, in particular with a view to enhancing its capacity to undertake analysis of policy issues and policy performance. To link its work to the broader analytical and deliberative mechanisms of Social Partnership, Comhar will be established as a body within the National Economic and Social Development Office. Its functions will include monitoring and advising on the effectiveness of policy in achieving the goals of the Climate Change Strategy. Arrangements for representation of environmental issues in Social Partnership will be considered in the course of the review of *Towards 2016* which will take place in 2008.
- Ensuring that pay improvements for public sector workers continue to be linked to delivery and verification of agreed improvements in public services.

Ensuring Value for Money

All expenditure under the NDP 2007-2013 will be subject, as appropriate, to a robust Value for Money framework. Key elements of this framework include:

- All capital projects over €30 million will require a full cost benefit analysis in line with the Department of Finance guidelines of February 2005.
- New procurement arrangements will deliver greater cost certainty for public capital projects.
- NDP Programme Evaluations and Value for Money and Policy Reviews will be published and submitted to the relevant Select Committees of the Oireachtas.
- All Ministers will submit an Annual Output Statement with their Annual Estimates to the relevant Oireachtas Committee. This will detail target outputs for the Estimates and the following years' Statement will set out achievements against targets. This process will encompass Exchequer funded NDP spending.

Public Sector Management

This Government will:

- Support the further opening up of management roles to the best qualified candidates.
- Roll out the new Performance Management and Development System (PMDS). This is an essential tool for managing performance and career development for all staff. A consistent evaluation system will help to identify outstanding performance and highlight underperformance.
- Implement improvements in human resource management which will ensure that all public servants are helped to develop to the best of their ability.
- Support succession and career planning to ensure a talent pipeline for the future leadership of the public sector.

Decentralisation

This Government will:

- Continue to move ahead with decentralisation taking account of the *National Spatial Strategy*.
- Ensure that no public servant is obliged to accept decentralisation against their wishes and that promotion opportunities remain available.

Housing

A range of actions is required to ensure that the housing provided is capable of meeting the diverse needs of our population.

Overall Objectives

Our overall housing objectives for the next five years are to:

- Maintain a high level of housing construction, based on sound planning and a diversity of provision.
- Expand delivery of social and affordable housing options to meet the needs of 90,000 households. This expansion will assist in ensuring continued high housing output to take up any slack arising from the expected slight slowdown in overall housing completions.
- Plan strategically for the needs of a changed population to reflect a more dynamic population which moves more often, includes many new migrants and supports the elderly in their own home.
- Achieve a significant fall in homelessness.
- Bring a new focus on quality in the provision of housing.
- Bring forward legislation on foot of the recommendations of the All-Party Committee on the Constitution on Property Rights.

Supporting Home Ownership While Protecting House Values and Jobs

We will implement a series of measures to help young people and families both to buy their first home and to meet their mortgage repayments.

Specifically we will:

- Legislate immediately to abolish stamp duty for all first-time buyers and make this change retrospective for all deeds presented for stamping to the Revenue Commissioners on or after 30th April 2007.
- Increase in Budget 2008 the ceiling on mortgage interest relief for first-time buyers and for first time buyers who bought a house in the past seven years, from €8,000 to €10,000 for single people and from €16,000 to €20,000 for couples or widowed persons.
- As income taxes are reduced, keep the rate of mortgage interest relief at 20% for all home owners. From 1 Jan 2008, mortgage interest relief will be worth up to €167 per month for a single person and €333 per month for a couple or widowed person. A couple or widowed person with a joint mortgage of up to €400,000 over 33 years at an interest rate of 5% or a single person with a mortgage of up to €200,000 will be able to claim interest relief on the full amount of interest on their loan. The maximum relief available to a single person will be €2,000, while for a couple or a widowed person it will be €4,000.

Providing Affordable Housing

We will take two major initiatives to increase the provision of affordable houses to 5,000 houses per annum above existing commitments. We will:

- Extend the remit of the Affordable Homes Partnership nationwide to cover areas where affordability is a problem to accelerate the provision of affordable housing.

- Introduce new incentives for the provision of Affordable Housing.
- Put in place an appropriate tax incentive scheme to operate in these areas in association with the Affordable Homes Partnership.

Social Housing

In Government we will:

- Ensure that all local authority housing is subject to the highest standards of design and that good community facilities are provided, especially for younger people.
- Bring a renewed focus on the regeneration of problem estates. Ballymun has shown how it can be done and we will provide the resources to tackle substandard estates in other areas of the country.
- Resource the new Sustainable Communities Fund to support communities preparing for regeneration projects and in assisting them to tackle anti-social behaviour.
- Expand the paths to home ownership to assist the maximum number of people in gaining a stake in their own home.

Management Companies

In order to address the many real problems that have emerged with the operation of management companies, the Government will:

- Introduce legislation to govern the management of apartment complexes and other similar developments. This will set out the rights and duties of management companies and agents as well as tenants. The objective will be to ensure transparency and accountability for all concerned and the protection of home-owners' investment in their property.
- Clearly set out the duties of local authorities in relation to the provision of services for all residential developments.

Travellers

The Government will continue to invest significant funds for the provision of good quality authorised sites and accommodation that meets the needs of travellers and the community at large.

Homelessness

Our focus, in line with the Homelessness Preventative Strategy, will be to assist with the long term and sustainable housing of vulnerable people who are in danger of becoming homeless.

With necessary care support we can move people from emergency accommodation to independent living.

Land Use

Government will ensure that sufficient active land management will facilitate the delivery of housing to meet the needs of different income and demographic groups.

Education & Community Facilities

We are determined to ensure that provision is made for proper education and community facilities where new communities are created. In government we will:

- Ensure that no rezoning of land for residential development can take place without a prior commitment of an appropriate proportion of land for schools, childcare, health centres and community centres.

AN AGREED PROGRAMME FOR GOVERNMENT

BETWEEN

FIANNA FÁIL
AND
THE PROGRESSIVE DEMOCRATS

June 2002

Foreword

The mandate of the sovereign people is a great honour and a great opportunity. It brings with it great responsibility for public service. In the General Election for the 29th Dáil the people have renewed and strengthened the mandate of Fianna Fáil and the Progressive Democrats. The policy platforms of the two parties have been endorsed as a blueprint for our future.

In presenting this our Programme for Government, Fianna Fáil and the Progressive Democrats pledge to keep faith with the people and to honour the mandate given by them. Unprecedented opportunity has been given, uniquely to us in this generation. It is the opportunity to build a fair society of equal opportunity and of sustained prosperity on an island at peace with itself. This is our ambition for our country, this is our mandate from the people and this is our pledge.

This Programme for Government is both clear in intent and specific in detail. It is the agreed agenda for this partnership Government over five full years. It is based on the manifestos of Fianna Fáil and the Progressive Democrats. In Government it is open to either party to seek to persuade colleagues to pursue any individual policy included in those manifestos.

The Irish people can be justly proud of the achievements of peace and prosperity of the past five years. But now for the future much more remains to do. We aim to be an inclusive society but there are those who still remain left out. We aim to create sustained prosperity but the standard of our public services and the quality of our infrastructure lags behind our phenomenal growth. We aim to ensure that Ireland plays a full role in an enlarged European Union.

We aim to achieve a lasting peace in Northern Ireland but there are still those in both communities who remain to be assured of their place in an inclusive settlement as well as those who have yet to fully fulfil their commitment to that settlement. This is a moment in our history of unprecedented opportunity and unprecedented responsibility.

By the will of the people that responsibility now falls to Fianna Fáil and the Progressive Democrats in Government. It is a responsibility we will work with all our ability and all our energy to discharge with integrity. When our duty is done and our mandate is complete, we pledge that five years from now we will have a country transformed from the country we found ten years before. That is our mandate and that is our pledge.

Bertie Ahern T.D.
Leader of Fianna Fáil

Mary Harney T.D.
Leader of the Progressive Democrats

Section 2

Sustaining a Strong Economy

BUDGETARY & ECONOMIC POLICY

Fianna Fail and the Progressive Democrats are committed to sustaining economic growth and maintaining full employment in the Irish economy. We see low inflation, responsible fiscal policies and effective investment policies as central to this.

- We will keep the public finances in a healthy condition and we will keep down personal and business taxes in order to strengthen and maintain the competitive position of the Irish economy.
- Within these constraints we will concentrate the resources available to us on improving the quality of public services and delivering further real improvements to pensioners and people on low incomes.

Public Expenditure

- The EU Stability and Growth Pact provides the overriding framework for our budgetary policy.
- Under the pact Ireland has given a sovereign commitment to keep the finances of general government close to balance or in surplus and to take corrective action when there is an actual or expected divergence from this objective. Fianna Fail and the Progressive Democrats will respect this commitment.

Taxation

- Fianna Fail and the Progressive Democrats have delivered dramatic reductions in taxation over the last five years.
- This policy has helped to generate unprecedented growth in the Irish economy, a spectacular increase in the number of people at work and the effective elimination of long-term unemployment.
- The parties remain committed to the achievement of the taxation objectives set out in Action Programme for the Millennium. Over the next five years our priorities with regard to personal taxation will be:
  - to achieve a position where all those on the national minimum wage are removed from the tax net, and
  - to ensure that 80% of all earners pay tax only at the standard rate.
  - to use the potential of the tax credit system to effectively target changes and to pursue further improvements in the income tax regime if economic resources permit.
- We will complete the reduction of the standard rate of corporation tax to 12.5% in 2003.
- We will increase Capital Gains Tax exemption limits.
- We will examine the tax treatment of share options.
- We will keep down taxes on work in order to ensure the competitiveness of the Irish economy and to maintain full employment.
- We will vigorously pursue actions to ensure that that everyone is tax compliant.

Delivering Major Capital Programmes

- Fianna Fail and the Progressive Democrats will address Ireland's infrastructural deficit in a coherent and determined way over the next five years.
- We believe that new methods of financing major capital programmes are required. These must take account of the need to maximise efficiency, delivery, value for money and appropriate risk transfer across complex multi-annual programmes.
- We will establish under the auspices of the NTMA a National Development Finance Agency (NDFA) to finance major public projects and to evaluate financing options for PPP projects. This vehicle may finance both commercial and non-commercial type projects.
- The NDFA will enable the government to apply commercial standards in evaluating financial risks, costs and options associated with projects thereby ensuring that the best financing package is availed of in each instance. The NDFA may compete with, but will not substitute for, private financing of PPP projects but will be an additional mechanism to be used in the context of achieving value for money and risk transfer in PPP projects.
- Where significant once-off revenues accrue to the state through, for example, the sale of assets or the restructuring of the Central Bank, we will use these revenues to create a National Transformation Fund. This fund, which will be managed by the NTMA, will be used to finance multi-annual infrastructural development programmes.

EMPLOYMENT AND ENTERPRISE

The huge increase in employment and fall in unemployment which has been achieved in recent years cannot be taken for granted. Work is still required to protect employment levels and to expand both the distribution and quality of opportunity throughout the country.

- We will encourage and support multinational and indigenous firms to develop higher productivity and knowledge-based activities which are likely to be retained during periods of global rationalisation.
- We will encourage a better spread of jobs throughout the country.
- We will carry out a fundamental review of training and employment supports to ensure that they focus on the needs of the most marginalized and disadvantaged groups to help them to progress to the open labour market.
- We support the positive role of the Community Employment Scheme to meet the needs of both the long-term unemployed and communities.
- We will seek to ensure that new social economy projects are effectively targeted at areas which have traditionally had a high dependence on Community Employment Scheme.
- We will introduce new supports for those experiencing or likely to experience severe employability barriers. This will involve a training fund of up to €2,500 per person.
- We will extend the Employment Action Plan preventative strategy to all persons on the Live Register for longer than 6 months.
- FÁS will engage with redundant workers and people facing the prospect of long-term unemployment to ensure that the period out of work for a substantial number of people is kept to a minimum.
- We will give a fresh impetus to the important role of small business in Ireland and ensure that the interests of small business are taken into account in formulating and implementing policies that impact on the enterprise sector.
- We will seek to resolve potential issues, difficulties and conflicts in the spirit of social partnership.

- Through the Expert Group on Future Skills we will identify the priority skills needs of the economy and work to adjust education and training provision accordingly.
- We will develop the value of the social economy through the further creation of social economic enterprises.
- We will vigorously pursue a programme of regulatory reform with particular emphasis on removing unwarranted constraints on competition in all sectors of the economy and placing the consumer at the top of the policy agenda.

Improving the conditions of employment

- The Safety, Health and Welfare at Work Act of 1989 will be updated.
- The recommendations of the review of the Statutory Redundancy Scheme will be examined with a view to implementation.
- A fundamental review will be undertaken of the functions of the Employment Rights Bodies.
- We will strengthen the parental leave scheme in line with the recommendations of the social partners.
- We will review ways in which older people can be encouraged, where they so wish, to extend their working lives without financial penalty and in conditions which suit their personal lifestyle wishes.
- We will request the National Centre for Partnership and Performance to establish a forum on the workplace of the future to help establish a comprehensive agenda on this issue.

Research, Development and Innovation

We believe that ongoing action is required to ensure that Ireland continues to be a world leader in knowledge-based industries.

- We will ensure the putting in place of open-access broadband on a national basis.
- We will create real competition for local phone services by ensuring the unbundling of the local loop.
- We will ensure that that the full range of options, including wireless technologies, are utilised to expand broadband access in rural areas.
- We will drive forward the Schools IT programme based on the principle of school-based planning and devolved funding. We will ensure that progressive training courses are available to teachers.
- We will work to ensure that Ireland develops a world-class research capacity. We also recognise the importance of encouraging a dynamic research culture and will continue to support research on the basis of recognising the distinct, but also inter-connected roles of different programmes, from individual grants up to more targeted support for areas of national strategic interest.
- We will build the capability of firms to carry out and manage R&D in Ireland.
- We will ensure that the Programme for Research in Third-Level Institutions administered by the Higher Education Authority on behalf of the Government is maintained with funding rounds being placed on a multi-annual basis.
- We will place Science Foundation Ireland on a statutory basis as a dynamic vehicle to provide funding for areas of strategic national importance including ICTs and biotechnology.
- We will bring together the Irish Research Council for Science, Engineering & Technology and the Irish Council for Humanities and Social Sciences Research as parts of a new council.
- We will ensure that all major research funding is based on external assessments.
- In order to ensure that structures and mechanisms for overseeing national policy on research are improved, we will implement change on an agreed basis.

- We will continue to successfully operate Comhar – National Sustainable Development Partnership as a forum of excellence in terms of discussion and debate on key environmental issues. We will also develop the approach to direct funding for environmental NGOs.

Nuclear Safety

- We regard the continued existence of Sellafield as an unacceptable threat to Ireland and that it should be closed.
- We will use every diplomatic and legal route available to us to work towards the achievement of this objective.
- We will continue to be a leading opponent in all international bodies of attempts to foist nuclear energy on developing countries
- We will keep up-to-date nuclear emergency plans, including sufficient stocks of medical supplies, so as to minimise harm to public health from the effects of any possible exposure to radiation in Ireland

HOUSING

We will implement a multi-stranded approach to addressing housing needs right across the spectrum.

- We will extend the Serviced Land Initiative, make more efficient use of housing land and make further Special Development Zone designations as required.
- We will commit to a further expansion of the various social housing programmes.
- We will assist the voluntary housing sector so that the target of 4,000 accommodation units per annum envisaged under the National Development Plan can be reached.
- We will, in line with the National Poverty Strategy, set new housing targets in light of the completion of this year's detailed survey of housing needs.
- We will implement a full package of reforms in rented accommodation sector, arising from the report of the Commission on the Private Rented Sector.
- We will consider the introduction of legislation to regulate the establishment and operation of apartment complex management companies.
- We will ensure that the comprehensive Homelessness Strategies now in place are implemented.
- We will ensure the implementation of local authority Traveller Accommodation Plans.
- We will take further steps to streamline the approval procedures for local authority house building projects.
- Through the local authority system, Housing Advice Services will be provided information on all the housing options and supports will be available to the public.
- We will finalise the compilation of a National Public Property Register to identify properties in state control suitable for housing projects.
- We will review procedures for dealing with insubstantial planning appeals.
- We will review the operation of the Planning and Development Act to ensure that it is meeting the objectives for which it was enacted with particular reference to social and affordable housing.
- In order to minimise the disruption to supply we will ensure that where planning applications become necessary because of the 2 year withering requirement, set maximum application and appeals timings will apply.
- We will implement a new approach to urban renewal based on the combined use of Compulsory Purchase Orders and Public Private Partnerships.

AGRICULTURE, FOOD and RURAL DEVELOPMENT

'I'm sorry for the bubble... sorrier for when it burst'

Sunday Independent, 30 Nov 2014

http://www.independent.ie/irish-news/politics/im-sorry-for-the-bubble-sorrier-for-when-it-burst-30785002.html

Ronald Quinlan calls Bertie Ahern to account on his handling of the economy

Any discussion of the Irish economy usually involves property. Let's begin our conversation there. In the years of the Celtic Tiger people counted the cranes on the Dublin skyline to assess the strength of our economic boom. What did you think?

"Well there was a thriving economy and employment was thriving, and everything that was being built was being sold, and after 2004 we had all the immigrants coming into the country and they were taking up the accommodation that was there. We were saying 'well there are people who are there prepared to buy the land, build on it, and there are people prepared to take up what's built, then what's the problem?'

"Of course, what I didn't know at the time and what I don't think anyone in government knew at the time was the extent to which all that was being built using borrowed money. It has to be said our overall fiscal policy was considered in Ireland and more importantly in the EU, and particularly the IMF and the OECD to be exemplary.

"My feeling was that somewhere along the line we had to get to a situation where we would have saturated it [construction], and that the natural laws of supply and demand would kick in and prices would start to drop. So prices did start to drop in 2006 and I was happy with that. That of course was going to push up unemployment but we believed we were on the road to a soft landing and would come back from building 80,000 houses to a more appropriate level."

Did you ever wake up any morning during the boom, pinch yourself and say 'this is too good to be true, or this is a bloody miracle'?

"Well it was a miracle, a miracle on all fronts for many years. We did think things would slow up. You have to remember Ireland had the smallest per capita housing stock in Europe. Even in 2005 and 2006, the population was growing and incomes were expanding. There were strong fundamental factors; the housing demand, access to funding for housing from the EMU and low interest rates."

Did you ever draw the link between those low interest rates courtesy of the ECB and people taking out mortgages to buy their homes? Did you ever call your finance minister Brian Cowen in and say 'Brian, people are going to be in trouble if interest rates go up'?

"Interest rates never really went up. They even came down during the crisis."

Were you ever worried that interest rates might go up?

"We did worry that interest rates would go up, and that some people might be caught with a mortgage issue. Of course, we didn't think the entire thing would be hit. No analysis was ever presented to us that that might happen.

"Of course, I know now there were mistakes. Brian Cowen, when he was in finance, was very anxious to get rid of all of the tax concessions we gave. It was a mistake by us to keep so many of the tax breaks going. We should have stopped them earlier.

"The reason we did it was, and I accept that it was wrong, was that there was a huge amount of Irish wealth - it might have transpired later it was Irish borrowed wealth - being invested outside the country. So it seemed more sensible to keep all these guys who were buying stuff in London and Paris in Ireland. I accept that was wrong and that we should have said, 'so be it'."

The tax concessions you referred to left us with ghost estates when the crash came.

"It was only with the census of 2006 that we found out there was a whole lot of vacant houses in the country. Then we realised we had to stop all these tax incentives and we had a review carried out into that. We cut all the tax breaks that there were around the country.

"One of the reasons they were in place was a lot of people were saying 'you gave all these incentives for Dublin, but if you check your banking figures you'll find there's hundreds of millions sitting in bank accounts around the country which could generate economic activity if the same incentives are given'."

Many people believe Fianna Fail was too close to developers and that they were able to bend your ear in the Galway Tent.

"Well, the Galway Tent, in so far as it was, was a bit of sporting fun. We had CEOs of technology companies and pharmaceutical companies, CEOs of all kinds of companies and we had builders and property developers big and small who were generating a huge amount of jobs for the country there. The only sector from the Galway Tent who went totally bust and lost their family homes were the builders who were meant to be so close to us. If you go through the top 10 of the developers who were supposed to be so close to Fianna Fail, I think around eight of them are now bust, and I think seven of them lost their family homes."

I'd like to ask you about the banks now. You were Taoiseach for three terms. Shouldn't you have known what was going on in the banks and known about the issues in relation to regulation within the Financial Regulator and the Central Bank? Shouldn't you have been aware the banks were lending too much money to property developers and indeed to ordinary people to buy houses?

"I wasn't responsible for the Central Bank or the Financial Regulator. They're independent under the 1941 Act. I wasn't privy to what was going on in the boardrooms of the banks. There were plenty of very important people there. No bank director ever came to me to say there were any problems.

"If I had been able to foresee a 1929-type crash, that the banks were committing Hari-Kari, I would have built up a bigger surplus and put aside more money for the rainy day. Should I have? Yes. But I didn't see or think for a minute a 1929 crash was coming or that the banks were so exposed.

"It was quite reasonable of me to think that if there was a slowdown, we could handle it, but it was not known to me the vulnerabilities of the banks and the crisis that was going to emerge in them. It wasn't in the 2008 report of the Central Bank either."

So you were shocked at what emerged in relation to the banks when the crash came?

"There's no shock that there was an over-concentration on property. But it took us a long time to find out that a lot of the people who had gotten loans had actually gotten several houses. I believed in supply and demand. If people wanted houses, you weren't going to [tell them they couldn't have them]. It was years later that I found out some people I knew myself had gotten nine or 10 mortgages. It absolutely shocked me. That was not being put to us by the Central Bank. In fact, even at the very end, in 2007 and 2008, the Central Bank and the Department of Finance were saying this was a liquidity problem, they said our banks did not involve themselves in sub-prime lending."

Some would say your management of the economy had more to do with your determination to secure power and hold on to it than your wish to serve the greater good. What drove you in terms of your management of the economy?

"When I was the minister for finance in the 1990s, the debt to GDP ratio was 120pc. For the Maastricht criteria, we had to get it down to 60pc. I was always conscious if we had a low debt, if there was a rainy day we would have more money. When the surpluses were very big, McCreevy and myself started putting money into the pension reserve fund so that after 2025 we would have money for pensions and welfare after that period.

"With a small debt and with the pension money, there didn't seem to be any need to be saving anymore at the time. So even if there was a downturn, we looked to be in a strong position. I was looking where we should be putting additional resources. Our idea was to lower the tax rates, put the money into people's pockets and you would get back your VAT as the money went around and generated employment. It was good for the economy and good for growth. That was our theory and it worked for most of the years that we were there.

"The people who needed the money were the pensioners. Think back to 1997. People in their 70s who had worked from the 1940s to the 1980s, all through the hard times. We set a target that every year we'd bring the pension up and get it to €200. That helped the pensioners.

"I was responsible for getting the medical card for the over 70s. I believed that at that age if you only had your State pension, a medical card would be good for you. In my experience people in their 70s don't abuse the medical card and I didn't accept the argument that Michael Smurfit or Tony O'Reilly would stop their Mercs to use their medical cards at the chemist. That was a nonsense.

"For young families, we did two things. We brought in a payment to assist young families with child-minding because it was costing them a fortune and then for people in the community who were in training, we brought in community [child-minding] places to assist them.

"We put enormous money into health. We employed an extra 30,000 in health. Now I know the cynics try to say it was 30,000 people doing nothing, but let's be frank; they were doctors, nurses, paramedics and ancillary staff in the hospitals. It wasn't made up of administrators and it brought down the waiting lists. We put huge money into capital expenditure in hospitals and education and we employed additional teachers to bring down the pupil- teacher ratios.

"So this is where the money was going. Now people say 'you had the money and you blew it', but the same people were roaring at me, day in and day out in the Dail and in the media, to put more money into education and everything else. I was being told we were awash with money and to spend it. We didn't blow the money."

Your critics would say you bought the electorate. What do you say?

"We had money, and far from it being a case of anyone saying: 'Thanks Bertie, you've given us enough money'. They were saying: 'Bertie, you have a lot of money. Give us more'.

"In the Dail, it was endless. They had stopped asking me questions about the economy, stopped asking me about taxation, stopped asking me about Exchequer borrowing and how little was being paid to service the debt, because all those things were near to perfect. What they did was they took individual health cases around the country about 'Mary' and 'Joe', and said 'now look at their case'. The daily pressure was for more and more money.

"And when we came to the 2007 election, all the political parties, including Fianna Fail, were saying the economy is going to grow by 4.5pc for the next number of years, and we want to spend more. We made a mistake based on those figures and for that we're responsible, but I'm afraid the rest of the world made the same mistake.

"Hundreds of thousands of people have been very badly affected by the combination of the banking crisis, the construction crisis and the world recession. There's been €28bn taken out of the system so obviously people have suffered horrendously. I regret anything we did which contributed to that. I'm sorry our policies helped to fuel the bubble. I'm even sorrier for what happened when the bubble burst."

Some economists have said when the dot com bubble burst in the year 2000, the Irish fuelled their own boom by selling houses to each other.

"I think we have to remember all the good industries we brought in to the country. Even Klaus Regling and Max Watson in their report on the causes behind our banking crisis acknowledged that all the policies we instituted in the 1980s and the 1990s, many of which I oversaw, enabled a huge increase in inward investment and brought in good companies. Unlike many other countries around Europe, we didn't see huge factories closing here when the crunch came. The big pharmaceutical and medical companies and all the ICT firms didn't close here. We sure had a banking crisis and a property crash, but a lot of the companies that were here, stayed here.

"The Celtic Tiger happened because of the policies we introduced. In the mid 1980s, we had a public debt GDP ratio of 110pc. We were paying out almost 10pc of GDP per year in interest payments and tax rates had been raised to massive levels.

"We had only a million people working at the end of the 1980s. By 2007 we had almost 2.1 million people working. We had really strong improvements in productivity and growth averaging 6.3pc. I felt very pleased when I was in government in my last full year, the debt to GDP ratio was 24pc and the interest we paid as a percentage of GDP was 1pc. The amount of interest as a percentage of all the taxes we were paying was only 2.8pc and we had €22bn in the pension reserve fund. Even back when I was leader of the opposition the debt to GDP ratio was 79pc, the interest to GDP was over 5pc and the interest as a percentage of all the taxes was almost 14pc.

"So whatever the criticisms of some of these people who say 'well, you should have stopped'. Stopped what? We didn't stop exporting. We didn't stop Google. Why do we have Google and Cisco and all of these companies here? Even if there hadn't been a global economic crisis, we still would have a problem with property; I'm not denying that. But I think the exceptional economic growth allowed us to achieve what was the envy of politicians around the world. There were very few criticising it. We were on a catch-up period. The mistake we made? We didn't identify the point when the catch-up period ended."

Fianna Fail got a wake- up call in the local and European elections in 2004 from Sinn Fein. Didn't you dispatch Charlie McCreevy to Europe after that because his plans for the economy weren't going to sit with your ambition to win the next general election?

"Charlie McCreevy came out to me in St Luke's the previous year and he asked me about the European Commissioner's job coming up the next year [2004]. He wanted to put in his spake and he asked me would I give him first offer on the job. He said he was keen to go for it. I said I would [give him first refusal] that night, and I honoured it.

"When I offered him the job, he said 'will I, won't I' as any guy will do. But Charlie got the job because he had been a very good minister for finance and had been there a very long time and had worked hard. He asked for the job and I gave him the job."

When did the problems with our economy begin, do you think?

"It's hard to put a date on it but the competitiveness had certainly been lost for three or four years by 2007, and the wage rates were too high by that stage. The construction sector had become too big. Investment in residential property went to 13pc of our national output in 2006. That's about double what it should have been. The share of employment in construction was too high too. But the OECD didn't pick it up at the time, and from reading their reports, which I used to do, I didn't pick it up. In hindsight, the OECD said we had been the most 'overheated' of all the advanced economies. I accept that, but it would have been helpful if their [earlier] reports had been saying it."

What do you have to say on what is now considered to be the disastrous shift from stable sources of tax revenue to cyclical taxes such as stamp duty, which took place under the governments you led?

"There was a steady growth in the cyclical taxes over two decades which created a false sense of security. It did leave the budget seriously exposed to a downturn which we never thought was going to happen.

"We had offered income tax cuts to achieve wage restraint. That seemed to be the right thing to do. Nobody ever told me it was the wrong thing to do. I was commended for it, particularly when things were booming. We tried to keep wages low and keep taxes low so when Joe or Mary got their wages, they had more money and they spent more money, creating more employment and keeping the economy going. Everyone in Europe thought that was a great idea. But it narrowed the tax base and made it more difficult when the economy suffered.

"Had the tax structure been less skewed towards stamp duty and other taxes, the fall in revenue in 2008 would have been much lower. But few enough saw that. All the parties put forward manifestos in 2007 which were based on growth forecasts of 4.5pc. All the parties were talking about reducing stamp duty. If I were to look back and if I were to do it all over again, I'd say a big mistake by the political system and by me was that we didn't introduce a property tax in 1993."

When the UCD economist Morgan Kelly warned of the house price bubble in 2007, you wondered why people on the sidelines 'cribbing and moaning' didn't commit suicide.

"I wasn't talking about Morgan Kelly. There just seemed to be an appetite to talk the country down and my attitude was we shouldn't do that. I said off the script that people like that should commit suicide. I apologised. I should not have used that term. In so far as I was giving a defence that it was a good thing to keep building, I was wrong."

Would you not have sought out Morgan Kelly to discuss his analysis?

"I wish I had. I wish I had run into him at a match somewhere. Unfortunately, I'd never heard of the man. Everybody says now 'did you not listen to Morgan Kelly?' I think I was gone before I heard of the man. I never actually heard of him. I attended all those business dinners and most of the guys I used to meet used to ask me to put more money into their pet projects, usually a university. They wanted more buildings and more professorial positions. That's usually what I heard from the universities. They used to come into me in delegations looking for more money. But I do acknowledge Morgan Kelly got it more right than others."

The cynics would say you stepped down as Taoiseach in May 2008, knowing full well the economy was about to hit the rocks.

"People have said that to me many times. It had nothing to do with it. I had been in politics at the Cabinet table for 21 years at that stage, and whether people believe it or not, I would have relished being there for those few difficult years. They would have been the last few years of my political life anyway, as I had said I wasn't going to run [for office] again. I would have relished the challenge of being at the Cabinet during that period.

One of the hardest things for me in my life was not being there and having to watch this stuff unfold in Ireland and around Europe and the world on television.

It wasn't just in Ireland. It was everywhere."

What was your reaction to the then Government's decision to guarantee the liabilities of the Irish banks in the early hours of September 30, 2008?

"I assume my colleagues did it because we were heading fast to bank default and there was going to be a run on the banks."

What did you make of the bailout negotiated by the late finance minister Brian Lenihan with the Troika in 2010?

"The fact that the plan worked out by my colleagues with the Troika has been implemented really, in fairness, by this Government to the letter is why we're coming out of this thing [recession] fairly fast. I do credit the present Government that for 2015 we're looking at a budget deficit of probably 2.5pc. That is a considerable achievement."

You were always considered to be a skilled negotiator and a consensus man. Do you think those skills were needed when the crunch came in 2008 and 2010 for Brian Cowen and Brian Lenihan?

"Well, I had the experience. I had been through the currency crisis. It's a distant memory to people but it was horrendous. The pressure I was under from autumn of 1992 to the summer of 1993 with the currency crisis was probably the toughest, watching the financial markets open and close, watching people trying to destabilise our currency. I'd breathe a sigh of relief when it came to Friday and the markets would close in every part of the world. One of the biggest hits we had came from Tokyo and it was IR£75m. It was a rough period.

"In fairness, some of the economists at the time wrote that the handling of that, which I don't take all the credit for, was exceptional. We had our little team of Maurice Doyle and Maurice O'Connell, who was later a governor of the Bank of Ireland, Sean Cromien, who was the secretary general of the Department of Finance and Michael Somers, who was head of the NTMA; we were meeting daily. And I think that's the living proof, that experience I had would have been hugely beneficial because I wouldn't have been fazed. I also had the contacts. I knew Jean-Claude Trichet very well from when he was in the French finance ministry. I knew them all extraordinarily well because I had been there years, not alone because of the Irish presidency of the European Union [in 2004]. So I knew my way around all these things while Brian Cowen was only in the door. So that's the pity about that period.

"And anyone who would know me would know I would thrive in those situations. I think I was involved in half a dozen programmes for national recovery. I negotiated, I think, them all and I implemented one that had been negotiated by the John Bruton government. I'd been through the Northern talks, I'd negotiated the European Constitution with 27 countries and because I'd been in the presidency in the lead-in to the enlargement of the EU, I was very close to all the prime ministers, so I'm afraid with my departure an incredible amount of knowledge also departed.

"That knowledge and those contacts would have been useful to my colleagues, and that's sad for me."

So you believe your relationships with key people in Europe could have made a difference?

"Of course. I mean what's everybody saying now, six, seven years later? Now they're saying it came down to Trichet's letter. Everyone's saying it ended with Trichet's letter. You can't have it both ways. It was either Trichet's letter or it wasn't.

"But would that have changed the hard landing to a soft landing or the situation we didn't know about in Anglo? Of course it wouldn't, because those things were already there, but there are ways of working through things and dealing with the pressure and managing it. There were horrendous pressures on Brian Cowen and Brian Lenihan during that period."

Would you have been able to deal with the 'firearm stuck in your ear' as one commentator described the implied threat to Bran Lenihan in Trichet's letter?

"The reality in life is when you're around a long time, maybe the mistakes you make the first time, when you do them about the sixth time [you don't do it again]. When you're doing it the first time, it's not so easy. But that's what's called, in inverted commas, experience. It doesn't change facts, but it does count for a lot. Every book I ever read said it does."

Your daughter, Cecilia, gave an interview recently in which she said she could understand and deal with the criticisms of you when you were active in politics, but that it is now harder to take.

"In 2008 after I had gone, I had no difficulty with the public, but when you get endless arguments and articles and commentators jumping at you on everything, it does turn public opinion, there's no doubt about that. It does make people hostile, but by and large it's just from certain sectors. When you're out of politics, you don't have a platform to deal with criticisms. I tried in the early years in very long interviews for programmes, but what happens is they take a four-hour interview and use 10 clips of a half a minute put against experts, many of whom I don't know. That proved a useless exercise and I gave it up after a year or two."

Sunday Independent

Financial Statement

of the

Minister for Finance

Mr Brian Cowen, T.D

6 December 2006

Table of Contents

STATEMENT OF THE MINISTER FOR FINANCE

MR BRIAN COWEN, T.D.

6 DECEMBER 2006

INTRODUCTION

As I present my third Budget to this House, I am delighted to report that Ireland's economy is strong.

Growth is running at 5 per cent, its ideal, sustainable level.

More than two million people are at work.

We are making unprecedented investment in our infrastructure: investment that will enhance our competitiveness and improve our quality of life for years to come.

Our public services are being expanded, improved and reformed.

More doctors, teachers, nurses and gardaí are employed than ever before.

At the same time, the public finances have never been in better shape.

The success we enjoy now has been brought about by the hard work of our people, responding to the policies of this Government. The purpose of this Budget is to use that success as a platform on which we will continue to build a fairer, stronger Ireland.

ECONOMIC CONTEXT

In 2007, our country will extend its record of outstanding economic progress:

- The economy will grow by 5¼ per cent;
- We estimate that 72,000 new jobs will be created next year, representing a 3.5 per cent increase in the numbers at work;
- Unemployment will remain low at 4.4 per cent, among the lowest in the EU; and
- Inflation, as measured on the harmonised EU basis, will moderate from 2.7 per cent on average in 2006, to 2.6 per cent in 2007.

Of course these projections are subject to some degree of risk from international factors, such as:

- A possible, sharper than expected, downturn in the US economy;
- A slower growth rate than is currently forecast in Europe;
- Further ECB interest rate increases; and
- The ever present unpredictability of oil prices and exchange rates.

There are also domestic risks of losing competitiveness and from unbalanced economic growth. This Budget addresses those risks by taking a long-term, sustainable approach to our economic management.

The Government's primary economic aim has been to create more jobs and facilitate more business being done. The additional revenues generated by such a strong economy enable us to sustain ongoing improvements in our public services year in, year out. The success of our policies is best highlighted by the hundreds of thousands of new jobs created, and the changes to our tax policies which have rewarded work and allowed people take home a greater share of their pay. We have also been able to provide for the less well-off in ways which no Government has ever achieved before. We have built up the productive capacity of the country by investing in capital spending, thereby helping us to compete better in the long term also.

At the same time that we have been doing all this, we have more than halved the National Debt burden. That's responsible government at work. Our strategy has been remarkably successful by any measure. I believe that this is the firm foundation on which we can build in the future.

2006 has been an exceptional year for the public finances. It is true that, while tax revenues are well ahead, some of the buoyancy is due to one-off, windfall gains. Against this backdrop, we must firstly make sure that any increase in spending is used efficiently and effectively. We must continue to insist on value for money in public spending. Secondly, we must be careful not to inject so much spending that we create additional inflationary pressures and in so doing reduce the impact of additional expenditure.

I am not proposing that because we have extra resources we should spend it all now. That would be irresponsible and short-sighted. Responsible government involves finding the balance between meeting immediate priorities and making provision for future uncertainties. Of the additional resources at my disposal this year, I am returning some to the taxpayer, I am committing some to additional support in the social welfare and in the health areas, in care of the elderly and in improving services for the disabled. I am also using some of the additional revenue to run a very substantial budget surplus. In the event of a global slowdown, we will be able to use some of this flexibility generated during the good times to protect jobs and public services at home.

For these reasons, I am providing for the following fiscal targets in 2007:

- A projected general Government surplus of 1.2 per cent;
- An increase in gross current spending of 11.5 per cent;
- An increase in gross capital spending of 13 per cent; and
- A gross debt to GDP ratio of under 25 per cent, one of the lowest in Europe.

Balancing responsibility with ambition has brought us to our present position of economic strength and this Government is determined to maintain that approach. It is the only means of prolonging and extending the best period of sustained economic growth in our country's history.

REWARDING WORK

Income Tax

As I have said, Ireland's economic success is driven by the hard work and the collective efforts of the people. There is no doubt in my mind that our national economic potential has been boosted through a transformation of our tax system generally and our income tax system in particular which has dramatically increased the rewards of work.

During our ten years in office so far:

- We have made our income tax system fundamentally fairer by introducing tax credits, widening tax bands and cutting tax rates;
- We have lifted hundreds of thousands of people out of the tax net;
- We introduced and increased the minimum wage and we have ensured that people on the minimum wage do not pay income tax;
- We have cut the income tax burden on average earners by more than half;
- We have removed the average wage from the higher tax rate;
- We have reached our target of 80 per cent paying an effective tax rate of no more than 20 per cent; and
- We have abolished many property-based and other tax relief schemes and introduced restrictions on the reliefs available to high earners as part of our continuing tax reform measures. We will continue to assess the role that time-limited tax relief schemes can play in supporting public policy objectives.

In short, this Government has achieved a fairer, more progressive and more rewarding income tax system. Thanks to the strength of our economic performance we can now go further.

I wish to announce the following Income Tax changes to the House. Today I am increasing the personal tax credit by €130 to €1,760 each year for single people and by €260 to €3,520 for married couples. I am increasing the Employee Tax Credit by €270 to €1,760 per year. The entry point at which people will start paying income tax is being increased to €17,600 per year, equivalent to over €8.65 per hour. The Employee PRSI entry point is also being increased to that level. These measures will remove around 88,000 from the tax net. Once again in 2007 we will meet our commitment to keep those on the minimum wage completely out of the tax net.

This means that nearly two out of every five earners (or 846,000 persons) will be outside the tax net in 2007 compared to one third (or 677,000 persons) in 2004 and one quarter (or 380,000 persons) in 1997. This is a highly significant development.

The cost of these measures is €501 million in 2007 and €657 million in a full year.

The 20 per cent standard income tax band will be widened by €2,000 per year to €34,000 single and €43,000 married one earner couples. The projected average industrial wage for 2007 is just over €33,000. Again, we have ensured that workers on such earnings will not be liable to pay tax at the higher tax rate.

This measure will cost €268 million in 2007 and €365 million in a full year.

These increases in credits and bands mean that 80 per cent of income earners will continue to pay an effective tax rate of no more than 20 per cent.

I am also increasing the threshold for the payments of the health levy from €440 per week to €480 per week, or just under €25,000 per year. This means that all workers earning €480 or less per week will be exempt from the health levy.

The income tax exemption limits for senior citizens aged 65 and over are being raised from €17,000 and €34,000 to €19,000 and €38,000 per year respectively for single and married persons, removing a further 9,000 from the tax net. This means that our senior citizens will be exempt from income tax if they earn less than €19,000 single or €38,000 married per year.

There are a number of other tax credits affecting certain people because of their particular circumstances which I propose to increase.

Widowed persons currently receive an additional tax credit of €500 per year. I am increasing it by 10 per cent to €550 in 2007.

There is also a special tax credit given to widowed parents in each of the five years following the year of bereavement. I believe that widowed parents deserve greater support during these difficult years and I am increasing the credit by €650 in each of the five years after the year of bereavement. The increased tax credit will range from €1,750 in year five to €3,750 in year one.

There is also a special tax credit for people who care for an incapacitated child. In 2007, I am doubling this tax credit from €1,500 to €3,000 each year.

Regarding the blind person's tax credit, it will go up by €260 single and €520 married to €1,760 single and €3,520 married per year, respectively.

Finally alongside the income tax age exemption limits there is an extra tax credit for those aged 65 and over. This extra tax credit will increase by 10 per cent to €275 single and €550 married per year.

These measures relating to exemptions and special credits will cost over €88 million in a full year.

In relation to tax rates, when we came to office, we made a commitment to the Irish people to reduce the marginal rate of income tax from the then 48 per cent to 42 per cent. We delivered on that. We also said we would reduce the top rate further to 40 per cent if economic circumstances permitted. We believe that the economic circumstances are sufficiently buoyant now to enable me to reduce the top rate of tax from 42 per cent to 41 per cent today.

This rate cut will cost a net €125 million in 2007 and a net €186 million in a full year.

If this Government is returned to office, then on the basis of our current economic strength being maintained, it is our shared intention to complete the commitment to cut the top income tax rate to 40 per cent in next year's Budget.

I propose to increase the Health Levy from 2 per cent to 2½ per cent on income exceeding €1,925 per week or just over €100,000 per year. This extra money will help fund services such as long-term care initiatives for the elderly. We need to act now to secure such funds and I believe it is only right that those best able to afford it make an increased contribution.

This will raise €34 million in a full year.

Taken together, these changes will reward work and increase disposable income. They will help workers, most obviously those on low and middle incomes and will, I believe, be welcomed by all.

The full year cost of all these income tax measures is estimated at just over €1.25 billion.

Helping Taxpayers Claim

Of course, it is not just a matter of providing additional tax reliefs for the ordinary taxpayer. The taxpayer must also be helped by making it as easy as possible to get access to tax reliefs.

We have already made strides in this regard by giving mortgage interest relief and medical insurance relief at source via the banks, building societies and health insurers.

However, there are other areas where getting access to reliefs can be improved, especially in the area of various expenses reliefs.

Accordingly, the Revenue Commissioners will be putting in place measures specifically to help the taxpayer, in addition to the major publicity campaigns already undertaken to make taxpayers more aware of their entitlements.

In 2007, all age-related tax credits will, where possible, be credited automatically to the taxpayer, where a verified date of birth can be established through Revenue and Social Welfare records. Credit institutions will be enabled to operate DIRT-free accounts for those aged 65 and over and for those who are permanently incapacitated, where their income falls below the relevant income tax limits. At the moment, both categories of depositor have to reclaim the DIRT paid in such cases.

In 2007, Revenue will also implement a system to credit tax relief on trade union subscriptions automatically, based on trade union membership lists, and will be engaging with the Unions to make the necessary arrangements in respect of their members.

For 2008, Revenue plan to move, where possible, to automatic repayments in respect of certain hospital and other expenses that qualify for tax relief. Tax relief due on medical insurance paid by employers that has been subject to benefit-in-kind taxation will be automatically included in the employee tax credit. I have asked Revenue to progress work on applying similar procedures in due course to nursing home and other medical expenses that qualify for tax relief.

Revenue will explain the details of these simplification measures later this week. The Government is determined to make it easier for ordinary taxpayers to claim and receive their rightful entitlements.

PROMOTING ENTERPRISE AND INNOVATION

Ireland has become one of the world's most enterprising economies to the benefit of all. More jobs, better opportunities, improving prospects and greater tax resources have been the results so far. I want to see that development continuing so that the people of this country can face with confidence an increasingly competitive global marketplace. I want to see the State encouraging Irish businesses to work smarter, to pursue excellence and to invest in innovation and creativity for the future.

The Budget measures I am announcing today will encourage enterprise, incentivise innovation and promote competitiveness in Irish industry. They will help position our businesses for long-term success.

Supporting Growing Businesses

Over the past ten years we have refocused the Business Expansion and Seed Capital schemes to ensure that they channel funds to help transform and modernise our small business sector and improve our national competitiveness. These schemes are due to expire on 31 December and have been specifically reviewed at my request. Hundreds of small businesses using these schemes were consulted and asked for data and for their views on the schemes. Many of these firms using BES are ordinary small to medium-sized manufacturing companies in various parts of the country. They make a vital contribution to job creation and to maintaining our competitiveness.

On foot of this review, and the suggestions of groups such as the Small Business Forum, I am announcing an extension of these schemes for a further seven years and I am raising the ceiling per company on total BES investment from €1 million to €2 million. The annual limit on BES investment per investor, which has not been increased since 1984, is being raised from €31,750 to €150,000. In the case of the Seed Capital Scheme, the annual investor limit is being increased to €100,000. I am increasing these limits in order to bring vital risk capital to the small business sector. As these schemes are approved State aids, their continuation and the changes proposed will require the approval of the European Commission. The full year cost of these measures is estimated at just over €25 million.

With a view to fostering new companies and entrepreneurs, during the course of this year, I approved a proposal for a new round of seed and venture capital funding, announced by my colleague Micheal Martin. This will involve a €175 million State investment through Enterprise Ireland over a period of ten years.

It is often pointed out that much of the dynamism of an economy comes from small firms and there is a real need for small companies to make use of innovation and modern technology to maintain competitiveness. To help bring that about, the Minister for Enterprise, Trade and Employment has announced a provision of €5 million in 2007 for Innovation Vouchers, Knowledge Acquisition Grants, and ICT audits, all of which were recommended by the Small Business Forum.

Helping Small Businesses

Small businesses are a major source of employment and growth in this country. There are approximately 250,000 small businesses in Ireland today, employing almost 800,000 people, or forty per cent of the workforce.

Recognising their important contribution and their development potential, I am pleased to announce the following package of measures aimed at reducing the administrative burden on this important sector.

- Small companies whose corporation tax liability is currently less than €50,000 can pay preliminary tax based on their previous year's final tax liability. This removes the need for small businesses to forecast their projected full year performance prior to the end of their accounting year. To alleviate further the burden on small business, I am increasing the small company liability threshold from €50,000 to €150,000. Over 97 per cent of Irish companies will have the benefit of the simpler and more straightforward system. It will help them to get on with their business without putting the State's own cash flow at risk;
- I am also introducing measures proposed by Revenue whereby new start-up companies will not have to pay preliminary tax in respect of their first accounting period. In addition, I have asked the Revenue Commissioners to explore further opportunities to reduce the tax compliance burden on all firms, large or small;
- The annual VAT cash accounting threshold for small firms is being raised from €635,000 to €1 million from 1 March 2007, so as to simplify administration and reduce working capital requirements. This allows smaller firms to pay VAT on receipt of payment rather than at the time a sale is made;
- The small business VAT registration turnover thresholds are being increased from €27,500 per year for services and €55,000 per year for goods to €35,000 and €70,000 respectively from 1 March 2007. This measure could take up to 8,000 businesses out of the VAT system and will considerably reduce their administrative burden;
- The frequency of VAT payments for smaller firms is being reduced from six VAT returns to three each year in some cases, and to two each year in other cases. This will provide a cash flow boost to firms and significantly reduce compliance costs; and
- The transaction threshold which triggers the requirement for a tax clearance certificate is being increased from the current €6,500 to €10,000.

The details of all these measures are contained in the Summary of Budget Measures.

The full year cost of these measures is €53 million, with an additional once-off cash flow cost in 2007 of €124 million. This will reduce the regulatory burden and enhance the competitiveness of companies whose well-being is critical to our continued success.

R& D Tax Credit

I am also enhancing the existing R& D tax credit for firms so as to promote R& D spending in our manufacturing sector. Details are in the Summary of Budget Measures. We must act now to promote as many jobs as possible in the productive sector throughout the State. Investment in R& D is a key factor in retaining our manufacturing base. The special R& D tax credit seeks to encourage this and the changes I am making will further incentivise firms to engage in R& D.

These improvements will cost €70 million in a full year and complement Government spending on Science Technology and Innovation which will increase from €800 million in 2006 to €900 million in 2007.

Conferences

In recent years, hotel and tourism bodies have made a strong case to introduce a VAT measure specifically for conferences, which will allow deductibility of accommodation expenses on a ring-fenced basis. I am now bringing in such a measure which should greatly help that sector promote growth in the important conference business and benefit the entire country. This is in recognition of the importance of tourism, one of Ireland's largest indigenous industries. The details of the scheme will be set out in the Finance Bill.

Sporting Bodies

Sport plays a major role in all aspects of Irish life, both commercial and social. In recognition of this, there are specific income tax and capital gains tax exemptions already in the tax code for sporting bodies. I propose to include in the 2007 Finance Bill a similar exemption from stamp duty where such sporting bodies purchase land for the purpose of promoting sports.

PROTECTING THE ENVIRONMENT

Environmental Measures

The environment is a concern for us all. But this concern is not addressed merely by announcing policies. It is a matter of practical measures, targets, and actions that have a real effect. It is also a matter of achieving a balanced impact on society.

Ireland's economic success of recent years has brought with it environmental pressures through increased consumption levels, waste and energy demands. However, we have been working to minimise the impact of these pressures and enhance the quality of our environment.

The recent Stern Review in the UK highlighted that climate change is one of the most pressing global economic and environmental challenges we face.

Ireland supports the international effort to address this challenge and is playing its part in the coordinated global response. We will meet our Kyoto target, mainly through reductions in greenhouse gas emissions in our own economy, but also through contributing to the cost of projects to reduce emissions elsewhere in the world.

The Government has indicated its intention to purchase up to 18 million tonnes of carbon allowances in respect of the Kyoto commitment period 2008 to 2012. I provided an initial €20 million in last year's Budget and just recently the Dáil approved the investment of this money in emission-reduction projects in the emerging economies in Eastern Europe.

I am now indicating that a further €270 million will be provided to fund a programme of purchases up to 2013 and this will be reflected in the Government's medium-term investment programme to be set out in the forthcoming National Development Plan. This provision will be kept under review. The purchase of carbon allowances is just one part of the overall strategy. We will shortly complete an updated version of the National Climate Change Strategy.

In more general terms, on the environment we have made progress on many fronts including:

- Enhancing public transport facilities under Transport 21;
- Setting an ambitious target of 30 per cent electricity generation from renewable sources;
- Making rapid improvements in drinking water quality;
- Significantly increasing high-quality waste water treatment capacity resulting in 90 per cent compliance with EU standards this year from 25 per cent in 2000. As a result, pollutant loads to our waters have been reduced by 45,000 metric tonnes per year;
- Increasing municipal waste recycling rates from 9 per cent in 1998 to over 34 per cent and rising;
- Introducing a major excise relief scheme for bio-fuels, costing in excess of €200 million over 5 years; and

Ireland has led the world by successfully introducing the workplace ban on smoking, and it is important to build on this. The Minister for Health and Children will be announcing in the near future measures to restrict the sale of cigarette pack sizes of less than 20.

HELPING YOUNG FAMILIES

I am acutely aware of the pressures that are on families today. Families are the very core of our society. Our policies must offer them firm support as they build homes and bring up children. In 2007, I want to see additional support going to those who have bought or are trying to buy a home for the first time.

Assisting first-time Home Buyers

In the current market situation, any stamp duty cuts would more likely than not be incorporated into the sale price and so end up in the pocket of the seller. This will not help first-time buyers purchasing new homes.

Our firm aim is to help the first-time buyer directly and substantially, not only those who are in the market now, but also those who are already paying their first mortgages. The best way to do this is by way of mortgage interest relief. The Government therefore proposes to double the ceiling on mortgage interest relief for first-time buyers from €4,000 single and €8,000 married or widowed per year to €8,000 and €16,000 respectively. This increased support will be available to all those currently in receipt of first-time buyers relief who are in the first seven years of their mortgage. About 125,000 first-time buyers will benefit directly as a result of this measure, at a cost of €60 million in a full year.

As a result of this initiative for first-time buyers, a couple with a joint mortgage of up to €379,000 over 33 years, at an interest rate of 4¼ per cent, will be able to claim interest relief on the full amount of the interest on their loan. Such a couple will now gain up to €1,600 extra per year, or €133 per month, in mortgage interest relief directly credited against their mortgage bill. Single people will gain up to €800 per year, or over €66 each month. This helps existing first-time buyers who are already in their first home, as well as potential first-time buyers, without acting to inflate house prices further.

I am also raising the ceiling on interest relief for non-first time buyers from €2,540 single and €5,080 married to €3,000 and €6,000 respectively.

In addition, I propose to increase the rent relief for those living in private rented accommodation by more than the rate of inflation to assist those facing increased rental costs.

The total cost of all these measures together is €74 million in a full year.

Childcare and Child Income Support

Over recent years, the Government has channelled considerable resources into child income support and childcare generally.

This is highlighted by the fact that the monthly rate of Child Benefit for the first two children, which in 1997 was €38 per child, now stands at €150, or nearly four times higher. Today, I am announcing a further increase in Child Benefit of €10 per month for all children.

While this increase will benefit all children, I want to see additional support being given to those most in need. That is why I have agreed with the Minister for Social and Family Affairs to increase the Back to School Clothing and Footwear Allowance Payments and to replace the existing three rates of Child Dependant Allowance by a new standard rate of €22 per child per week. This is targeted at all families with children who depend on Social Welfare for support. The total cost of the child related increases will be almost €244 million in a full year.

In last year's Budget, I announced a major new Government Childcare Strategy. Since then, investment in childcare facilities has intensified. The EU co-funded Equal Opportunities Childcare Programme has exceeded all targets and has generated over 56,500 childcare places so far. More than 32,000 new places have been created and a further 24,500 places have been supported with grant-aid allocations amounting to almost €500 million over the last six years.

There has also been a strong response to the new five-year National Childcare Investment Programme which I announced as part of the Strategy last year, and which is funded exclusively by the Exchequer. To date, over 900 capital grant applications, amounting to more than €170 million, have been received.

As part of the Government's strategy to increase the supply of childcare, I introduced an income tax exemption last year for income of up to €10,000 per year from childminding where individuals mind up to three children, who are not their own, in the minder's own home. In response to recent representations received from the childminding sector and indications from the Office of the Minister for Children that the uptake of the scheme may be slow, I have now decided to increase the exemption limit in 2007 from €10,000 to €15,000 per year.

In line with the Strategy I announced last year, I am increasing the length of paid maternity leave by a further 4 weeks. This brings the total amount of paid maternity leave to 26 weeks. Unpaid leave is also being increased by 4 weeks, to 16 weeks. Along with the changes in maternity benefit I announced earlier, these changes will help to ease the burden on working families.

Another key element of the Childcare Strategy was the introduction of the Early Childcare Supplement of €250 per quarter for all children under 6 years. This benefits over 280,000 families. This year, I have provided an additional €100 million to cover the full year cost of the payment, bringing the funding for this payment to almost €400 million in 2007.

I am also allocating €1 million per annum on an ongoing basis to support young parents through the Teen Parent Support Programme.

The Early Childcare Supplement, together with increased Child Benefit payments, means that families with two children under 6 will receive direct, tax-free payments of €5,780 in 2007. These payments are designed to assist parents in the choices they make for the care of their children in the early years.

When we came to office, a family in similar circumstances received direct payments from the Exchequer of €914 in a full year. This increase is clear evidence of the Government's support for young families.

PUBLIC SERVICES

Spending on Services

When account is taken of expenditure additions I am providing for today, gross current expenditure in 2007 will be €48.5 billion or 11.5 per cent over the projected 2006 outturn. The composition of this amount reflects the priority attached by the Government to Social Welfare, Health and Education. These three areas comprise 77 per cent of the 2007 current expenditure provision. The allocation for Social Welfare is €15.3 billion, for Health it is €14.3 billion and for Education it is €7.9 billion.

Financial Statement

of the

Minister for Finance

Mr Brian Cowen, T.D.

7 December 2005

STATEMENT OF THE MINISTER FOR FINANCE

MR BRIAN COWEN, T.D.

7 DECEMBER 2005

I am honoured to be with you again to present the 2006 Budget to the House. This Budget reflects the priorities of the Government; and I believe it reflects the needs and hopes of the Irish people as well.

INTRODUCTION

We are living in the midst of the longest and strongest era of sustained prosperity in all of Irish history. This didn't happen by chance. This involved careful planning. It involved investment in infrastructure development where we had considerable ground to make up. It involved a commitment to educate our children so that they could be a match for their peers across every discipline. It involved careful fiscal management and the creation of an economic environment that would attract investment. And, of course, it represents the hard work of the Irish people themselves.

As a nation, we now enjoy a much enhanced quality of life. We are a prosperous country. More of our citizens are in work than at any time in our history. More enjoy a decent quality of life than ever before. We are welcoming more and more new people to our shores – citizens of the new Europe – and we are providing for them too.

It is a new Ireland also. Prosperous but not without challenges. This Budget is largely about two key objectives:

- The facilitation of sustained economic growth
- Improved equality and opportunity for all in society.

We have made our choices in the light of a simple, but powerful principle: we cannot take prosperity for granted. We will not put at risk the prosperity the Irish people have achieved.

In last year's Budget I made one simple statement that is often taken for granted and perhaps fails to get the right resonance as a result. Let me restate it now. Economic prosperity is a means to an end and not an end in itself. We must strive for economic success and we must insist on prudent fiscal management in order to achieve the establishment of a better society for all.

SUPPORTING OUR ECONOMIC SUCCESS

We are right to focus on our economic success and to talk about it. It is correct, not in order to congratulate ourselves, but because the better we understand it, the more we are likely to know how we can sustain it. The deeper our economic success and the longer it is sustained the greater the challenge to keep the forward momentum. While we work to maintain it we need to carry out reforms that will introduce greater opportunity for even more people to become involved in our economy and to benefit from its success.

This Budget brings the Government closer to fulfilling the public promises we offered when the people gave us their mandate. We had first to build safeguards and act to sustain the economic growth and stability long into the future and we had to work to find ways of sharing more evenly the benefits of our economic success.

My aims for this Budget are straightforward. I want to improve equality and opportunity for all in our society. I want to help those on lower incomes and to support families at all levels. I want to develop our infrastructure so our firms can compete better while helping to secure our environment and our heritage. I am also determined to pursue value for money for consumers and for taxpayers.

This Budget is rooted in the belief that Irish people can continue to achieve extraordinary things provided Government creates the right environment for them to do so. It is rooted in the need to make that environment more inclusive so that fewer of our people feel excluded.

Education

Education is critical to this ambition. It is accepted that the quality of our educated young people has been at the heart of the economic success of the past 15 years. The world has not stood still in the meantime. We face new challenges in the education sphere. This is about access and about the strength of an offer to the young people coming through the system. I will be announcing a major new initiative in this Budget to address that challenge.

Infrastructure

Infrastructure continues to be a priority and while we have made considerable advances in recent years there is still much to be done. The Transport 21 initiative is a major plank of our budgetary policy and correctly so.

Supporting the Family

We are committed to supporting the family as the cornerstone of our society. The place of the child, mother and father within the family unit needs protection and support. The balance to be achieved between the need to work outside the home and the costs associated with care of the youngest of our citizens needs attention by Government. Budget measures alone cannot achieve this balance but I have taken steps to deal with the issue.

Reaching Full Equality

We are committed to reaching full equality and opening the doors of opportunity for every citizen in Ireland. We want as many of our citizens as possible within the workforce. This is about the minimum wage and about taxation and for those on social welfare, it is about increased payments that can improve their quality of life too.

And we are deeply committed to ensuring value for the hard earned money that millions of our citizens pay in taxes. Taxpayers have a right to a Government that spends their money for the right reasons and in the right way – wisely and efficiently – and the choices we have made at every point in this Budget and the protocols we have put in place reflect the deep responsibility that I and my colleagues in Government feel when it comes to getting value for every Euro spent.

Budget Measures

I plan to achieve my aims by a series of measures that involve:

- Investing much more in our future through enhanced capital spending.
- A package of measures to help care for older people.
- Increasing Social Welfare rates well ahead of inflation.
- Developing a five year childcare package to support families with young children.
- Keeping those on the minimum wage out of the tax net.
- Keeping those on the average industrial wage out of the higher tax rate.
- Reforming tax reliefs so that tax payments more fairly reflect ability to pay.
- Freezing indirect taxes and reducing some others.
- Introducing special reliefs designed to improve our environment, and
- Relieving the tax and administrative burden on business and on small business in particular.

Budget and Economic Outlook

We have the resources to do all these things because our economy is healthy. We have to make sure it remains so by pursuing the right policies. This will be a challenge, given the major external threats of oil prices, higher interest rates and shifting exchange rates and trade patterns. We will be best placed to meet this challenge if we all work to secure the competitiveness of the economy.

We have additional resources available to us now because we have followed the correct tax path of lower rates yielding more revenue. It is the tax take that counts, not the tax rate, as this year's record Capital Gains Tax yield shows.

Economic growth in 2005 is projected by my Department at 4.6 per cent in GDP terms, that is the value of all goods and services produced in the State, and 4.8 per cent in GNP terms, that is the income we earn from producing these goods and services.

The success story of 2005 has clearly been the very strong growth in employment due to the correct policies followed by this Government. The latest labour force data show that employment grew by 96,200 or 5 per cent in the last twelve months. Nearly 71,000 of this increase represents additional full time jobs. The live register at 150,000 is 14,500 lower than two years ago.

This employment record is far ahead of the rest of the EU and is a testimony to the enterprise and effort of our workforce.

My Department is forecasting that for 2006:

- The economy will grow by between 4½ and 5 per cent,
- Unemployment will remain very low at around 4.3 per cent,
- Employment will grow by a further 60,000, and
- Inflation will average 2.7 percent.

This is a continued strong performance especially on employment. In money terms, it means a GDP of over €172 billion in 2006 and a GNP of just under €145 billion. In order to maintain our levels of employment it is particularly important that we all play our part in securing the competitiveness of the economy.

As regards the Government's finances we have set a target for a General Government Deficit next year of 0.6 per cent, as measured by the EU, together with a debt ratio of 28 per cent of GDP. This debt ratio is one of the lowest in the EU. Next year total gross voted public spending will rise by over €5 billion or just over 11 per cent to €50.6 billion, of which €43.8 billion is current day-to-day spending. Day-to-day spending in 2006 is 9.9 per cent above the projected outturn for 2005, excluding the exceptional provision of €400 million to meet the cost of repaying nursing home charges. Spending on capital, to provide roads, public transport, housing, hospitals and other major projects, will come close to 5 per cent of GNP – the highest public investment rate in the EU.

Overall Gross Voted Current Public Spending

Of the €43.8 billion in gross voted current spending more than one in every four euro, or €12.2 billion is spent on Health. The spending on Health at this stage amounts to €3,000 for every citizen in the State or over €9,000 for every taxpayer.

The other major current spending Departments are Education and Science, Social and Family Affairs. Education day-to-day spending accounts for one in every six euros and spending on Social and Family Affairs accounts for one in every three spent. Taken together day-to-day spending on Health and Children, Education and Science and Social and Family Affairs accounts for three in every four euros required to fund total day-to-day voted spending.

It is not just a matter of the quantity of spending but the quality as well. Does it meet current needs and also provide for our future? Do we get full value for it? Could we achieve the same for less? These are issues which are rightly to the fore in the debate on public spending.

A vital element in addressing these issues are the actual processes we use to secure value for money at all levels. I am determined to pursue this issue of the quality of public spending. I have recently put in place a series of specific measures to do so. I intend to build on this. In particular, I plan to roll out new forms of construction contracts in 2006 aimed at providing greater cost

A FAIRER TAX SYSTEM

Last year I announced a major review of tax reliefs in order to achieve a greater degree of equity in our tax system.

This involved both internal reviews and the employment of outside consultants. It also included an extensive public consultation in which nearly ninety submissions were received from a wide range of persons. These submissions were reviewed by the Joint Oireachtas Committee on Finance and the Public Service and I have had the benefit of that Committee's discussions. At the end of the day, the decision on what to do rests with the Government, for which we can be held accountable by this House.

What we are Seeking to Achieve

My basic aim is to see that everybody pays an appropriate amount of income tax relative to their ability to do so. This is a cornerstone of tax equity. We must balance this with the need for effective tax reliefs to incentivise work, effort and enterprise so as to stimulate economic and social development. To achieve this balance I am announcing a range of specific measures. These reflect the recommendations of the reviews, a synopsis of which is set out in the Summary of Budget Measures. I propose to publish all the relevant reports reviewing these various tax reliefs in time for the Finance Bill.

Firstly, the following reliefs either have achieved the objectives set for them or are no longer considered to be cost effective in terms of the objectives set for them and are therefore being terminated subject to certain transitional provisions: the urban renewal, town renewal and rural renewal schemes, and the special reliefs for hotels, holiday cottages, student accommodation, multi-storey car parks, third-level educational buildings, sports injuries clinics, developments associated with park and ride facilities and the general rental refurbishment scheme.

The transitional measures take cognisance of the fact that there are currently over 250,000 jobs in the construction sector and the building industry accounts for around 20 per cent of the economy. We should not do anything that disrupts unnecessarily an industry that is such an important driver of jobs.

For this reason, for projects that are already in the pipeline, I am extending the date for which 100% relief for expenditure will apply by five months from end July 2006 to 31 December 2006. Thereafter, where 15 per cent of the relevant expenditure on the project has been incurred by that date, the relief will apply to only 75% of the expenditure incurred in 2007 and to 50% for expenditure incurred up to end-July 2008. The relief will then reduce to zero, and thus end, after 31 July 2008. Full details of these transitional arrangements are set out in the Summary of Budget Measures.

Both sets of external consultants dealt with the transitional issue and both recommended an extension of relief for such pipeline cases. One recommended a simple extension of 100% relief for seventeen months beyond 31 July 2006. The other recommended an extension of 5 years but at only 50% relief. I have chosen a middle course.

This winding down of property based tax reliefs is consistent with the greater capacity of particular economic sectors nowadays to fund such investment from their own resources, and the sizable capital investment which the Government itself is making through the major new investments I referred to earlier.

In line with the recommendations of the consultants, I propose to continue the tax reliefs for nursing homes, childcare facilities, and private hospitals. Special arrangements will apply for park and ride facilities and the living-over-the-shop scheme as indicated in the Summary of Budget Measures.

The reviews also proposed that any new reliefs should be time-limited and should, where relevant, be subject to an assessment of costs and benefits prior to their introduction. They also proposed that recipients of these kinds of tax reliefs be required to supply full data to Revenue to assist in the costing and assessment of reliefs. I will be following this advice as far as appropriate.

A Minimum and Fair Tax

It is necessary not only to eliminate some incentive reliefs but also to regulate the use that can be made of those that remain. We cannot stand over a situation in which some high-earning tax residents, through the use of incentive reliefs, can reduce their taxable income to nil. This is simply not a fair situation, although I should point out that high-earning non-payers are in a very small minority. Accordingly, I propose now to place an annual overall cap on the extent to which specific incentive reliefs can be availed of.

The cap will apply to those with income over €250,000 per year. It will operate by reducing by half the amount of income that can be relieved from tax by certain specified tax reliefs. This measure will help eliminate the phenomenon of tax free millionaires and increase the effective rate of tax on those with high income towards a minimum of 20 per cent. Further details of how this will work are set out in the Summary of Budget Measures. This will require some complex new legislative provisions and I propose accordingly that the new system will apply for all tax years from 1 January 2007.

This annual cap system will also apply to Artist's relief from the same date. There is no change in the tax treatment of income now exempt under the Artist's relief scheme, where that income is less than €250,000 per year.

Pensions

Tax equity applies not only to taxpayers' current income but also to how taxpayers provide for their income needs in retirement. Recent Budgets and Finance Acts have made significant and innovative improvements in the nature and scope of tax reliefs for pension provision. This was done so as to encourage earlier and more substantive saving by the generality of individuals to meet the cost of providing themselves with a reasonable and affordable pension.

The Government itself is putting aside one per cent of GNP each year to help fund future pensions. The National Pensions Reserve Fund is expected to

An Economic Assessment

of Recent House Price Developments

Report submitted to the Minister for Housing and Urban Renewal

Peter Bacon & Associates
ECONOMIC CONSULTANTS

Ballyrane House
Killinick
Co. Wexford, Ireland
Tel: +353-53-58211
Fax: +353-53-58181
Mobile: 088-558915
E-Mail: pbacon@iol.ie

in association with:

Fergal MacCabe
Architect & Town Planner

56 Fitzwilliam Square
Dublin 2. Ireland
Tel: 01-676 2594
Fax: 01 676 2310
E-Mail: maccabe@officelink.eunet.ie

Anthony Murphy
Economics Department
University College, Dublin 4. Ireland

April 1998

21. *It is considered that the Central Bank could play a role usefully in regard to loan assessment criteria, by conducting, periodically, some on site examinations of lenders practice in relation to their written policies regarding mortgage lending. It is stressed that such exercises are not regarded to be required for the purposes of ensuring prudential supervision, rather the aim should be to ensure that an adequate duty of care to customers is being exercised by mortgage lenders in implementing their written polices in relation to mortgage lending.*

22. It will be possible to restore economic balance in the housing market. However, in order to do so, some compromises will be required to be made with regard to some other objectives, like planning norms or occupancy patterns. Therefore, in shaping the conclusions below the approach has been to strive for a more acceptable rate of price development, rather than economic perfection, recognising the value and importance that is attached in Ireland, to other aspects of housing, like those alluded to above. In taking such an approach it is recognised that all the goals of the many interests in Irish housing will not be fully met.

23. To be effective a policy response will require to:
- achieve better balance between demand & supply in the short term;
- improve the potential supply of housing;
- engage in infrastructure developments; and
- improve medium & long term planning of the development of the East Region, in the context of achieving balanced development of the national economy.

Achieving Better Balance Between Demand & Supply in the Short Term

24. It is considered that there are certain measures which if taken, would result in a better balance between demand and supply in the short term. In essence, a rebalancing of existing fiscal incentives, which currently support investment demand in a number of respects, towards the promotion of housing supply to the end of the market where affordability pressures are greatest, is considered both desirable and feasible. As stated previously, the emergence of broadly based investment interest in the housing market has had very beneficial results in terms of broadening the range and quality of rented accommodation. Moreover, there is evidence that changing patterns of housing demand are sufficient to support a growing and more diversified rented sector, for example, rental values appear to be well underpinned. What is in doubt is the need to encourage this demand by means of fiscal incentives, especially when the revenue foregone in this direction could be focused better towards increasing supply and choice to first time buyers who are facing affordability strains.

25. *Thus, it is concluded that it would be appropriate, at this stage:*
- *to repeal Section 23 relief from investment in residential property, from a current date;*
- *to remove deductibility of interest, on borrowings undertaken for investment in residential property, against personal income for taxation purposes, again from a current date; and*
- *that stamp duty (according to the scheme proposed below) should be payable on purchases of new houses by non-owner occupiers.*

26. The main effect of these measures would be to remove fiscal supports to residential investment demand, at a time when underlying demand is extremely strong. The benefits from moving in this direction would be to:

- provide a more level playing field between investors and home owners;
- allow investment in residential property to be determined by underlying market forces, for additional rented accommodation, at a time when economic and social changes are leading to an increase in the depth and breadth of demand for such accommodation;
- provide more transparent comparison of the underlying rates of return from investment in residential property and other types of investment; and
- release approximately £71 million in revenues that could be used to incentivise greater supply. (This comprises £30 million from the suspension of Section 23 relief; £26 million from the removal interest deductibility and £15 million from the extension of stamp duty rates, as proposed below, to purchases of new houses by non-owner occupiers.)

27. *It is considered that this saving should be applied towards financing reductions in current rates of stamp duty on second hand houses. A schedule of rates along the following lines is suggested: second hand houses up to £60,000, a zero rate; £60,000-170,000, a 4 per cent rate; £170,000-500,000, a 5 per cent rate and finally, a top rate of 9 per cent on residential property transfers above £500,000. It is estimated that the cost of these changes would amount to around £75 million. In addition, it is considered that these thresholds should be reviewed periodically by reference to the rate of increase in second hand house prices.*

28. An impact of current stamp duty rates on potential turnover in the second hand house market illustrated and discussed in Chapter 2 (See Section 2.5.5). It is considered that the revised lower rates proposed would reduce the barrier to entry into the second hand house market faced by first time purchasers. In so doing, it is considered that a number of other benefits would arise. Firstly, as discussed in Chapter 2 (See Section 2.4.1) new houses completions represent only a small increment of the total housing stock. Consequently, additional turnover in the second hand market would have the potential to open a much wider range of supply of housing to first time buyers than is available in the new house market. Relatedly, there would be more scope to find more affordable properties. In effect the new house market involves a threshold of close to £100,000 on average, at least in the Dublin area. Widening access to the second hand housing stock would lower this price threshold thus allowing affordability strains to be reduced. Admittedly, there would probably be some reduction in quality entailed. However, for young people with energy and imagination new possibilities of home ownership could be opened in residential areas characterised by age imbalance or lacking in a sense of vibrant community identity. The possibility would be opened for value added investments to be undertaken over time and in a way that would be more affordable. These possibilities are desirable also for the renewal of the housing stock, that would follow from them.

29. Consideration has been given to extending the first time buyers grant to refurbished buildings which are redeveloped for residential purposes. However, this

option has been concluded against. It is considered that there could be little confidence that the benefit of widening the scope of the grant to refurbishment would be captured by the home owner. Of course, such dwellings will benefit from the reductions in stamp duty which are proposed above.

30. Another fiscal change is suggested here, in support of conclusions drawn with respect to the need to bring about a faster release of development land. This relates to Capital Gains Tax (CGT) on development land. Currently, this rate stands at 40 per cent.

31. *It is considered that with respect to serviced land zoned residential brought into residential development in the next four years a rebate of 50 per cent should be available. The total cost of this adjustment over the period to which it would apply is estimated to be about £26 million, allowing that there would be some increase in disposals as a result of the change. This rebate could be financed thereafter, through a surcharge of 50 per cent on CGT on development land.*

32. Apart from fiscal measures, of the kind described above it is considered that other initiatives could achieve better balance between supply and demand in the short term. *At an administrative level An Bord Pleanala should be assured of sufficient resources to meet the statutory objective of deciding an appeal in four months. Similarly, at local authority level there should be adequate resources to ensure that statutory time periods for assessing planning applications are adhered to and that delay is avoided.* However, having carefully considered the planning process it is not considered that, apart from reducing the response time for consideration of additional information, scope exists to achieve significant time savings, without increasing risks of compromising the quality of planning decision taking.

33. In Chapter 4, (See Section 4.3) reference is made to some practices by a number of home builders which were having a distorting influence on supply or at the very least are not in consumers' best interests, for example demanding stage payments which are greater than provided for under the home bond warranty. *It is considered that the professional representative body of home builders could play a positive role and it may be the most effective channel for limiting these practices. For example, it is considered that a written recommended code of best practice in respect of the practices mentioned and indeed other practices would be a beneficial step. In addition, consideration should be given to applicable sanctions for breaches.*

34. In the course of the study, consideration was given to the question of administrative price controls of new houses. In principle, and supported by earlier experience, it was concluded that this approach would be inappropriate and ineffective. Furthermore, it is considered that such artificial interventions would result in distortions of the market, to the detriment of housebuyers.

35. If it was found that such a code of practice could not be determined or implemented effectively on a voluntary basis by the professional representative body of home builders then consideration should be given to widening the statutory powers of the Office of the Director Consumer Affairs to address them. In this latter regard,

provisions along the lines contained in Section 149 of the Consumer Credit Act, dealing with obligations on credit institutions to notify the Director of all customer charges, represent an appropriate model on which to develop such additional powers.

36. With a view to improving the relative position of those on low incomes, who seek to own a house, it is considered that two further measures would be of benefit. The first relates to the Shared Ownership scheme operated by local authorities. Under the scheme ownership is shared between the purchaser (at least 40 per cent) and the local authority, with the purchaser using a mortgage from the local authority to acquire his/her equity and renting the balance of equity owned by the local authority.

37. *Currently, the effective income limit for eligibility stands at £15,000 (for a single income household) and around £20,000 (for a two income household). Having regard to changes in relative incomes and in house prices since the scheme was introduced originally in 1991, these limits should be raised to say, £20,000 for a single income household with an appropriate increase in the case of a two income household. Furthermore, the term structure of loans used to finance shared ownership should be reviewed, with a view to being able to offer the rental element on more advantageous terms than the present 5 per cent. Finally, interested financial institutions should be encouraged to develop a mortgage finance instrument based on the local authority shared ownership system.*

38. *Similarly, it is considered that mortgage lenders, in the context of low interest rates should consider offering mortgages with longer repayment structures, up to 35 years and with a fixed interest option for the first five to ten years, to borrowers with lower incomes. It is to be stressed that the principal purpose here should be to spread repayments over a longer period of time, rather than to facilitate a greater amount of debt to be undertaken by borrowers with lower incomes.*

Improving Potential Supply of Housing

39. Unanticipated rates of take-up of development land are eroding the land bank in Dublin faster than anticipated. However, on the basis of existing lands zoned and serviced for residential purposes in the Dublin region, and current densities it is considered that prospective demand for the next 3-5 years can be met. Increased densities would improve this outlook. In addition, there is an urgent need to ensure that those lands already zoned and to be zoned are adequately serviced by infrastructure. (See below).

40. Irish residential densities are low by comparison with those on the European mainland. Most urban expansion of the past twenty years has been in the form of back to back detached or semi-detached dwellings with car parking spaces in front which, when combined with local open space, gives densities ranging from 6-10 house per acre or in an exceptional case, 13 to the acre. This form of development, especially when based on repetitive house types and strict adherence to control standards such as distance between houses and car parking provision, is relatively easy to lay out on free open sites.

41. There would appear to be potential for increasing densities in the Dublin area by the application in Dun Laoghaire/Rathdown and Fingal of the 13 per acre rate which is being applied by South Dublin in respect of the additional lands which it is bringing in on foot of its Draft Plan. The yields at the present density assumptions are shown in Chapter 5, (See Table 5.3) and result in about 79,314 units. Applying 13 units per acre as a minimum in each Authority would yield upwards of 91,225 units i.e. almost 12,000 additional units (See Table 5.4). This presumes that the infrastructure to support this increase is available.

42. Densities in excess of 13 units to the acre require either different dwelling types (apartments, duplex, single frontage dwellings etc.) or a mixture of both and may be based on shared access or parking. Higher densities such as those proposed for the Docklands area (350 bed spaces per acre, say 70-80 houses per acre) require very high standards of architectural skill. In moving towards increased densities, it must be recognised that design standards higher than those required heretofore will be essential. Some Planning Authorities, Cork County Council, for example, indicate in their Development Plans that the architectural expertise desirable in a design for residential development of a significant scale is a material consideration in their assessment of a proposal.

43. Quite frequently, greater densities are associated in the public mind with high rise buildings and are often resisted, particularly when they are proposed in established areas. However, greater densities result in a more efficient utilisation of existing infrastructure, provide a more economic operating framework for public transport, reduce energy needs and carbon monoxide emissions and provide the necessary market demand to sustain acceptable levels of shopping and services. In recent times low rise, high density schemes, particularly in the central city areas with densities ranging between 294 bed spaces per acre to 438 bed spaces per acre in apartment blocks have been constructed and achieved acceptance.

44. While public resistance to greater densities is recognised it is believed that this can be addressed, to a significant degree, through promotion of increased awareness of the quality of development which can be achieved through improved planning, design and layout. It is important also that greater densities should be accompanied by the provision or upgrading of appropriate ancillary facilities such as schools and amenities. It should be recognised also that the traditional preference for semi-detached suburban estate living is being offset to a degree by a preference on the part of an increasing proportion of buyers for the social and economic convenience associated with city locations. This accords with the increased premium being place on 'within Dublin' locations and the costs of commuting, already noted, as well as the trend towards reduced household size and lower age of household formation.

45. Greater densities within Dublin would contribute to the promotion of sustainability. It is noted that the Department of the Environment's Publication *"Sustainable Development – A Strategy for Ireland"*, Section 15 dealing with the 'Built Environment' states that:

"The Department of the Environment will take an initiative to promote higher residential densities, particularly in re-developing 'brown field' sites and in proximity to town centres, public transport nodes and access points in consultation with Local Authorities, the architectural, planning and auctioneering professions and the house building industry".

46. *In this respect, the Minister for the Environment and Local Government should utilise powers under Section 7 of the Planning and Development Act 1982 which enable him to issue general Directives as to policy in relation to planning and development as he considers necessary to direct planning authorities to adopt a more pro-active approach towards increased density developments which, because of their location, would contribute to the principles of sustainability. Such an assurance might give more confidence to builders and designers and be of assistance to An Bord Pleanala in their consideration of appeals.*

47. It is concluded that no maximum limit should be set to residential densities but the criteria by which proposals will be considered (height, private open space, car parking, design quality, impact on existing dwellings, dwelling mix) should be clearly enunciated by Planning Authorities in their Development or Action Plans or at the Development Control level. Consideration might be given to omitting references in Plans to the need to adhere to established adjoining densities, except in the case of very small scale infill schemes. In particular, on isolated brown field sites or on identifiable sites in proximity to town centres or public transport nodes and access points, a policy of requiring minimum densities might be applied. Presumably the Strategic Planning Guidelines for the Dublin and Mid-East Regions will make more detailed and positive recommendations in this respect but pending the adoption of such guidelines or the review of the relevant Development Plans, a more flexible attitude towards permitting increased residential densities should immediately be adopted by local authorities and *An Bord Pleanala.*

48. *The bringing forward of lands over and above those already zoned for development or those proposed to be zoned in the Draft Plans presently undergoing their adoption process should await the conclusions of the Study currently under preparation to draw up Strategic Planning Guidelines for the Dublin and Mid East Regions. In advance of completion of the guidelines, if it is necessary to vary or materially contravene a Development Plan, such proposals to do so should be guided strictly by the principles enunciated in "Sustainable Development – A Strategy for Ireland".*

49. Where it can be demonstrated clearly that lands currently zoned for uses other than residential are either inappropriate or surplus to their existing zoned use, preference should be given to their development for residential purposes. Some lands in the Docklands area have been rezoned in this way. No surplus industrial lands were identified in the Draft Dun Laoghaire/Rathdown Plan whilst the Position Papers prepared for the preparation of the South Dublin Plan concluded that a major portion of the existing 600 hectares not yet developed would have very little prospect of development in the foreseeable future and that residential could be an appropriate alternative use.

Affordability calculations used above are based on the average new house price paid by all buyers. However, there is variation around this average. Therefore, for first time buyers this average statistic may overstate the difficulties faced by first time buyers.

2.5.3 Investment Demand for Residential Property

There is evidence of strong investment demand for residential property, notably in Dublin and the Dublin area. Discussion with industry professionals - both in lending institutions and selling agents - suggest that this is so. For example, it is considered that of the order of 25 per cent of mortgage lending is being advanced to investors. There are a number of factors underlying the present strong trend:

- An increasingly favourable disposition towards investment in residential property, encouraged partly by fiscal incentives;
- The relationship between rental values and demand and cost of funds;
- Expectations that house prices are a 'one way bet';
- Favourable debt equity positions of much of the household sector and associated encouragement to increase debt positions by lending agencies.

2.5.4 The Role of Fiscal Policy in Residential investment

Until the early 1980s the rental accommodation market in Dublin offered limited choice and was regarded generally to be of poor quality. There was a predominance of 'bedsitting-room' accommodation, often in contravention of bye-law regulations. Geographically, this rented accommodation sector in Dublin was concentrated particularly in areas such as Rathmines, Ranelagh, Drumcondra and the North & South Circular Roads.

A first important catalyst for change was the introduction and subsequent success of the Section 23 tax incentives for investors in the Finance Act 1981. This legislation provided tax reliefs for investors who purchased new apartments or houses of a specified size and standard and offered them on the letting market for a period of 10 years.[6] The purpose of the initiative was to improve the supply and quality of private rented accommodation and at the same time to have a moderating impact on rental levels. Another objective was to boost employment and output in the Construction Industry. The incentive expired in 1984 but it was re-introduced in the Finance Act 1988.

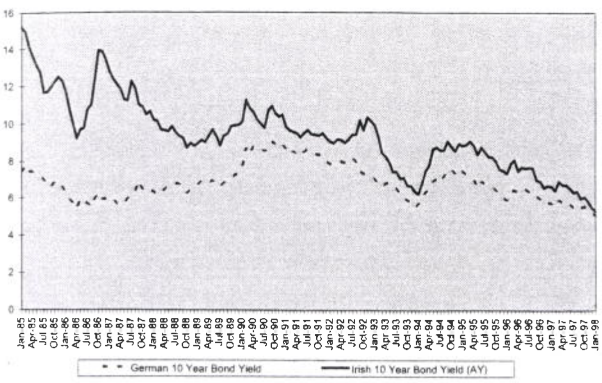
The purpose built developments which the initiative encouraged proved to be much more desirable and suitable for tenancy use than the converted houses which were never designed for such use. Tenants responded in large numbers, particularly when it was realised that rental levels were relatively affordable, compared with what was charged for converted units.

6 Investors qualifying for such relief can offset up to 100 per cent of the investment in year one against Irish rental income.

In the Finance Act 1992 Section 23 relief was restricted to designated areas in cities and towns, rather than the blanket availability which prevailed up to then. This focused development on areas most in need of renewal. Section 23 investors became more and more involved in the emerging apartment market.

Another important fiscal incentive is that interest costs of borrowings for investment and trading in property, including in residential property, is chargeable at marginal tax rates against income receipts for tax purposes. Borrowings undertaken for investment in other assets such as equities are not eligible for such relief.

Chart 2.15: Long term interest rates: Ireland & Germany 1985-1998, Monthly ***(Per cents)***



In addition to the effect of fiscal relief measures, a more broadly based impetus was given to investment demand by the relative movement of rental values and the cost of funds.

Inward migration, an associated increase in contract working and changing social patterns, have been underpinning rental demand and values across an increasingly broad range of residential property types, in addition to apartments.

At the same time mortgage costs and interest rates have been declining, in expectation of announced Government policy for Ireland to become a member of EMU from its inception, (Chart 2.15). Furthermore, numerous forecasts and comments have been made publicly to the effect that interest rates here are likely to fall further in the process of financial convergence between Irish and German interest rates, associated with EMU.

However, against this, it is unclear as to the scope for mortgage rates here to be reduced significantly further. Irish fixed interest mortgage rates (about 70 per cent of mortgages are being advanced now at fixed rates) have fallen already to rates that are very close to European rates (e.g. a 10 year fixed rate of 6.95 per cent is available, the corresponding rate in Germany is 6.8 per cent). In addition, the scope for reductions in variable rate mortgages could be constrained by the level of deposit rates.

The net impact of these various developments to date has been to improve the cash flow profile of residential property investment to a point where the carrying cost of investment is low, if not negligible.

With small or negligible carrying costs involved and significant capital appreciation being recorded on foot of strong underlying demand, a wide range of personal investors are now seeking to invest in residential property. Many of these are not professional investors, indeed, it would appear that some, at least, are unsophisticated investors who believe that a residential property values are ‘a one way bet’.

Supporting the trend described above is the fact that for a large proportion of households debt equity ratios are very favourable.[7] In addition, a significant proportion of these they are at a stage of family formation where they already have or soon will have family members in need of accommodation in Dublin or some other major urban area of the country, either as students of third level education institutions or further beyond in the life cycle. For households in these circumstances investment in residential property has the capacity of meeting social and family needs as well as offering potentially attractive returns. From the point of view of lending institutions this segment of the household sector represents a relatively attractive credit risk. With low debt equity ratios they are relatively secure and can often meet other lending criteria more easily than first time buyers, especially when a part at least, of the potential rental income of the investment property is included in the credit risk assessment. Indeed, there is some evidence of lending institutions seeking to encourage customers with the household profile described above to enter the residential property market in an investor capacity.

For many households with favourable debt equity ratios or net liquid savings and with limited understanding of investment markets, investment in residential property may appear intuitively attractive and appealing, in terms of representing a physical asset that can be identified with readily and where the return is easily understood.

2.5.5 *Other Side-effects of Taxation*

However, apart from stimulating and promoting the aggregate amount invested in housing, taxation (and grants) can have other unintended side effects. For example, the first time buyers grant of £3,000 was introduced in 1977 (at a level of £1,000) in order to reduce the cost of homes to first time buyers. It is accepted widely that the impact of this grant has been reduced, over time, as it has been capitalised in the price of houses catering to this segment of the market. However, there is little doubt that removing the grant in current market conditions would have little or no impact in mitigating house prices. In the meantime the grant is considered to be of significant value to house buyers.

Stamp duty is another potentially important factor influencing housing demand patterns. Current stamp duty rates on residential property transfers and previously applicable ones are summarised in Table 2.19. New houses (of 125 sq. metres or less) are exempt from stamp duty.[8] The original rationale for this exemption was as a encouragement to new home building and construction activity. However, in recent times the focus has changed. Now, stamp duty rates amounting to 6 per cent on second hand houses up to a value of £150,000 are regarded as a discouragement on first time buyers from entering the second hand house market, effectively limiting the choice and restricting price competition by curtailing potential second hand house supply to new home buyers. In current market conditions, where there are capacity constraints facing the construction industry, there is little doubt that the original rationale for attempting

7 See Section 2.3.2, Table 2.6, which shows that less than half of owner-occupied households have mortgages.

8 For new houses in excess of 125 sq. metres the base for taxation is taken to be the site cost or one quarter of the value of the building whichever is the greater.

Table 2.19: Stamp Duty Rates on Residential Property Transfers (Per cents)

Value of Property (£)	Rate of Stamp Duty as introduced in 1997 Budget	Previous Applicable Rate
0-5,000	0	0
5,001-10,000	1	1
10,001-15,000	2	2
15,001-25,000	3	3
25,001-50,000	4	4
50,001-60,000	5	5
60,001-150,000	6	6
150,001-160,000	7	6
160,001-170,000	8	6
over 170,000	9	6

Table 2.20: Estimated Costs to a couple/individual Associated with Trading from a £150,000 to £200,000 second hand house. (£)

Costs of Sale:		
Agent @ 2.25%	3375	
VAT @21%	709	
Legal fees @1%	1500	
VAT @ 21%	315	
Auction Advertising	2000	
VAT @ 21%	420	
		8319
Costs on Purchase:		
Stamp Duty @ 9%	18000	
Legal fees @ 1%	2000	
VAT @21%	420	
		20420
Total Costs		28739
Of which taxes and duty		19864

Source: Submission of Irish Auctioneers & Valuers Institute

to differentiate the cost of new and second hand houses is redundant and the argument, made in a number of submissions to the consultants, that the effect now is to curtail choice to new home buyers has force.[9]

Another issue concerns the impact of stamp duty on mobility and turnover in the second hand house market. As noted earlier, (see Table 2.5, Section 2.4.1 above) annual new house completions represent a very small proportion of the outstanding housing stock. Therefore, it is important to ensure that turnover of existing houses is not overly impaired since this would effectively curtail supply. It is argued that current rates are such an impediment.

For example, Table 2.20 contains an estimate that taxes (stamp duty and VAT) would amount to 69 per cent of the total costs of about £28,750 entailed to a couple trading from a £150,000 to a £200,000. Thus to achieve an improvement of £50,000 in housing value additional outlay costs of £28,750 arise of which almost £20,000 are government taxes. While there can be little argument that these transaction costs are significant it is difficult to assess in any precise quantitative terms the impact which they have on liquidity and turnover. However, given the small increment of the housing stock which new completions represent the issue of ensuring adequate liquidity and turnover in the second hand market has to be considered to be important in the context of ensuring a price competitive housing market.

9 The argument is contained in submissions received from the *Irish Auctioneers & Valuers Institute, Hooke & McDonald - Estate Agents*, and the *Office of the Director of Consumer Affairs*, amongst others.

serviced land amounts to approximately 39,000 housing units, of which there are permissions outstanding in respect of almost 11,000. It was argued also (See Section 5.6, Chapter 5) that some of the density assumptions on which these estimates are based, notably those relating to Fingal South Dublin & Dun Laoghaire Rathdown, are quite conservative. Thus, an increase in densities as illustrated in Table 5.5 in respect of projections for zoned and serviced land, in these three Planning Authorities which have not yet been subject to planning permission would give a supply side shock of some 5,000 housing units compared with the estimated illustrative impact of 3,000 contained in Table 6.6 below.

In Chapter 5, estimates were contained also of considerable potential housing supply in planning areas adjacent to Dublin, like Kildare, Meath & Wicklow. (See Table 5.6, Chapter 5). Infrastructure constraints, such as those described in Table 5.7, are limiting accessibility to this potential. This, probably, is having a significant influence on the decision of some owners of brown-field or in-fill sites as to when to develop. It is considered that if there was a serious undertaking to relieve these infrastructure constraints there would be an increase in housing supply in Dublin in the short-term, as some such sites were brought into development, well as a much more significant medium term response in these adjacent counties. It is considered that the short-term effect could well be of the order shown in the illustration in Table 6.6. The probability of securing a supply response in the short-term could be underpinned by certain adjustments to current Capital Gains Tax provisions. (The nature of these possible adjustments are discussed in chapter 6 below along with other conclusions).

Another line of approach which would be useful in promoting supply responses in the short-term would be to widen access to the second hand market. It was noted earlier, in Chapter 2, (See Table 2.3), that new house completions represent only a very small proportion of the housing stock. It was also noted that current arrangements in relation to stamp duty can deter first time buyers from this potential supply. Moreover, as shown earlier, (See Table 2.15) these duties contribute substantially to the significant transactions costs involved in moving in the second hand house market. Thus, they probably have an adverse effect on market liquidity. Modifications, which had the effect of lowering barriers and promoting more liquidity, would result in similar effects to those shown in Table 6.6. The precise magnitude, of course, would depend on the scale of changes made. This subject is returned to below in Chapter 7. A possible additional positive effect from this particular line of approach would be to open up a more diverse range of housing supply – in terms of location, size and quality which could alleviate affordability strains on first time buyers, at the stage of purchase.

6.5 Synthesis

It is evident from the various scenarios presented above that a wide range of variables – including incomes & employment growth, rates of household formation, interest rate developments, house price expectations, prospects for rental income growth and the responsiveness of housing supply to price changes – influence the evolution of house prices. Variations in these and doubtless, in other factors can have significant effects on the interaction between demand and supply and as a consequence, in the rate of change in house prices. Apart from actual changes expectations, in relation both to demographic changes involving increased in-migration flows and other forces, including social influences towards earlier and smaller household formation. Furthermore, interest rates are at historically low levels, at least in nominal terms, and there are expectations that rates may ease further as a result of EMU, although the extent and speed with which mortgage rates may fall or, for that matter the degree to which further reductions may be priced already into current demand is unclear. On the other side, there are constraints in terms of bringing supply forward. Faster and more prolonged than expected economic growth is placing pressure on existing road and other infrastructures, especially in Dublin, the surrounding region and to a lesser extent, on other major urban centres. It is resulting also in the existing resource of serviced land being depleted more quickly. Furthermore, some planned infrastructure developments, at this stage, are well behind schedule. Another feature of supply is that policy in relation to residential densities follow earlier norms. They are low, by the standards of major urban centres in other countries and they may be no longer optimal for current and prospective circumstances.

In this combination of circumstances prices have escalated, increasingly sharply. As they have done so the corresponding increase in the level of mortgage required has created difficulty for some categories of income earners, having regard to lending criteria. In the normal course the resulting choking-off of demand that would result from this effect would tend to ease upward price pressures. However, other factors have tended to reinforce price disequilibrium. Rapid price escalation has attracted an increasingly wide range of personal investors into residential property, sustaining demand at a high level and supporting the trend of higher prices.

Certainly, given changing patterns of demand for private rented accommodation, it is desirable that investors should enter the market and provide greater range and depth to this segment of the housing market than was previously available. However, some concerns arise too, especially if such investment is influenced unduly by expected short term capital appreciation, rather than overall yield considerations. In such circumstance, there are risks that a 'perverse cycle' emerging in which increasing prices attract more speculative investment demand, in the expectation of yet further price increases. Such a tendency, if left unchecked, could develop into a speculative bubble. There are some reasons for believing that, in an increasing number of instances, investors are being encouraged into the housing market for short term gain. This is not in the best interests of the long term development of a broadly based rented sector, which is likely to be of increasing importance in the longer term. Moreover, there are indications that investors are replacing, to some extent, first time buyers.

Firstly, there are a number of fiscal incentives available for residential property investment, which were introduced at a time when demand was weak. The effect of these incentives now is probably to encourage a disproportionate weight of private investment into residential investment. Secondly, as affordability has deteriorated, for certain categories of income earners, there is increasing pressure on competitive financial institutions to maintain and grow market share without incurring significant additional credit risk. In order to achieve these ends lenders may be focusing more marketing efforts on good quality risk customer. Existing customers with substantial equity positions in their own residences represent just such good quality risk profiles.

7.4 Achieving Better Balance Between Demand & Supply in the Short Term

It is considered that there are certain measures which if taken, would result in a better balance between demand and supply in the short term. In essence, a rebalancing of existing fiscal incentives, which currently support investment demand in a number of respects, towards the promotion of housing supply to the end of the market where affordability pressures are greatest, is considered both desirable and feasible. As stated previously, the emergence of broadly based investment interest in the housing market has had very beneficial results in terms of broadening the range and quality of rented accommodation. Moreover, there is evidence that changing patterns of housing demand are sufficient to support a growing and more diversified rented sector, for example, rental values appear to be well underpinned.. What is in doubt is the need to encourage this demand by means of fiscal incentives, especially when the revenue foregone in this direction could be focused better towards increasing supply and choice to first time buyers who are facing affordability strains.

Thus, it is concluded that it would be appropriate, at this stage:

- *to repeal Section 23 relief from investment in residential property, from a current date;*
- *to remove deductibility of interest, on borrowings undertaken for investment in residential property, against personal income for taxation purposes, again from a current date: and*
- *that stamp duty (according to the scheme proposed below) should be payable on purchases of new houses by non-owner occupiers.*

The main effect of these measures would be to remove fiscal supports to residential investment demand, at a time when underlying demand is extremely strong. The benefits from moving in this direction would be to:

- provide a more level playing field between investors and home owners;
- allow investment in residential property to be determined by underlying market forces, for additional rented accommodation, at a time when economic and social changes are leading to an increase in the depth and breadth of demand for such accommodation;
- provide more transparent comparison of the underlying rates of return from investment in residential property and other types of investment; and
- release approximately £71 million in revenues that could be used to incentivise greater supply. (This comprises £30 million from the suspension of Section 23 relief; £26 million from the removal interest deductibility and £15 million from the extension of stamp duty rates as proposed below to purchases of new houses by non-owner occupiers.)

It is considered that this saving should be applied towards financing reductions in current rates of stamp duty on second hand houses. A schedule of rates along the following lines is suggested: second hand houses up to £60,000, a zero rate; £60,000-170,000, a 4 per cent rate; £170,000-500,000, a 5 per cent rate and finally, a top rate *of 9 per cent on residential property transfers above £500,000. It is estimated that the cost of these changes would amount to around £75 million. In addition, it is considered that these thresholds should be reviewed periodically by reference to the rate of increase in second hand house prices.*

The impact of current stamp duty rates on potential turnover in the second hand house market was illustrated and discussed in Chapter 2 (See Section 2.5.5). It is considered that the revised lower rates proposed would reduce the barrier to entry into the second hand house market faced by first time purchasers. In so doing, it is considered that a number of other benefits would arise. Firstly, as discussed earlier in Chapter 2 (See Section 2.4.1) new houses completions represent only a small increment of the total housing stock. Consequently, additional turnover in the second hand market would have the potential to open a much wider range of supply of housing to first time buyers than is available in the new house market. Relatedly, there would be more scope to find more affordable properties. In effect the new house market involves a higher threshold of close to £100,000 on average, at least in the Dublin area. Widening access to the second hand housing stock would lower this price threshold thus allowing affordability strains to be reduced. Admittedly, there would probably be some reduction in quality entailed. However, for young people with energy and imagination new possibilities of home ownership could be opened in residential areas characterised by age imbalance or lacking in a sense of vibrant community identity. The possibility would be opened for value added investments to be undertaken over time and in a way that would be more affordable. These possibilities are desirable also for the renewal of the housing stock, that would follow from them.

Consideration has been given to extending the first time buyers grant to refurbished buildings which are redeveloped for residential purposes. However, this option has been concluded against. As noted in Chapter 2 (Section 2.5.5) it is considered that little benefit accrues currently to home buyers from this concession. The benefit, in effect, has been capitalised in the price of new houses. By extension, there could be little confidence that the benefit of widening the scope of the grant to refurbishment would be captured by the home owner. Of course, such dwellings will benefit from the reductions in stamp duty which are proposed above.

Another fiscal change is suggested here, in support of conclusions drawn with respect to the need to bring about a faster release of development land (See Section 7.5, below). This relates to Capital Gains Tax on development land. Currently, this rate stands at 40 per cent. *In order to promote the effectiveness of the proposals made in this regard, it is considered that, with respect to serviced land zoned residential brought into residential development in the next four years, a rebate of 50 per cent should be available. The total cost of this adjustment over the period to which it would apply is estimated to be about £26 million, allowing that there would be some increase in disposals as a result of the change. This rebate could be financed thereafter, through a surcharge of 50 per cent on CGT on development land.*

Apart from fiscal measures of the kind described above it is considered that other initiatives could achieve better balance between supply and demand in the short term. *At an administrative level An Bord Pleanala should be assured of sufficient resources*

Executive Summary

1. Year on year comparisons of quarterly data, show that a peak occurred in house price increases around the first quarter of 1998. Since the Government's *Action on House Prices*, of April 1998, there has been a general easing in house price inflation, in year on year terms, most particularly in prices of new houses. The rate of increase in new house prices in Dublin in 1998 slowed compared with 1997, across most house types, although not apartment dwellings. The rate of increase in second hand house prices continued to accelerate into the third quarter of 1998, nationally and in Dublin in particular, with the strongest rates of increase occurring at the top end of that market. However, preliminary official data for the fourth quarter also indicates a slowdown commencing in the year on year trend. There is widespread consensus that Government actions have played a key role in achieving this slow-down. The primary impact towards price stability has been achieved through:

- Reducing investor demand for residential properties through the removal of deductibility of interest on borrowings undertaken for investment in residential property, against rental income for personal income tax purposes.
- Promoting liquidity in the second hand market by reforming the stamp duty regime, including extension of the new regime to purchases of new houses by non-owner occupiers.
- Announcing and implementing a strategy in a manner that had credibility in the market and in this way breaking the psychology of house price inflation and expectations of further acceleration.
- The effects to date represent only a portion of the likely full effects of the measures taken.

2 According to the IAVI, rents in the twelve months to 1 November 1998 rose by 24 per cent in Dublin, with lesser increases of 17 per cent occurring in the rest of Leinster and Munster and 12.5 per cent in Connaught. The IAVI survey notes that "to be offset against this 24 per cent rise in Dublin rents, however, went the fact of a 30 per cent increase in the price of Dublin apartments during the year, while second hand houses rose by 30 to 40 per cent in the same period and new homes by 20 to 25 per cent." Thus the overall rate of increase in rents in Dublin, in the twelve months to 1 November last appears to be in line, generally, with the rise in house prices.

3. The trend in house completion for the year 1998 is estimated to be stronger than in 1997, with completions in each quarter being above the corresponding period of 1997. For 1998 as a whole, total completions amounted to 42,349 up 9 per cent on the level in 1997. Private house completions are estimated to be about 39,000 up almost 9 per cent. These levels of completions are the highest that have ever been recorded in one year. Moreover, each of the past four years has set a record in terms of new house completions

current price of starter homes and a price that is more affordable to new home buyers who cannot finance current prices. Taking this approach of designing a strategy, which will fill a gap in the housing market, suggests that innovation is a key requirement of any future strategy that is to be successful. There would appear to be scope for achieving innovation in two directions. The first is in terms of designs and densities of new houses that are used to meet housing needs. The second relates to innovation in the financial products that are currently available to facilitate potential new homeowners in buying a home. These two aspects are developed upon below.

19. As discussed elsewhere, in Ireland housing densities are low, by comparison with other countries. The predominant starter home in Ireland tends to be a three-bedroom semi-detached house, with front and back garden. Developments of such houses require about one acre for ten units. With higher densities and different design other possibilities can be created. For example, using terraced developments, at densities of 16-20 per acre would result in savings in costs. It is estimated that total cost savings of 20-30 per cent could be achieved off the cost of a 1,000-1,100 square foot 3 bedroom semi by providing two bedroom-terraced housing of 750 square feet. Indeed, some experts consider that significant savings can be achieved through changes in design and without significant reductions in floor area. Clearly there would be risks of social exclusion and the creation of isolated suburban developments at the bottom of the market if such an approach was pursued in a wholesale basis. Certainly, this would not be desirable. Rather, this type of housing would need to be integrated in wider developments to provide a cohesive mix of development. In addition, to be effective, such an approach would need to incorporate quality in design and construction and be undertaken in appropriate locations – e.g. at city locations, or adjacent to high quality public transport and other amenities or as part of a balanced mix of larger developments.

20. To achieve a significant increase in the supply of more affordable housing **it is recommended that all local authorities should avail of all possibilities under the Planning Acts, including in relation to development plans, development control and policies such as those on densities, to ensure that the demand for different house types and sizes, to meet current and prospective demographic trends are satisfied. This would improve the achievement of housing policy objectives. In reviewing and updating the Planning Code, the Department of the Environment & Local Government, should consider whether the Planning Acts need to be strengthened to support the objectives of a modern housing policy, including the provision of the necessary mix of house types and sizes.** It is understood that consideration is being given as to whether the Planning Acts need strengthening.

21. A gap exists between the price of existing starter homes and the level of debt financing which some income earners can secure from mortgage lenders, considering applicable loan criteria. Another possible approach to bridging this gap is through a more broadly based financial initiative to promote shared

ownership. There are a number of conceivable approaches to achieving this. For example, the existing local authority shared ownership scheme might be extended to income categories marginally above the current limits (desirably on the basis of reduced local authority equity participation to maintain an effective price limit). Alternatively, it may be possible to develop a scheme for provision of affordable housing through local authorities, possibly involving private sector developers, either on the basis of sale through shared equity arrangements or otherwise.

22. Another possible approach might be a private sector shared equity scheme, in which the purchaser might finance say 70 per cent of the property with the balance (stub equity) being acquired for a specified period by a trust or similar vehicle. Such arrangements would have to be subject to appropriate conditions and safeguards, for example, minimum deposit, assessment of purchasers' ability to buy out the stub equity, purchasers' inability to raise a mortgage or normal terms for a house priced at say 80 per cent of the prevailing average new house price, upper income and price criteria, financial sustainability and prior detailed analysis of the practicability or otherwise of the trust or other such vehicle. Finally, a similar effect, in terms of accessibility of mortgage funding to that of shared equity arrangements might be achieved through appropriate changes in mortgage lending criteria. This is duscussed further below.

23. **It is recommended that in the context of sustained price stabilisation and significant increase in housing supply, consideration could be given to the foregoing financial options for "bridging the gap", for purchasers whose incomes would not enable them to obtain sufficient mortgage funding at current price levels. However, it is emphasised that any shared equity scheme or other innovative financial instrument, which would increase access to mortgage funding for house purchase would give rise to increased effective demand in the market. Unless there is a corresponding increase in housing supply, this will result in price increases, especially in the segment of the market at which the scheme is targeted. Therefore, the end result would be counter productive and such measures are not desirable while there is a shortfall of supply in the housing market. Therefore it is recommended that the introduction of any such scheme or initiative should be contingent on the previous recommendation in relation to promoting the development and supply of affordable housing or should be directly linked to the provision of such housing.**

24. It is considered appropriate that standard lending criteria applied by mortgage lenders should be re-appraised. This is in the light of rapidly changing relationships between gross and net income as a result of ongoing reductions in direct taxation and long term changes in Ireland's interest rate structure, arising from the commencement of the Euro.

25. **In particular, it is recommended that consideration should be given to altering from using current multiples of gross salary to a percentage of net salary, on the basis that mortgage applicants lock-in at a fixed rate for say**

7-10 years. The precise maximum percentage or other conditions should be determined in consultation with mortgage lenders. The Central Bank would be the appropriate authority to conduct such consultations and to determine when effect should be given to any revisions that might be agreed. In this context also it might be appropriate to establish criteria as to the range of house sizes or price categories to which any changes in lending criteria might be applied. However, any revisions on foot of such a reappraisal should be implemented only when there is evidence of a general easing of supply pressures within the housing market.

26. It is estimated that the North Fringe Interceptor Sewer, together with the provision of additional water distribution and storage, will provide necessary services to open up in the region of 373 hectares of land for residential development. On the basis of existing densities, it is projected that the housing yield from this will be over 15,700 housing units. (This does not include a further 329.5 hectares of land zoned for residential which is undeveloped). It has been established, and agreed with Dublin Corporation and Fingal County Council that it would be technically feasible to use interim/temporary arrangements (which may include temporary treatment) to provide sewerage services to land zoned residential at the densities currently envisaged. (Proposed to be zoned residential land in the case of Fingal Development Plan). Therefore, if planning permissions were granted to proposed housing developments and suitable approved interim/temporary arrangements (including temporary treatment) could be put in place, it would be possible to achieve a short term increase in housing potential in Dublin of up to 15,700 houses. All such arrangements would need to have all the safeguards necessary to comply with the highest environmental standards.

27. **Now, agreement has been reached between the Department of the Environment and Local Government and relevant planning authorities that, pending completion of the North Fringe Interceptor Sewer, interim/temporary arrangements (which may include temporary sewage treatment or pumping facilities) will be permitted in deciding on planning applications for residential development. It is, therefore, recommended that Developers should be encouraged to enter into dialogue with the relevant planning authorities on appropriate arrangements. Any such temporary arrangements will be subject to safeguards in relation to environmental impact/water quality**

28. **It is considered that the North Fringe Interceptor Project and the accompanying water infrastructure works amounting to £16 million should be examined with a view to establishing if PPP arrangements could be used for all or part of the works. Any necessary public funding required (having taken account also of development levies) will need to be met from public resources to be committed to water and sewerage services over the period of the forthcoming National Development Plan, 2000-2006. Consideration of the most appropriate manner of funding need not and should not delay commencement of the projects involved.**

29. Another type of infrastructure constraint is access roads to lands zoned for

residential development. **It is proposed that the Department of the Environment & Local Government should promote an initiative, involving local authorities, to identify with developers and others the road and public transport constraints preventing the development of existing zoned residential lands.** The objective should be to identify and report within six months on such constraints, stating clearly the amount of housing development, which is constrained; other infrastructure developments considered necessary to permit development and an estimate of the capital cost and time-scale involved to release the lands for development. In the course of identifying such constraints judgements should be offered as regards the scope, feasibility and suitability of using PPP to overcome the constraint.

30. **In order to assist An Bord Pleanala, it is recommended that the Minister for the Environment and Local Government should request the Bord to present to him a proposal, including an evaluation of the efficiency and effectiveness of current operations and the adequacy of current resources in relation to these operations.** It is understood that the Bord is experiencing difficulties with recruitment of planners.

31. To judge from the assessment contained in this review, there is some move to increase housing densities taking place in some Development Plans. The planning guidelines issued by the Minister in relation to residential densities have had an influence on changes taking place. However, the pattern is uneven and there is not a clear set of principles against which progress to higher densities is occurring. A consultant's report on housing densities, commissioned by the Minister will soon be available. **It is recommended that when it is, it would be appropriate for the Minister to incorporate relevant conclusions and recommendations contained therein in a general directive to planning authorities, using powers under Section 7 of the Planning and Development Act 1982. The aim should be to provide a sound set of principles and criteria for planning authorities to implement a consistent and coherent policy designed to achieve greater densities in a timely way and in a manner that contributes to sustainability.** Of course it is recognised that it will be difficult to formulate a directive, so as to ensure that the many ramifications associated with greater densities are taken into account adequately. However, in light of the acute situation regarding current and prospective potential supply it is considered that a directive along the lines proposed, if it can be carefully drawn would be an effective instrument for achieving greater densities.

32. When assessing the impact of reducing the CGT rate to 20 per cent for land brought into residential development it was noted that in practice the impact to date has been limited. In particular, the requirement to have outline planning permission in place, in order to take advantage of the effects of this measure, means that it will be eighteen months to two years before any significant amounts of development land are sold to take advantage of this incentive. **Therefore, it is recommended that it would be beneficial to withdraw this requirement. In the event that disposals of land, taking advantage of this**

incentive are not in fact brought into residential development the *Revenue Commissioners* should institute appropriate arrangements to recover any tax due. The benefit of this amendment would be expected to arise in the wholesale market for development land. Houses cannot be built in any event until planning permission has been granted. However, developers' attitudes to releasing and replacing potential development land could be materially affected if there was greater supply and liquidity in the market for development land. It is believed that this latter aspect is being adversely affected by the prior requirement to obtain outline planning permission and would be changed beneficially if this requirement were dropped.

33. Rents generally have been rising rapidly, in line with the trend in house prices. These trends reflect the fact that conditions of excess demand for accommodation (both owner occupied and for rent) exist in the Irish housing market. The optimal course to achieve a sustainable balance in this market, like that for owner-occupiers, is to expand supply. This needs to take place at a general level and targeted interventions are required, which focus on particular segments of the market.

34. **In the context of improving the environment for investment in residential property, it is recommended that the matter of landlord tenancy legislation in Ireland should be reviewed. One objective should be to determine if there are aspects to this, which constrain the development of a vibrant rented sector. There should be a focus both on barriers to investment and the matter of an appropriate balance in tenure rights. The Law Reform Commission would appear to be the most appropriate authority for carrying out such a review.**

35. The Minister for Finance announced in Budget '99 the introduction of tax incentives for the provision of student accommodation. The relief will be available for accommodation provided in the 4-year period from 1 April, 1999 to 31 March, 2003 and will allow investors to offset 100 per cent of the costs of construction, conversion or refurbishment (but not site costs) of purpose built third level student accommodation against all rental income over a maximum period of 10 years. This type of relief has become commonly known as "Section 23" relief.

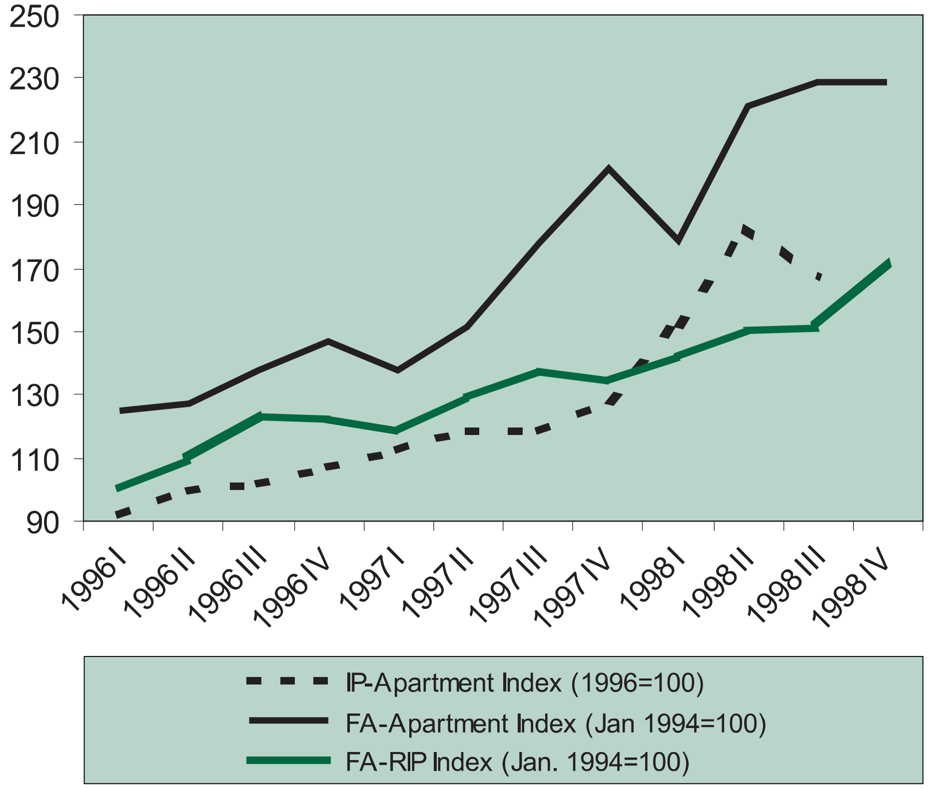
36. This relief should contribute to the provision of student accommodation at or near third-level institutions, which in turn will ease pressures in the general rental market in the medium term. The relief is well targeted in that it will result in an increase in residential accommodation provision without adverse impacts or displacement effects on prospective home purchasers.

37. Under the new urban renewal scheme, 43 towns and cities are to benefit. Designations are based on the concept of Integrated Area Plans (IAPs) prepared by County Councils and County Borough Corporations. These are to address not only issues of physical development, but also wider issues of local socio-economic benefit, including training, education and social housing. The role of

2.2.2 above. It indicates that the rate of increase in new house prices in Dublin in 1998 slowed compared with 1997, across most house types, although not apartment dwellings. The rate of increase in second hand house prices continued to accelerate, nationally and in Dublin in particular, with the strongest rates of increase occurring at the top end of that market.

Another National Property Survey, by the Institute of Professional Auctioneers and Valuers (IPAV), and relating to the period January to July 1998 states that “the rate of increase in house prices has halved nationally since the Government’s new tax changes”. The survey provides a cross-classification of house price increases according to house valuation and location. An extract is contained in Table 2.4. This suggests a much more significant impact than the IAVI survey or indeed any of the other statistical data presented earlier. This survey also suggests that apartment prices have fallen in Dublin in the period immediately following April last. This is in marked contrast to the IAVI survey, taken later in November 1998.

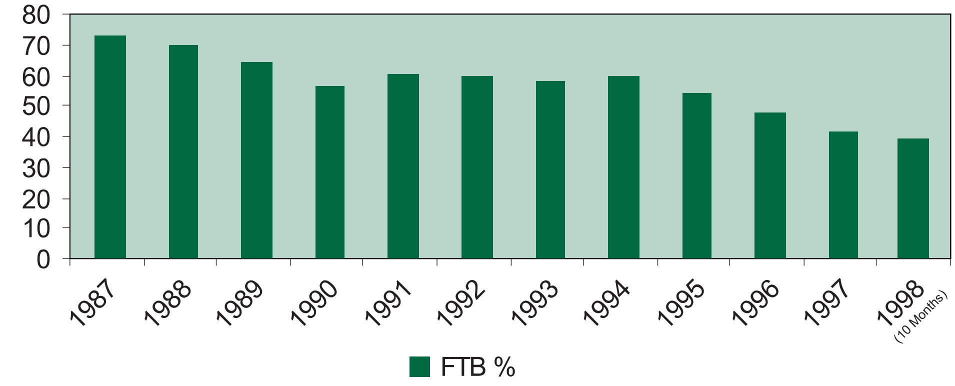
Chart 2.4: Apartment & Residential Property Investment (RPI) Price Indices 1997I-1998III: Countrywide



Source: First Active House Price Index

Chart 2.4 depicts recent movements in apartment prices and residential investment properties, based on data from *Irish Permanent & First Active*. The FA-Index of apartment prices reaches a peak in the fourth quarter of 1997, followed by a 12.5 per cent decline in the first quarter and renewed increase in the second quarter to a higher level than previously. A slowdown is recorded in the third quarter. The IP-Index reaches a peak, in the second quarter of 1998, with a fall off of 8.3 per cent occurring in the

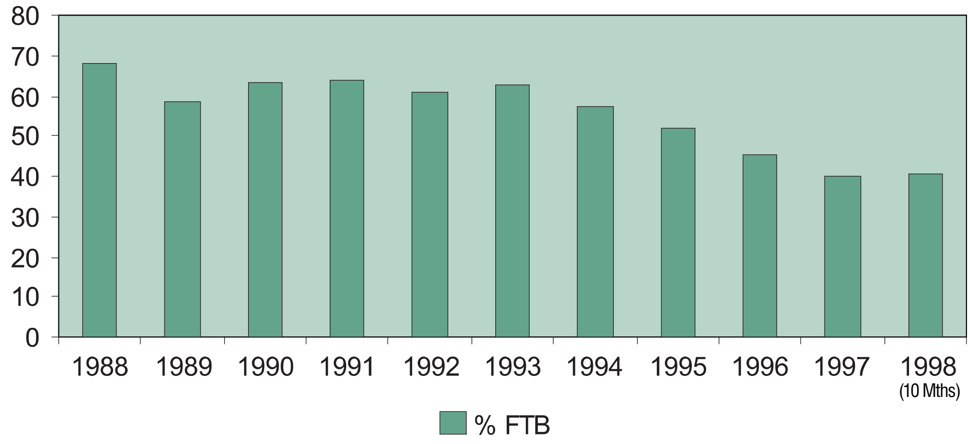
Chart 2.6: Proportion of Loan Approvals to first time buyers in Dublin



Source: Department of Environment & Local Government

Changing employment patterns and the influence of increased immigration are also boosting demand for private rental accommodation. It also seems likely that there is some crowding out of would be purchasers, earning modest incomes, as a result of recent house price inflation. Charts 2.6 and 2.7, show that the proportion of loans granted to first time buyers in Dublin and adjacent counties fell steadily from 1994, with stability being achieved in the first ten months of 1998. It is likely that the halting of this downward trend was a direct result of the Government's Action to remove interest deductibility against the rental income of investors for tax purposes. By reducing demand from investors, first time buyers have been able to secure more houses, thus reducing the earlier crowding out.

Chart 2.7: Proportion of Loan Approvals to first time buyers in Kildare, Wicklow and Meath



Source: Department of Environment & Local Government

Another feature of the most recent data is that stabilisation of first time buyers share of loans in Dublin occurred as a result of an increase in the percentage of first time buyers purchasing second-hand houses. This was 60 per cent in the first 10 months of 1998 compared with 58 per cent in 1997 as a whole. Consequently, the percentage of first time buyers purchasing new houses in Dublin declined in the first 10 months of 1998

4: Assessment of Government's Action on House Prices

4.1 Introduction

In this Chapter an assessment is made of the estimated impact to date of the Government's Action on House Prices. Section 4.2 considers progress achieved to date in respect of several key objectives and the role of Government actions. An overall assessment is contained in Section 4.3. Finally, Section 4.4 contains further additional proposals aimed at reinforcing and supplementing action that are already in place and having a beneficial effect.

4.2. Progress towards Attainment of Key Objectives

4.2.1 House Price Stability

There is considerable and growing statistical evidence of a slowdown in the rate of increase in new house prices. There are signs now also of a slowdown commencing in the second hand market, (see Chapter 2, Section 2 above). This moderating trend has occurred against a background of continuing strong underlying demand for both new and second hand houses and further reductions in mortgage interest costs. There is widespread consensus that Government actions have played a key role in achieving this slow-down. For example, the Annual Survey of the IAVI for 1998 notes that:

> *"the general consensus that some of the steam had evaporated by the third quarter have been endorsed by the recently published DOE[LG] figures for the July/September quarter. In large measure, any reductions in the rate of house price inflation are down to the speedy implementation of the Bacon recommendations. Prices appeared to plateau in new and second hand markets by Autumn and despite still strong prices being paid and continued growth in values, the rates of increase had at least begun to level off"*

Similarly, the IPAV, as early as last August declared in its *National Property Survey*, January to July 1998 that:

> *"The rate of increase in house prices has halved nationally since the Government's new tax changes on interest relief for investors was introduced on 22 April last."*

Estate agents have also quoted concrete examples of how stability is being established in the new house market. For example:

> *"Three bedroom semi-detached houses in the Gallops, Leopardstown were priced at £155,000 in April 1998 and their price has not increased during the year. At Lutterelstown Glen in Castleknock, three bedroom semi-detached houses were launched in about April at £128,000 and are now being offerred at £130,000."*[4]

4 HOK, 22 December 1998

There is broad consensus also that the effects to date represent only a portion of the likely full effects of the measures taken, (Table 4.1). Thus, according to the results of a survey of IAVI members at the beginning of November 1998, less than a quarter in Dublin felt that the full effects had been felt by the end of November last. Over half believe that it would take a further six to twelve months before the full impact would be felt in Dublin.

Table 4.1: IAVI Annual Property Survey 1998: How Long do you Believe it Will Take for the full Effect of the Bacon Recommendations to be Felt in the Market in Your Area? (Replies as percentage of total)

	National	Dublin	Rest Leinster	Munster	Connaught
Full effects already felt	31.00	22	44	22	36
A further 6 months	30.25	22	33	44	22
A further 12 months	31.75	34	23	34	36
A further 18 months	5.50	22	-	-	-
A further 24 months	1.50	-	-	-	6

The primary impact towards price stability has been achieved through:

- *Reducing investor demand for residential properties through the removal of deductibility of interest on borrowings undertaken for investment in residential property, against rental income for personal income tax purposes.*
- *Promoting liquidity in the second hand market by reforming the stamp duty regime, including extension of the new regime to purchases of new houses by non-owner occupiers.*
- *Announcing and implementing a strategy in a manner that had credibility in the market and in this way breaking the psychology of house price inflation and expectations of further acceleration.*

It is to be noted also that some estate agents consider that any further action could be counter productive:

> *"We firmly believe that to interfere any further with the natural forces of supply and demand in the new homes market could have a catastrophic effect on house prices resulting in significant negative equity for the significant number of people who bought new or second hand homes in the last couple of years. The reason for this genuine concern is that I believe that within the next 18 months the supply of new homes which will appeal to First Time Buyers is going to increase significantly. This increase in supply in itself will have the effect of creating downward pressure on prices."*[5]

4.2.2 House Price Affordability

The issue of house price affordability is a difficult one and problems in this area need to be elucidated carefully. The rate of house completions in 1998, at an estimated

5 Sherry FitzGerald, 22 December 1998

Dublin and the Mid-East Region, in schemes due to be completed out to 2001. Of the total, about one fifth is likely to be completed in 1999. Of these, a little over half will be in Dublin County with the balance in the adjacent counties of Wicklow, Meath and Kildare.

Higher densities, in appropriate locations, were identified as another important instrument for achieving greater housing supply. The Department of the Environment and Local Government has commenced an initiative to promote higher residential densities, particularly in redeveloping 'brownfield' sites and in proximity to town centres, public transport nodes and access points. In addition, a consultancy assignment has been commissioned to advise on:

- Examining the benefits of promoting increased densities in appropriate locations, in particular, in re-developed 'brownfield' sites and in proximity to town centres, public transport nodes and access points;
- Considering the safeguards required in promoting greater residential density generally;
- Relating international experience in promoting greater residential density and planning measures in other countries;
- The impact of the Department's Circular Letter PD4/98, promoting higher residential densities;
- Developing Policy options appropriate to Irish circumstances for consideration in the light of the foregoing and other relevant factors.

The Plans of the Dublin Authorities, which have emerged since the issuance of the Circular contain policies promoting increased densities. The Development Plans of Co. Kildare and Co. Wicklow set maximum densities of 20 houses per hectare (8.3 houses per acre), whilst Co. Meath estimates development yields for towns and villages at 15 houses per hectare (6 houses per acre). However, development yields of less than 20 houses per hectare (8.3 houses per acre) would be regarded as below the minimum threshold of land efficiency. Yields of between 35-50 units per hectare (14.6-20.8 units per acre) would result in a more efficient use of serviced land. On lands directly proximate to existing or to be improved public transport corridors, densities in excess of this range would be appropriate in certain circumstances subject to controls of plot ratio, overshadowing, overlooking, private and public open space standards and height.

Other measures have been taken to improve potential supply of housing. A reduced rate of CGT of 20 per cent applies to disposals, which are made between 23 April 1998 and 5 April 2002 inclusive, of development land zoned for residential use in respect of which planning permission for residential development has been granted and is still in force at the time of disposal. A new CGT rate of 60 per cent will apply from 6 April 2002 to disposals made after that date of development land, which is zoned residential. There is consensus amongst industry professionals, such as estate agents and developers that this incentive will induce additional land to be supplied into residential development. For example, one estate agency states that it estimates that:

> *"Approximately 2,300 acres of residential development land was sold in the*

potential supply for Dublin City and County, (which have been revised up marginally) is inadequate, taking into consideration such matters as the need for choice and the lead time now required by developers in planning future developments. In effect this lead-time, of three or more years, requires developers to hold significant land-banks. Accordingly, there is little free reserve of serviced land available, especially in Dublin City and County.

The tendency for planning appeals to take longer to resolve is an additional negative feature.

In light of these considerations some additional proposals are made designed to increase potential housing supply in the short term, (see Section 4.4).

4.2.4 The Private Rented Sector

A criticism of the Government's Action on House Prices by industry professionals is that the removal of deductibility of interest on borrowings undertaken for investment in residential property against rental income, for tax purposes has had the effect of creating a shortage of rental accommodation. It is stated that this situation has led to an increase in rents above what would otherwise have happened. A number of observations in relation to these points are relevant.

Firstly, a clear conclusion of the analysis contained in *An Economic Assessment of Recent House Price Developments* was that an excess demand for housing existed and was likely to remain in prospect for some time. In such circumstances upward pressure on the cost of accommodation (both prices of houses and rents on lettings of accommodation) was to be expected. Indeed, this very expectation was a reason underlying the proposal to remove deductibility of interest:

> *" ….the emergence of broadly based investment interest in the housing market has had very beneficial results in terms of broadening the range and quality of rented accommodation. Moreover, there is evidence, in the form of stable rental values, that changing patterns of housing demand are sufficient to support a growing and more diversified rented sector. What is in doubt is the need to encourage this demand by means of fiscal incentives, especially when the revenue foregone in this direction could be focused better towards increasing supply and choice to first time buyers who are facing affordability strains."* [6]

Secondly, it is estimated that approximately 30 per cent of mortgages were being advanced to investors. On the basis that there were 4220 house completions in Dublin City and County in the second and third quarters the maximum possible impact on the supply of additional rented accommodation in this period would be about 1250 housing units (4220X0.3). In fact, transitional relief was made available where there was a contract evidenced in writing before 23 April 1998 to purchase such premises (or site and construct) and the borrowed money was employed for that purpose up to 31 December 1998. (This was subsequently extended to 31 March 1999). Considering this transitional relief it is considered that a more realistic estimate of the impact on the

6 An Economic Assessment of Recent House Price Developments. p. 88.

growth in the supply of rented accommodation in Dublin was about 500 housing units. This would appear to be consistent also with the pattern of mortgages as between home-buyers and investors, (see Section 2.2 above).

Third, two surveys undertaken by industry professionals suggest that the rise in rents, up to November 1998, in the case of the IAVI Survey, is in line with the rate of increase in house prices in the same period. Anecdotal evidence of much higher rates of increase has been cited in media reports. These are not to be denied. However, this is no different from house prices, where very large increases can be pointed to individual cases or categories. However, these instances do not amount to an overall picture.

Fourth, there is recent evidence that the capital value of some apartment complexes in Dublin have fallen, at least since the third quarter, (see Chapter 2, Section 2.2.3, Chart 2.5). This is not consistent with what might be expected of a private rental market in gross under-supply and in which prospects of rental growth are firmly underpinned.

Finally, most recently there are indications also of investor demand for residential accommodation being renewed selectively in Dublin. It is considered that a combination of increased rental yield, in line with the rate of increase in house prices and lower interest cost of borrowing are stimulating this renewal.

Notwithstanding these various observations, it is fair to say that the same public policy concerns arise with regard to the affordability and supply of rented accommodation as compared with owner occupied. In this regard, increased overall supply of housing is the most crucial factor in achieving stability and meeting demand in the private rented sector, just as it is in the owner occupancy sector.

4.2.5. Improving Planning & Information for the Better Development of Settlement & Housing in the Medium Term.

In May 1997, the Government decided that Strategic Planning Guidelines should be prepared for the Greater Dublin Area and Consultants have been appointed to indicate Land Use Guidelines to indicate the preferred area for development by general location, type and scale of such use. The Guidelines will address the amount of population/households to be accommodated in the Greater Dublin Area and in particular will indicate the preferred distribution of that future population as well as general locations for commercial and industrial development.

This will enable a framework for investment in infrastructure to be put in place which will guide the location of development in order to optimise the use of existing or prospective resources. It is anticipated that the Consultants will report by mid 1999. The Strategic Guidelines will provide an overall strategic context within which the Development Plan Reviews of the constituent Planning Authorities would be undertaken. This may require a review of the Development Plans for the four Authorities earlier than the ordinary five years review period in order to harmonise their policies and objectives with those of the Guidelines.

It is noted that a decision has been taken that The Minister for the Environment and Local Government will ask the planning authorities to review their development plans in the light of the Strategic Planning Guidelines when completed. Also the Minister intends to bring forward proposals for a statutory requirement on local planning authorities to ensure that their development plans are consistent with any relevant Strategic Planning Guideline.

In the context of avoiding future disequilibrium in the housing market it is extremely important that a plan is put in place, which would identify the scale and location of future development particularly in the Dublin and Mid-East regions, based on sustainability principles. In particular and without prejudice to the forthcoming strategic planning guidelines it is considered that it would be appropriate that urgent consideration should be given to establishing the scope and requirements in order to develop existing towns outside the Dublin conurbation, (e.g. Navan and towns in South Kildare and County Wicklow). Clearly, a prerequisite for such development is good quality public transport links. Therefore, it is considered that specific proposals should be formulated at an early date for improvement in public transport facilities to locations having the scope for growth (without adverse planning, social and sustainability effects) and a supply of land suitable for development.

At a broader level, the housing market situation would be improved significantly if it was possible to achieve a better geographical balance of economic activity with an associated more even distribution of population. It would be appropriate that the next National Development Plan, should address this issue and afford a high priority to achieving it.

Finally, it is still considered that a comprehensive land use analysis relating to the Dublin and Mid-East Region should be undertaken under the direction of the Minister for the Environment and Local Government and subsequently updated at regular intervals. It should be noted that such a Strategic Physical Plan was made for Northern Ireland and published last December.

4.3 Overall Assessment

In the early part of 1998 the housing market was characterised by runaway inflation and widespread panic buying of new houses. The rate of price inflation was greatest in Dublin, but other major urban areas also were experiencing an accelerating trend. Following submission of *An Economic Assessment of Recent House Price Developments* Government responded quickly with a series of measures presented by the Minister for the Environment & Local Government and the Minister for Housing & Urban renewal as *Action on House Prices*. The Minister Finance introduced the Finance (No.2) Act 1998, which provided for the taxation measures contained in the set of measures.

The overall shape of the package of measures introduced were framed around the conclusion that overall trends to date in the housing market since 1994 are the result of a combination of very strong economic fundamentals and associated demographic and social influences towards earlier and smaller household formation. The economic changes involve rapid growth of personal disposable incomes, strong rates of increase in employment and increased in-migration flows. Furthermore, interest rates are at historically low levels. On the other side, there are constraints in terms of bringing supply forward. Faster and more prolonged economic growth is placing pressure on existing road and other infrastructures, especially in Dublin, the surrounding region and other major urban centres. Indeed some planned infrastructure developments, at this stage, are well behind schedule. Another feature of supply, is that policy in relation to residential densities follow earlier norms. They are low, by the standards of major urban centres in other countries and they may be no longer optimal for current and prospective circumstances.

In this combination of circumstances prices escalated, increasingly sharply. As they did so pressures on affordability grew for some categories of income earners. The measures presented were collected around a number of broad headings, namely:

- Achieving better balance between demand and supply in the short term;
- Improving the potential supply of housing;
- Undertaking Infrastructure developments and
- Improving long term planning and information.

At this stage, some nine months after the measures have been presented and implemented there are identifiable benefits already emerging from the measures introduced. These are the result principally of measures introduced under heading one above. In addition, there are some positive indications also in relation to measures under headings two and three above. Given the inherent long response time required to generate additional housing supply, the progress achieved to date in slowing down the rate of increase in new house prices and securing continued growth in house completions to record levels has to be regarded positively. All the more so when it is considered that this progress was achieved against a continuing strong economic background, in which interest rates fell significantly further.

All indications are that over the next six to twelve months there will be further easing in house price inflation and consolidation of the emerging stability in house prices. However, significant challenges remain. The first is to secure greater access to housing and availability of suitable housing for those who find the current cost unaffordable, without causing overheating. The second relates to underpinning an adequate and geographically diversified future supply of serviced land that can support medium term housing requirements. Thirdly, there is need to ensure that the private rented sector can develop and evolve across the spectrum of housing, ensuring that it meets the diverse needs for rented accommodation. Proposals for further action to address these challenges are set out below.

4.4. Proposals for Further Action

4.4.1 Improving Planning & Information for the Better Development of Settlement & Housing in the Medium Term.

- Urgent consideration should be given to establishing the scope and requirements in order to develop existing towns outside the Dublin conurbation, (e.g. Navan and towns in South Kildare and County Wicklow).

- Specific proposals should be formulated at an early date for improvement in public transport facilities to locations having the scope for growth (without adverse planning, social and sustainability effects) and a supply of land suitable for development.

- It would be appropriate that the next National Development Plan should address the issue of achieving a better geographical balance of economic activity with an associated more even distribution of population and afford a high priority to achieving it. The preparation of a National Spatial Development Strategy would facilitate and assist with developing policy in this regard and it is recommended that such a strategy should be formulated and published.

- A comprehensive land use analysis relating to the Dublin and Mid-East Region should be undertaken in the meantime. This should be sponsored under the direction of the Minister for the Environment and Local Government and subsequently updated at regular intervals.

4.4.2 Improving Affordability of Housing

As a result of house price inflation over the past three years there are many income earners who, would have had the capacity to finance house purchase previously but cannot do so at current levels. This is the single most serious problem in the Irish housing market at present.

Some believe that an appropriate solution to this problem is to engineer, in some way, an across the board reduction in new house prices from their current levels. Most usually, it is argued that a reduction in land prices (again, engineered in some way) should be the means used to bring about this outcome. If such an outcome could indeed be brought about affordability for first time buyers would be improved. However, a negative side effect of this approach would be to risk creating a negative equity problem for many house purchasers and most new house purchasers over the past two years or so. The likelihood is that the magnitude of the problem that would be created in this way would be as large and could be greater than the problem that would be resolved. Furthermore, experience from other markets, in which episodes of negative equity have occurred demonstrates that if this problem emerges it tends to gather its own internal dynamic, as potential house purchasers postpone buying in anticipation of further price reductions. The result can lead to a vicious circle of downward spiralling prices, which can spill-over into wider economic recession. The UK market of the late 1980s and well into the nineties provides a good example of such a negative scenario and how pervasive they can become. Therefore, it is not considered that an attempt at engineering a broad reduction in new house prices should be contemplated. Rather, a targeted strategy focussed solely at improving affordability for first time buyers and without negative side effects on the welfare of other homeowners' needs to be formulated. However, any such measure would need to be carefully designed and the timing of its introduction determined so as to avoid contributing to an overheating of demand.

In essence therefore, the focus has to be on ways of *filling* the gap between the current price of (new) starter homes and a price that is more affordable to new home buyers who cannot finance current prices. Taking this approach of designing a strategy, which will fill a gap in the housing market, suggests that innovation is a key requirement of any future strategy that is to be successful. There would appear to be scope for achieving innovation in two directions. The first is in terms of designs and densities of new houses that are used to meet housing needs. The second relates to innovation in the financial products that are currently available to facilitate potential new homeowners in buying a home. These two aspects are developed upon below.

Densities & Design

As discussed elsewhere, in Ireland housing densities are low, by comparison with other countries. The predominant starter home in Ireland tends to be a three-bedroom semi-detached house, with front and back garden. Developments of such houses require about one acre for ten units. With higher densities and different design other possibilities can be created. For example, using terraced developments, at densities of 16-20 per acre would result in savings in costs of housing under a number of headings, as follows:

- Lower construction costs due to smaller area of housing unit;
- Lower construction cost due to design features, e.g. fewer gable walls;
- Savings in costs of certain infrastructure items, internal roads, drainage and water; and
- Savings in site costs, per dwelling unit.[7]

As an illustration, it is estimated that total cost savings of 20-30 per cent could be achieved off the cost of a 1,000-1,100 square foot 3 bedroom semi- by providing two bedroom-terraced housing of 750 square feet.[8] Moreover, some specialist technical experts considered that significant savings can be achieved by design features even without a significant reduction in floor area.

Clearly there would be risks of social exclusion and the creation of isolated suburban developments at the bottom of the market if such an approach was pursued in a wholesale basis. Certainly, this would not be desirable. Rather, this type of housing would need to be integrated in wider developments to provide a cohesive mix of development. In addition, to be effective, such an approach would need to incorporate quality in design and construction and be undertaken in appropriate locations – e.g. at city locations, or adjacent to high quality public transport and other amenities or as part of a balanced mix of larger developments.

Lower costs are one matter. The extent to which any such savings get passed on in lower prices to new home buyers is another. However, it seems clear that amongst developers there is recognition of the important role of first time buyers in the dynamics of the housing market. Unless that market segment is developed it is difficult

7 Higher densities would be likely to result in higher land prices. However, it is not considered likely that land prices would rise linearly proportionate to a rise in densities. Therefore, some saving in unit site costs would be expected.

8 This estimate is comprised of 10-15% off building cost due to smaller size of unit; 5-10% due to design features, fewer external walls, continuous roof, savings in certain infrastructure unit costs like roads, water and sewerage; 5% due to lower unit site costs.

In order to assist An Bord Pleanala, it is recommended that the Minister for the Environment and Local Government should request the Bord to present to him a proposal, including an evaluation of the efficiency and effectiveness of current operations and the adequacy of current resources in relation to these operations.

The objective should be reverse current slippage and return as quickly as possible to a situation of meeting the statutory objective of determining 90 per cent of cases within four months. Again the aim should be Report to the Minister urgently and certainly within six months on a package of actions which will enable the statutory objective to be secured.

Securing Optimal Residential Densities

To judge from the assessment contained in Chapter 3, Section 3.2, there is some move to increase housing densities taking place in some Development Plans. The planning guidelines issued by the Minister in relation to residential densities have had an influence on changes taking place. However, the pattern is uneven and there is not a clear set of principles against which progress to higher densities is occurring. A consultant's report on housing densities, commissioned by the Minister will soon be available.

It is recommended that when it is, it would be appropriate for the Minister to incorporate relevant conclusions and recommendations contained therein in a general directive to planning authorities, using powers under Section 7 of the Planning and Development Act 1982. The aim should be to provide a sound set of principles and criteria for planning authorities to implement a consistent and coherent policy designed to achieve greater densities in a timely way and in a manner that contributes to sustainability. Of course it is recognised that it will be difficult to formulate a directive, so as to ensure that the many ramifications associated with greater densities are taken into account adequately. However, in light of the acute situation regarding current and prospective potential supply it is considered a directive along the lines proposed, if it can be carefully drawn would be an effective instrument for achieving greater densities.

Tax Incentives

Earlier, when assessing the impact of reducing the CGT rate to 20 per cent for land brought into residential development it was noted that in practice the impact to date has been limited. In particular, the requirement to have outline planning permission in place, in order to take advantage of the effects of this measure, means that it will be eighteen months to two years before any significant amounts of development land are sold to take advantage of this incentive.

Therefore, it is recommended that it would be beneficial to withdraw this requirement. In the event that disposals of land, taking advantage of this incentive are not in fact brought into residential development the *Revenue Commissioners* should institute appropriate arrangements to recover any tax due.

The benefit of this amendment would be expected to arise in the wholesale market for development land. Houses cannot be built in any event until planning permission has

Improving the Supply of Rented Accommodation for the Student Population

The Minister for Finance announced in Budget ’99 the introduction of tax incentives for the provision of student accommodation.

The relief will be available for accommodation provided in the 4-year period from 1 April, 1999 to 31 March, 2003 and will allow investors to offset 100 per cent of the costs of construction, conversion or refurbishment (but not site costs) of purpose built third level student accommodation against all rental income over a maximum period of 10 years. This type of relief has become commonly known as “Section 23” relief.

Each project will be subject to certification by the relevant third level institution, in accordance with guidelines drawn up by the Minister for Education and Science in consultation with the Minister for Finance and the Minister for the Environment and Local Government. These guidelines will deal with key elements of eligibility for the relief including which institutions will benefit and setting out conditions relating to the standards and location of accommodation.

This relief should contribute to the provision of student accommodation at or near third-level institutions, which in turn will ease pressures in the general rental market in the medium term. The relief is well targeted in that it will result in an increase in residential accommodation provision without adverse impacts or displacement effects on prospective home purchasers.

Developing the Private Rented Sector in the Context of Urban Renewal

Under the new urban renewal scheme, 43 towns and cities are to benefit. Designations are based on the concept of Integrated Area Plans (IAPs) prepared by County Councils and County Borough Corporations. These are to address not only issues of physical development, but also wider issues of local socio-economic benefit, including training, education and social housing. The role of preparing IAPs is pitched at county/city level in the interests of allowing priorities to be determined.

The Finance Bill provisions allow for the entire area to which an IAP relates to be a qualifying area for the purposes of the owner-occupier residential allowances and/or the investor allowances for rented residential accommodation where these options may be justified by reference to the above-mentioned criteria.

It is recommended that where either category of residential allowances is being recommended local authorities should consider whether in the interest of the IAP, they should be made subject to conditions in relation to the accommodation to be provided e.g. the design, construction, size, room dimensions, type and quality of the accommodation, the balance between houses of different types and sizes and the amenities to be provided etc. In this regard it should be noted that under previous urban renewal schemes only 12 per cent of residential investment was in refurbished property.

Making Rented Accommodation More Accessible to Low Income Families

The current tax allowance for rent, for those under 55 years, applies at the standard rate and amounts to £500, £750 and £1,000 p.a. for a single, widowed or married person

The Housing Market in Ireland:

An Economic Evaluation of Trends & Prospects

Report submitted to the Department of the Environment & Local Government

Peter Bacon & Associates
ECONOMIC CONSULTANTS

Ballyrane House
Killinick
Co.Wexford, Ireland
Tel: +353-53-58211
Fax:+353-53-58181
Mobile: 087-2558915
E-mail:pbacon@iol.ie

in association with:

Fergal MacCabe
Architect & Town Planner

56 Fitzwilliam Square
Dublin 2. Ireland
Tel: +353-01-676 2594
Fax: +353-01-676 2310
E-mail:maccbe@officelink.eunet.ie

June 2000

10. An effective supply response strategy needs to be characterised by:

- ***Credibility***, in the sense that what is proposed by way of a supply response will be matched with the necessary commitment of resources to ensure that undertakings are translated on the ground into serviced sites on which the necessary planning consents can be obtained.
- ***Clarity***, as regards where development is to take place and that all the necessary infrastructure to facilitate the development of secure and stable community living will be put into place, including especially access to transport facilities.
- ***Certainty,*** as to when development can commence. At present, it is difficult to predict with any certainty when making a planning application, when in fact work will be capable of commencing. Matching demand with supply in such circumstances is extremely difficult.

11. Considering the analysis of prospective demand and supply the most appropriate course of action is to pursue a supply response to meet underlying demand growth and having the characteristics noted above. In addition, the approach should be supported with measures to curb any significant speculative or transitory component of demand, which may be present. Such a response holds the prospect of achieving a more rapid return of the market to stability with increased affordability. A response relying entirely on supply measures to meet all categories of demand, fundamental and speculative or transitory, would be less appropriate and in any event, will take longer to achieve stability. In the meantime, affordability for many new house buyers would move further away.

12. On the basis of this assessment proposals are made in Section 5.5 for additional actions.

Proposals for Further Action

Accelerating the Process of Securing Required Planning Consents on Significant Sites in Dublin City & County

13. The local area planning process as outlined in the Planning and Development Bill 1999 will clearly provide for better housing environments and more sustainable development and should be adopted in the case of all larger scale developments. The flexible time scale implied by the consultation and approval process and the available appeal procedures may make it difficult to predict ultimate yields and firm delivery dates for the supply of housing on sites which are the subject of Local Area Plans.

14. Therefore, it is proposed that the potential for providing more certain delivery dates and for concentrating staff resources offered by the procedures as described in Part 9 of the Planning and Development Bill 1999 for the development of the Strategic Development Zones should be pursued. The aim should be to ensure that the land use, transportation, servicing, social infrastructure and civic design context in which major housing applications are to be made can be resolved in principle and to a certain extent in detail, at the outset in a planning scheme. The opportunity can then be given to interested parties to make their views known. A right of appeal to An Bord Pleanála would be enjoyed by those aggrieved by the provisions of the planning scheme, but following the Board's determination, proposals which conform with the scheme should be capable of commencing without delay.

through planning (land acquisition, wayleaves, Part X, EIA, etc) to construction, management of the projects during the course of construction, and management of any consultants appointed;
- **Assisting with the drafting of development contributions' schemes or other agreements for the SDZs;**
- **Liaison with public transport providers to ensure early delivery of key public transport projects;**
- **Facilitating pre-planning discussions with developers.**

Similar structures should be put in place to drive groups of key water and sewerage projects in the main urban areas for locations not designated as SDZs.

38. In addition, it is recommended that proposals for the augmentation of the Grand Canal Sewer (which serves lands to the North and West of the City and which is presently working at capacity) or other proposals which would provide necessary drainage capacity for these areas should be put in place as a matter of urgency. The aim should be to ensure that it can cater for all of the serviced land within its catchment by 2006.

Fiscal Penalty on Non-Realisation of Potential of Proposed SDZs

39. The recommendation to designate a number of key strategic sites as Special Development Zones, with the accompanying fast-track planning process amounts to a significant commitment to secure the earlier release of the lands involved for housing development. It is important to ensure that development does indeed take place at an early stage following the proposed process.

40. Therefore, it is recommended that an annual tax of £3,000 per housing site should be applied to the owners of land who:
(a) have not applied for planning permission in accordance with the approved planning scheme for the lands contained within the SDZs, within a period of 12 weeks after the scheme has been approved; and/or
(b) do not commence implementing a planning permission in accordance with the terms contained therein, within 26 weeks of the permission having been granted.

Proposed Revisions to Stamp Duty Regime

41. House price increases since the revision of Stamp Duty rates in June 1998 have resulted in an increase in the burden of stamp duty, making it again a potential barrier to first time buyers entering the existing house market. This is significant because first time buyer housing needs are being met, increasingly, from the existing house market. Both stamp duty receipts and Department survey data indicate that activity in the market is increasing. First time buyers continue to account for around 45 per cent of the total market but, as indicated by the fall in the number of new house grants paid, of 11 per cent between 1998 and 1999, fewer first time buyers are purchasing new houses.

42. Current analysis of the housing market suggests there is a significant element of speculative or transitory demand, which hampers efforts to meet fundamental demand with increased supply. Accordingly, it is considered appropriate that measures should be incorporated to dampen this element of demand. Stamp duties provide an

appropriate means of achieving this since they relate to all housing transactions, whether mortgage financed or not.

43. Therefore, it is recommended that stamp duties should be revised along the lines contained in the following table.

Proposed Revisions to Stamp Duty Bands & Rates

			First Time Buyers Buying for Owner Occupation	Existing Purchasers buying for Owner Occupation	Other Purchasers
Current Bands	Current Rate Per cent	Proposed bands	Proposed Rate Per Cent	Proposed Rate Per cent	Proposed Rate Per cent
Up to £60,000	Nil	Up to £100,000	Nil	Nil	3.75
£60,000-£100,000	3	£100,001-£150,000	Nil	3	3.75
£100,001-£170,000	4	£150,001-£200,000	3	4	5
£170,001-£250,000	5	£200,001-£250,000	3.37	5	6.25
£250,001-£500,000	7	£250,001-£300,00	4.5	6	7.5
		£300,001-£500,000	7.5	7.5	7.5
Over £500,000	9	Over £500,000	9	9	9

Anti-speculation Property Tax

44. The housing market is attracting speculative demand. In some cases, this takes the form of individuals taking a view about prospective house prices and buying residential property, as opposed to another form of investment. In other instances, speculative demand takes the form of a transitory increase, following from demand being brought forward, so as to avoid expected future price increases. These various kinds of speculative demand forestall the movement of the housing market to stability. As this happens, there is a tendency to stimulate further speculative demand and in this way a 'bubble' can develop. If allowed to develop unchecked, such a process has the potential capacity to threaten overall stability of the market. Of course, the pursuit of a strategy centred on a vigorous supply response, with the characteristics of credibility, clarity and certainty, will influence the formation of rational expectations about future market trends. However, it is considered that expectations of future returns from housing market speculation should be supported through the introduction of an annual tax on dwellings, which are not principal primary residences.

45. Therefore, it is recommended that an annual tax, say of 2-3 per cent of the declared value of such properties acquired in the future should be introduced.

Measures to Secure Improvements in the Quality & Availability of Rented Accommodation

46. The Commission on the Private Rented Residential Sector is due to report about end-June 2000. The Commission is expected to make recommendations in relation to the objective of increasing investment in and the supply of rented accommodation and removing any identified constraints to the development of the sector, as required by its terms of reference. It will be necessary that measures implemented on foot of both this report and the Commission's report are consistent and produce the desired impact. In recognising this fact, and the need for measures designed to encourage a greater level of long-term commitment by investors to the provision of professionally managed private rented accommodation, the following recommendation is made:

47. **A mechanism should be developed to exempt landlords from the tax measure proposed in paragraph 45 above, where certain specified conditions apply, including compliance with the standards and other requirements of the regulatory regime and there is evidence of a commitment to the availability of the accommodation for renting on a long-term basis.**

Strengthening of the Institutional Framework for Securing a More Effective Housing Response in the Greater Dublin Area

48. It is considered that it would be appropriate to strengthen the present institutional framework available for co-ordinating and executing plans, initiatives and projects which impact on the current and prospective future supply of housing in Dublin City & County and the Counties of Kildare, Wicklow & Meath.

49. **Therefore, it is recommended that there should be an expansion of the role of the housing supply function in the Department. It should be charged with ensuring delivery of key infrastructure in association with the local authorities, and co-ordinating the delivery of facilities and services required for new housing development and provided by other relevant Government Departments and State Agencies.**

50. **A considerable strengthening of the housing supply function in the Dublin authorities is required to ensure that there is a "One-Stop shop" for housing supply issues in Dublin. This is required to ensure that new housing development is brought on stream, including in the designated SDZs at the earliest date and to oversee the project offices in the SDZs.**

51. **It should be required to submit a report to the Department each quarter. This should deal with implementation of the housing strategies covering house completions (private, local authority and voluntary), serviced land status, planning permissions granted, progress on key housing related water, sewerage, roads and public transport projects (compared to original critical paths), constraints on achievement of the housing strategy targets and any adjustments to factors underlying the strategy, etc.**

1: Introduction

This report sets out the results of a study, commissioned by the Department of the Environment and Local Government in March 2000. The terms of reference provide for reviewing and evaluating measures taken by Government and other recent developments on housing demand, housing supply and house prices. Furthermore, they provide for undertaking a general review of the market since the publication of *Action on House Prices* (23 April 1998) and *Action on the Housing Market* (9 March 1999) and an up-to-date assessment of medium term projections on the demand for and supply of housing. Further recommendations are made (having regard to the safeguards required in relation to the quality of the residential environment) for action required to bring supply and demand into closer balance and to improve housing affordability. An assessment is conducted of the level of hoarding of development land and possible deterrent measures.

During the course of their work, the consultants benefited from the assistance of a wide range of persons and organisations. The guidance of the Inter-departmental Steering Group, comprising officers of the Department of Environment & Local Government and the Department of Finance, in particular, is gratefully acknowledged. However, the consultants alone are solely responsible for the views expressed in this Report.

2: Housing Market Trends: A Review of Recent Developments

2.1 Introduction

In this chapter, recent trends in the housing market are reviewed, in the context of Government's *Action on House Prices (April 1998)* and *Action on the Housing Market (March 1999)*. Section 2.2 analyses the trend in house prices, distinguishing new and existing house price developments and the pattern in selected cities. Developments in housing output and supply are presented in Section 2.3. The subject of house price affordability, investment in residential property and developments in the rental sector are discussed in Section 2.4.

2.2 House Prices

2.2.1 The Economic Context within which Adjustment is being undertaken

Increasingly buoyant economic conditions are fuelling the demand for housing and making the task of securing housing market stability more difficult. Over the past two years, economic growth has been even stronger than the generally bullish forecasts for the period. Falling interest rates through 1999 and strong inward migration flows have had a reinforcing influence on housing demand. Moreover, these influences are likely to add further pressure into the medium term. For example, a recent report by an *Inter-Departmental Review Group* has estimated that gross immigration of 200,000 workers will be required over the coming seven years to sustain economic growth, with this front-loaded in the coming three years. Allowing for other migratory flows and the likely age patterns of people making up these numbers, the impact on housing demand from this source alone is likely to be around 8,000-10,000 units per annum.

When assessing the two packages of Government measures introduced since 1998, to bring stability to the housing market and improving accessibility for first time buyers, this increasingly dynamic economic backdrop has to be included. Thus, the general pattern over the past two years since the first set of measures was applied, involves economic growth accelerating faster than what was envisaged, with real GNP growth at over 8 per cent in 1999 and interest rates falling. At 4.3 per cent in early 2000 mortgage rates in Ireland were the lowest in the EU. This exceptional rate of growth has been associated with more rapid expansion of real disposable incomes and employment, a net increase of 100,000 jobs in 1999. The result is a fuelling of demand for housing. While there is a hardening in price inflation pressures and interest rates have started to turn up, other factors – such as personal taxation commitments and income developments - are reinforcing demand generally and housing market pressures in particular.

Against this backdrop, an analysis is provided of recent and current developments in house prices and completions. As far as possible all relevant statistical information is considered.

2.2.2 Price Trends: Slow down in rates of increase but price levels remain

A key concern is whether or not the rate of increase in house prices has peaked and a return to stability is underway. This Section analyses the most recent data with regard to this question. It concludes firmly that the rates of increase in prices of new and existing houses in Dublin and nationally have been slowing down now since the middle of 1998, the time from which Government measures to redress market imbalance were instituted.

3: Potential Housing Supply in the Dublin Region & Selected Other Major Urban Areas

3.1 Introduction

This chapter assesses the current potential supply of housing in the Dublin Region and selected other major urban areas like Cork and Galway. Some of the key constraints and other issues, which are relevant to realising this potential, are identified.

Section 3.2 contains an analysis of recent and current trends in planning applications. An assessment is then made in Section 3.3 of the potential supply of housing in the Dublin region and in certain other major urban areas. Section 3.4 considers the main constraints on realising potential supply. Section 3.5 contains an account of current changes being made as part of the Development Plan Process, which is the basis for zoning land for residential construction. Finally, the emerging trend in likely supply in the short and medium term is assessed in Section 3.6.

3.2 Processing of Planning Applications

3.2.1 Trends Since 1996 and Regional Analysis

Chart 3.1 contains official published data on the number of dwellings for which planning permissions were granted on a quarterly basis, since the beginning of 1996. A key feature of the data is the rapid growth in dwellings permitted through 1998. The average annual increase in dwellings permitted amounted to 28 per cent. Following this increase in productivity in planning processing, the level of dwellings permitted was sustained in 1999, although there was a rise of 17 per cent in the number of permissions granted. There is now evidence of capacity constraints in planning. These comprise both staff shortages in local authorities as well as capacity constraints amongst architects and planners, resulting in sub-standard applications which cause further delay. In addition, there is evidence of some developers not having adequate design capacity to deal with higher density schemes, which need more technical input than the average estate of three-bedroom semi-detached houses.

The number of dwellings permitted in the third quarter of 1998 for houses involved was the highest since this series commenced in 1973. The year-on-year rate of increase in that quarter amounted to 64 per cent. However, after that there was a significant contraction. From the first quarter of 1999, numbers of dwellings permitted rose, but never regained the earlier peak of the third quarter of 1998 and in the final quarter of 1999, they fell back sharply again. Taking 1999 as a whole, permissions granted for new houses were up 5.75 per cent on 1998. This followed a strong rise of 34 per cent in 1998.

The trend in permissions granted for apartments actually declined from a peak of 2,041 in the first quarter of 1997. However, by the third quarter of 1998 apartment permissions had almost regained the earlier peak level of the first quarter of 1997. During 1999 permissions fell steadily. By the final quarter of 1999, the number had fallen to 1,082, from 1,816 in the final quarter of 1998. The reasons for this decline are not entirely clear. However, the expiry of tax incentives and urban renewal programmes are thought to be contributory factors.

A weakness of this scheme was that it supported demand for housing without a corresponding increase in supply. Increasingly, it is the custom of local authorities to build new houses to meet demand under the shared ownership and affordable housing schemes. Other important aspects in achieving effective results are the extent to which sound mechanisms are employed to prevent counter bidding and target bids at houses with below average prices.

5.2.3 Optimising Potential Housing Supply

Housing output growth in 1999 at 9.8 per cent continued a trend, in place now since 1994, of rising annual output. While growth in 1999 was impressive in aggregate terms, it is evident that bottlenecks persist, especially in Dublin City & County. Shortages of resources within the planning system, deteriorating quality of planning applications in many instances and the resulting time required to secure necessary planning consents, represent serious bottlenecks to achieving a sufficiently speedy supply response to achieve durable market stability. Identified infrastructure bottlenecks must be addressed also, to ensure that the stock of serviced land increases going forward. As noted below, (see Section 5.5.5), the key water/sewerage schemes in Dublin have been factored into the Department's and local authorities programmes.

Generally, measures taken to date have resulted in improving housing supply. Some delays have been experienced with SLI projects in Dublin. However, the position for 2000 appears to be more positive with almost 56,000 units to be completed by the end of the year, 22,000 of which will be in the Dublin Region. Similarly, the initiative, whereby local authorities in Fingal & Dublin City agreed that interim/temporary arrangements (which could include temporary sewage treatment plants or pumping facilities) would be permitted in deciding on planning applications for residential development did not result in accelerating housing supply in the manner envisaged. This is because a side effect of the subsequent decision to fast-track the provision of the North Fringe Interceptor, with a completion date of end 2002 now envisaged, means that the pay back period for any temporary/interim facilities were shortened, in a way that made these uneconomic to developers. However, there are undoubtedly benefits to be reaped from the earlier completion of the North Fringe Sewer.

The requirement for Local Area Plans, in some 25 of the forty-odd significant sites likely to be developed for housing in Dublin City & County requires a significant commitment of additional resources to the planning system, if these are to be drawn-up speedily. As noted at the outset of Section 3.2.1 earlier, constraints apply to total planning resources available and to the capacity of architects and not simply to those involved in local authorities. Resulting sub-standard applications are causing further delay. In addition, there is evidence of some developers not having adequate design capacity to deal with higher density schemes, which need more technical input than the average estate of three-bedroom semi-detached houses.

Experience indicates that the likely time period from the lodgement of the application to a Grant of Permission may be in the order of 40 weeks. From initiation of area planning to final grant of permission, an *optimistic* total elapsed time of 94 weeks, i.e. a year and 10 months, is implied. Filling the current vacancies in local authority planning, many of which were created in 1999 to deal with the increased workload involved, will enable productivity growth, which occurred through 1998, to resume. In addition, as is happening already, Local Area Plans can be drawn up developers, in consultation with local authorities. The latter, also, can employ consultants to assist, in the speedy delivery of Plans, drawn to the required quality standard.

5.2.4 The Private Rented Sector

The Government established a Commission on the *Private Rented Residential Sector* in June 1999. The Commission is broadly representative of interests in the sector and is due to Report by end June 2000. Taking the narrow issue of rents, it would appear from limited available statistical information that the trend has shown the same pattern as with prices, namely a moderation of the rate of increase experienced which occurred in 1998. It is generally agreed that there are a number of important issues concerning the private rented sector, which need to be addressed. Doubtless, the Commissions report will deal comprehensively with all of these matters. Therefore, recommendations contained here are confined to dealing with follow-on consequences from certain recommendations proposed in this report.

Student Accommodation: Section 50 Tax Relief

The Government introduced tax incentives, specifically for the provision of student accommodation, in Section 50 of the Finance Act, 1999 to increase the supply of student accommodation to mitigate the impact on the student population of current supply pressures in the private rented sector.

This relief is available for accommodation provided in the four-year period from 1 April, 1999 to 31 March, 2003. It allows investors to offset 100 per cent of the costs of construction, conversion or refurbishment of purpose built student accommodation against all rental income over a maximum period of 10 years. The Minister for Education and Science published Guidelines, which deal with key elements of eligibility for the relief and set out conditions relating to the standards and location of accommodation.

Returns received to date from third level institutions indicate that, currently, over 7,500 purpose built units are in various stages of planning. The table below sets out the current planned provision, as indicated by the institutions, of student accommodation over the next few years.

Provision of Third Level Student Accommodation

	Anticipated Completion Date			
	2000	**2001**	**2002-2003**	**Total**
Dublin	140	350	3150	**3640**
Cork	3804	0	0	**438**
Galway	657	549	870	**2076**
Limerick	0	0	320	**320**
Waterford	0	0	300	**300**
Rest of Leinster	298	60	350	**708**
Rest of Connaught	0	0	0	**0**
Rest of Munster	0	100	0	**100**
Total	**1,133**	**1,059**	**5,390**	**7,582**

Developing the Private Rented Sector in the Context of Urban Renewal

A total of 38 towns and five cities are currently benefiting under this scheme which was announced last year. In all 49 Integrated Area Plans submitted by local authorities were approved under the scheme; residential incentives were introduced on 1 March 1999, while the commercial incentives which required the approval of the EU Commission took effect from 1 July 1999. The Integrated Area Plans (IAPs) are designed to address both the problems of physical development and the broader issues socio-economic needs of the areas in question. The Urban Renewal Act, 1998 provides the legislative framework for the objectives and the implementation of the Scheme while the legislative provisions to give effect to the various tax reliefs under the scheme were contained in the Finance Act 1998.

Electricity Supply - Two new 110 kv stations are required in the Docklands. Their provision will have a lead-in time of two years.

Archaeology - Newcastle (Area 36) is an archaeologically rich area which will require examination, assessment and protection before development can commence.

5.5.6 *Fiscal Penalty on Non-Realisation of Potential of Proposed SDZs*

The recommendation to designate a number of key strategic sites as Special Development Zones, with the accompanying fast-track planning process amounts to a significant commitment to secure the earlier release of the lands involved for housing development. It is important to ensure that development does indeed take place at an early stage following the proposed process.

Therefore, it is recommended that an annual tax of £3,000 per housing site should be applied to the owners of land who:

(c) **have not applied for planning permission in accordance with the approved planning scheme for the lands contained within the SDZs, within a period of 12 weeks after the scheme has been approved; and/or**

(d) **do not commence implementing a planning permission in accordance with the terms contained therein, within 26 weeks of the permission having been granted.**

5.5.7 *Proposed Revisions to Stamp Duty Regime*

House price increases since the revision of Stamp Duty rates in June 1998 have resulted in an increase in the burden of stamp duty, making it again a potential barrier to first time buyers entering the existing house market. This is significant because first time buyer housing needs are being met, increasingly, from the existing house market. Both stamp duty receipts and Department survey data indicate that activity in the market is increasing. First time buyers continue to account for around 45 per cent of the total market but, as indicated by the fall in the number of new house grants paid, of 11 per cent between 1998 and 1999, fewer first time buyers are purchasing new houses.

Current analysis of the housing market, contained in Chapter 4, suggests there is a significant element of speculative or transitory demand, which hampers efforts to meet fundamental demand with increased supply. Accordingly, it is considered appropriate that measures should be incorporated to dampen this element of demand. Stamp Duties provide an appropriate means of achieving this since they relate to all housing transactions, whether mortgage financed or not.

Therefore, it is recommended that Stamp Duties should be revised along the lines contained in the following table.

Proposed Revisions to Stamp Duty Bands & Rates

			First Time Buyers Buying for Owner Occupation	Existing Purchasers buying for Owner Occupation	Other Purchasers
Current Bands	Current Rate Per cent	Proposed bands	Proposed Rate Per Cent	Proposed Rate Per cent	Proposed Rate Per cent
Up to £60,000	Nil	Up to £100,000	Nil	Nil	3.75
£60,000-£100,000	3	£100,001-£150,000	Nil	3	3.75
£100,001-£170,000	4	£250,001-£200,000	3	4	5
£170,001-£250,000	5	£200,001-£250,000	3.75	5	6.25
£250,001-£500,000	7	£250,001-£300,00	4.5	6	7.5
		£300,001-£500,000	7.5	7.5	7.5
Over £500,000	9	Over £500,000	9	9	9

5.5.8 *Anti-speculation Property Tax*

The housing market is attracting speculative demand. In some cases, this takes the form of individuals taking a view about prospective house prices and buying residential property, as opposed to another form of investment. In other instances, speculative demand takes the form of a transitory increase, following from demand being brought forward, so as to avoid expected future price increases. These various kinds of speculative demand forestall the movement of the housing market to stability. As this happens, there is a tendency to stimulate further speculative demand and in this way a 'bubble' can develop. If allowed to develop unchecked, such a process has the potential capacity to threaten overall stability of the market. Of course, the pursuit of a strategy centred on a vigorous supply response, with the characteristics of credibility, clarity and certainty, as discussed above in Section 5.5.1 will influence the formation of rational expectations about future market trends. However, it is considered that expectations of future returns from housing market speculation should be supported through the introduction of an annual tax on dwellings, which are not principal primary residences.

Therefore, it is recommended that an annual tax, say of 2-3 per cent, of the declared value of such properties acquired in the future should be introduced.

5.5.9 *Measures to Secure Improvements in the Quality & Availability of Rented Accommodation*

As noted previously, the Commission on the Private Rented Residential Sector is due to report at end June 2000. The Commission is expected to make recommendations in relation to the objective of increasing investment in and the supply of rented accommodation and removing any identified constraints to the development of the sector, as required by its terms of reference. It will be necessary that measures implemented on foot of both this report and the Commission's report are consistent and produce the desired impact. In recognising this fact, and the need for measures designed to encourage a greater level of long-term commitment by investors to the provision of professionally managed private rented accommodation, the following recommendation is made:

A mechanism should be developed to exempt landlords from the tax measure proposed in section 5.5.8 above where certain specified conditions apply, including compliance

Financial Statement

of the

Minister for Finance

Mr Brian Cowen, T.D.

1 December 2004

STATEMENT OF THE MINISTER FOR FINANCE

MR BRIAN COWEN, T.D.

1 DECEMBER 2004

Opening Remarks

I am very honoured to introduce this my first Budget to the House. In doing so I pay tribute to my predecessor who made a major contribution to this country's sound budgetary position and who has left us a lasting legacy in this regard.

While this is my first Budget as Minister for Finance, it is not the first time I have been involved in the budgetary process. Any Budget should reflect Government policy and the economic realities of the time, as well as the economic and social demands of the future. The Budget is an initiative of Government as a whole and not simply the work of the Minister for Finance.

By another measure, this is my 21st Budget. I was first elected to this House in 1984 and I have observed the Budget from the backbenches, from the opposition benches and from my position in different Government Departments. In framing this Government's Budget, I have been influenced by what I have observed over that period.

I will spare this House any history lesson on the events since my first Budget experience sitting on the benches opposite me. Six Governments and six Ministers for Finance later, our economy has been completely transformed. With that transformation has come some dramatic improvements in society. We have made great strides towards becoming a vibrant, pluralist and modern European country. That has not all been achieved by our economic growth, but it is this economic progress that underpins much of what we now enjoy.

All of this progress is not without challenge. Government has a responsibility to ensure that the benefits of our economic performance permeate society as a whole. Proper budgetary policy involves careful evaluation and our task is to put together an economic model that builds a society of which we can all be proud.

This is the context in which the Budget is framed. Our economic strength must be protected as it gives us the leverage to create wider social reform. I will build on the progress we have already made in this and my next two Budgets in an effort to meet the needs of the people and to deliver on this Government's programme.

These changed times bring fresh challenges. Recent successes give us more opportunities and widen the scope for new policy approaches.

This, therefore, is a Budget for the Irish people as a whole. A Budget that will:

- protect and increase jobs in a more competitive business environment
- build up and modernise our economy through major capital programmes
- distribute the fruits of growth to all our people through better services and a fairer sharing of resources, and
- redouble our efforts to help those most in need, particularly those with disabilities.

Good Government and sound policies created these opportunities and good Government will ensure that we succeed in addressing the needs of all our people going forward.

Good Government does not mean responding blindly to headlines or being pressured into half-responses. It means sensible policies, soundly-based, with realistic, achievable and prioritised targets.

A single Budget cannot achieve all that we desire nor should it try to do so. There are always risks to the economic outlook, especially in a small and open economy such as ours. Therefore it is important to take into account the unpredictable nature of our economic environment. The ordinary taxpayer knows that this makes sense. I hope that they will recognise the firm resolve of this Government to secure their welfare now and for the future.

Budgetary targets

We are determined as a Government to meet the priorities we have set ourselves. To make progress in doing so we are setting the following budgetary targets for 2005:

- an allocation of almost €45 billion for gross spending on public services, or 9.1 per cent more than in 2004
- an Exchequer Borrowing Requirement of just under €3 billion or 2.3 per cent of GNP
- a General Government Deficit of 0.8 per cent of GDP, and
- a debt ratio of 30 per cent of GDP.

These targets seek to ensure that public spending growth is correlated with the growth in revenues, while keeping borrowing to a prudent level to fund priority investment needs. This approach will help contain inflationary pressures.

Economic Outlook

We are part of a single currency area where our partners will continue to keep inflation close to 2 per cent. We cannot determine the prices we can charge for our exports. International markets do that.

We must continue to compete, not just to sell our goods and services, but also to continue attracting foreign direct investment and creating high quality jobs. Economic competitiveness, therefore, remains critical to our future well-being.

The prospects for this economy are fairly positive for the next few years. If international growth holds up and if we do the right things, we have the potential to grow at around 5 per cent per year in real terms and to keep inflation in the 2 to 3 per cent range.

Of course, our economic situation also contains risks. The main question mark arises from the international economic situation, where answers to some questions are not so easy:

- how will oil prices fare? Last December few would have predicted that oil prices would reach $50 per barrel
- how will international exchange rates evolve?
- what will be the international policy response in terms of interest rates?

The answers to these questions and the response of the world economy will have a significant influence on our prospects going forward.

Assuming no major shocks arising from the risk factors to which I have just referred, we are forecasting for 2005 that:

- the Irish Economy will grow by 4.7 per cent in GNP terms and 5.1 per cent in GDP terms
- employment will grow by around 35,000
- unemployment will remain low at 4.4 per cent, and
- price inflation will come in at 2.5 per cent, close to the EU average.

Making factual comparisons with our EU counterparts, I think it is important to point out that:

- our rate of economic growth is more than twice the average in the Euro area
- our rate of spending increase in 2005 is three times the EU average
- our rate of public investment, at nearly 5 per cent of GNP, is almost twice the EU average
- our unemployment rate is half the EU average, and
- our debt burden is among the lowest in the EU.

Naturally, there are areas where we can do better and we will do so. But we should not be shy about our achievements either. I know from my time as Minister for Foreign Affairs that many of our colleagues in the EU would love to have our record. Many have beaten a path to our door to enquire how we did it. We did not achieve all this merely by chance. The actions of Government, in setting a sound economic and fiscal policy played a key role in achieving our current success.

In my view an Irish model for continuing growth should include the following elements:

- a coherent and equitable approach to public services and the economy, through social partnership

- better skills, training and education for those in a flexible labour force
- a low tax burden on activities that create and promote employment and on labour itself
- building competitiveness in all areas of the market, and
- an appropriate business environment that creates prosperity with the support of Government.

The reduction in the tax burden for all has formed part of this policy. But this did not mean a lessening of our commitment to spending on public services. Between 1997 and 2004, economic growth generated an extra €30 billion in annual resources for the State. Two thirds of this went to fund additional day-to-day spending. Some €4 billion has gone on additional public investment, and approximately €6 billion went towards tax reductions.

These are the facts. Lower tax rates and, in particular, the 12½ per cent corporation tax rate to which this Government is committed, have meant more revenue and economic growth. It is the revenues generated by economic activity which keep public services going, and not higher tax rates as some would have us believe.

Public spending

To demonstrate that point and to provide more public services and better infrastructure, this Budget means gross voted spending of almost €45 billion in 2005. This is over €3.7 billion more than in 2004. This increase reflects the sustainable growth in resources.

However, I wish to make it clear that we must maintain economic growth if we are to support our ambitions to make better provision for those in need in our society. Investing in a major capital programme increases our capacity to grow and is hugely important if we are to continue on this path.

Infrastructural investment/Capital envelopes

Last year we moved to a multi-annual programme for capital spending so as to plan more effectively for such large-scale spending. 2004 was its first year of operation. The multi-annual basis allows Departments to carry-over to the next year up to 10 per cent of the voted annual allocation to assist programme planning and delivery. The carryover from 2004 to 2005 is €237 million or 4 per cent of the 2004 voted capital allocation. I am providing €334 million in additional Exchequer capital for 2005. This will bring the total Exchequer cash available for capital spending next year to almost €6,300 million, or 20 per cent ahead of the 2004 cash outturn.

This means that for 2005-2009 we will maintain our high level of investment in infrastructure at nearly twice the European average. Total investment within the envelope over the next five years will be €36.3 billion, which is €2.7 billion more than last year's capital envelope. Further details are set out in the Budget Summary. I am making provision in these totals for the Government's decentralisation programme. This programme is moving forward. Considerable progress has been made and its implementation is well on track.

Developing capital envelopes further - Transport

The 2005-2009 capital envelope, as it is called, represents the total planned spend by all Departments. This includes almost €10.2 billion in respect of investment in transport infrastructure. The Government regards transport investment as particularly important for the promotion of competitiveness, sustainable economic growth and balanced regional development. We have seen many important projects coming on stream and starting to make a real difference. We know that more remains to be done.

Major capital projects in the transport sphere are multi-annual in nature involving long planning lead-times and substantial construction phases. Given this time consideration, and the scale of the projects and the investment involved, I have now agreed in principle with the Minister for Transport that an extended capital envelope of 10 years is more appropriate in the case of investment in transport. Proposals for such a 10 year investment will be submitted shortly for consideration by Government. I believe that this is a necessary development in forward-budgeting. It will afford the Government greater flexibility and clarity in planning and, most importantly, in delivering a 21st Century transport infrastructure for a 21st Century economy. It is my strong view that this is a new initiative which we must put in place if we are to position the economy to continue to grow and compete over the medium term.

Value for money for Capital Expenditure

I am extremely conscious of the need to optimise the value for money from the very significant levels of capital funding now in place and I am determined to take whatever action is required to bring this about. The multi-annual envelope system is designed to facilitate the objective of securing value for money through careful planning and implementation. My Department will also shortly be issuing to Departments revised guidelines on the appraisal and management of capital projects. Work is also continuing on changes in public sector capital project contracts to ensure that risk is transferred to those best able to manage and control it. These are practical and important steps in ensuring that the taxpayer gets better value for money in this area.

Public Private Partnerships

The Government is committed to developing the PPP process as a viable procurement option for appropriate projects. Progress has, however, been slow in some areas. The targets set last year for PPP projects funded by unitary payments from the Exchequer have been adjusted accordingly to reflect information currently available on the lead-in time required to bring projects to construction stage. This reflects the fact that, for various reasons, PPPs have been slower to get off the ground in some areas than was envisaged. We are actively examining how to resolve that issue going forward.

Taxation Policy

Ensuring a fair and balanced tax system is a priority for this Government. Our record testifies to the many key measures we have taken. These actions have:

- greatly reduced tax on the lower paid who now pay less than 6 per cent of the total income tax bill compared to 14 per cent in 1997

- eliminated unfair tax structures through the introduction of tax credits
- closed down abusive tax loopholes, and
- made sure individual reliefs focussed more on their essential purpose – encouraging jobs and investment.

The primary aim of our tax policy has been the use of the tax system to expand our economy, reward work and alleviate the burden on taxpayers especially for those on lower pay.

To continue to reduce the tax burden for those on lower pay I am making the following changes.

I am increasing the Employee Tax Credit by €230 to bring it to €1,270 per year. I am also increasing the personal tax credits by €60 single and €120 married to bring those to €1,580 and €3,160 per year respectively. This will benefit all workers and will ensure that all those on the minimum wage are fully outside the tax net.

As a result of these increases, over 650,000 of the 1.9 million income-earners will be exempt from paying tax on their earnings. It also means that for standard rate tax-payers an additional €1,450 per year, or almost €28 per week, is exempt from tax in the case of a single person, and €1,750 or almost €34 per week for married one-earners.

Given that it was not possible to widen the standard rate band over the past two years, I am now increasing it by €1,400 per year for all earners. A single person on the average industrial wage next year will pay 14 per cent or €11.50 per week less tax as a result of the changes in this Budget. There are also increases in the band for single and widowed parents. Altogether, 52,100 taxpayers will be taken off the higher rate of tax.

There are a number of specific tax reliefs in the tax system for the aged, the disabled and for widows. The income tax exemption limits for those aged 65 or over are being raised by €1,000 single and €2,000 married to bring them to €16,500 and €33,000 per year respectively. The other income tax changes I am announcing today, combined with this, will remove over 66,000 income-earners from the tax net. This includes 4,700 elderly who will be removed from the tax net.

The tax credit for an incapacitated child is being doubled to €1,000 per year. The blind person's tax credit is being increased to €1,000 single per year. The tax credit for a widowed parent in the first five years after bereavement is being increased by €200 in each year and the widowed person's credit is being increased to €400 per year.

Health Levy Threshold

The 2 per cent health levy currently applies to those earning over €356 per week. I am providing for a substantial increase in this threshold to €400 per week, an increase of almost 12½ per cent. This will be of particular benefit to the 95,200 persons concerned.

The total cost of these income tax and levy changes in a full year is €682 million, more than double last year's total.

Tax Reliefs

The debate on tax reliefs has attracted much comment in recent weeks. In any such debate we must be clear which reliefs we are talking about. Firstly, many tax reliefs are in fact inherent in the tax system and others lessen the burden on taxpayers with specific payments or expenses. This is the case for example with mortgage interest relief, medical expenses relief and pension contributions.

Secondly, other normal reliefs allow for the expenses of business, such as depreciation, interest and accumulated trade losses. If they did not, the real cost to business of capital investment would not be provided for, and business and employment would suffer. One can limit the potential for abuse of these reliefs, as this Government has done, but it is not appropriate to eliminate them.

The great bulk of the €8 billion or so cost of the major tax reliefs generally referred to in recent public discourse falls into those categories which are used by ordinary taxpayers and businesses.

Finally, there are those reliefs included in the €8 billion which were designed to incentivise economic and social development. The annual cost of these reliefs has been tentatively estimated by the Chairman of the Revenue Commissioners in recent evidence to a Dáil Committee as in the order of €200 million per year.

These include the series of property reliefs which were introduced, broadened and enhanced by Governments of all shades in the past. This was done for good reasons at the time, to regenerate the economy and the many parts of our cities and towns which were affected by recession and had poor economic prospects. Such schemes and initiatives were not the preserve of just one particular Government. We can see clear examples of where they have succeeded, particularly in regenerating town and city centres and areas in need of development.

Despite supporting many of these reliefs, there are those who seem unhappy when people with the capacity to use them have in fact done so, which is not a consistent stance to take.

My aim is to seek to improve the equity of the tax system taking into account the social and economic benefit of reliefs in delivering investment in housing, enterprise, urban and rural renewal, tourism, films and health facilities. Because of the complex nature of this issue, the interaction of such reliefs with economic activity and the unintended consequences that untimely action may have for investment, I want to ensure that I take the time necessary to strike a careful and considered balance in what I do. For the successful operation of such schemes and to achieve the common good, we need to ensure the right balance is achieved between the benefit to the investor and the good of the community.

I believe the time is now right to conduct a full review of these incentive reliefs, in particular to evaluate in detail their impact and how they are operating in practice. My preference is for a complete and comprehensive reform of the system rather than a piecemeal approach. For this reason, I have directed my Department, together with the Revenue Commissioners, to undertake a thorough evaluation of the effect of all relevant incentive reliefs and exemptions and to bring forward proposals which would achieve the balance I have referred to. I am now making it clear that I intend to include appropriate follow-up measures in next year's Budget.

Those using this particular group of reliefs, therefore, should realise that the concept of unlimited or unrestricted reliefs is no longer viable or acceptable to the general tax-paying public in current-day economic circumstances. I want to make sure that everyone makes an appropriate contribution to the State.

I wish to confirm to the House that the termination dates for various schemes laid down previously in this year's Finance Act remain unchanged.

I have no problem in maintaining justifiable reliefs and extending them, where appropriate, including in the particular cases that I turn to now.

Stamp Duty Relief for First-Time House-Buyers

I am very aware of the difficulties that many first-time buyers face in their efforts to get onto the property ladder. To assist first-time buyers of second-hand houses, I am providing today for a significant reduction in stamp duty for them. Full details are set out in the Budget Summary.

As a result of this, there will be no stamp duty on first-time purchasers of second-hand houses up to €317,500 in value and reduced rates on such purchases up to €635,000. This new exemption threshold is above the national average price for second-hand houses and is above what the average first-time buyer pays for a second-hand house anywhere in the State. Examples of the savings involved are given in the Budget Summary.

Rent Relief

I am conscious that those living in private rented accommodation also face costs. A tax allowance is currently available at the standard rate for rent payments of up to €1,270 per year for a single person under 55, and €2,540 per year for those over 55, with double the amounts for widowed and married persons. I propose to increase these to €1,500 and €3,000 per year respectively for single persons and €3,000 and €6,000 for married and widowed persons. I know that this substantial increase in tax relief will be welcomed by those living in rented accommodation.

This package includes guaranteed additional current spending of almost €600 million. The Government has also agreed to allocate €300 million out of the revised capital envelopes to which I referred earlier to these high-priority disability services. Further details are provided in the Budget Summary.

The bulk of the new funding package will go to the health sector where it will be invested in services for persons with an intellectual disability and those with autism, services for persons with physical or sensory disabilities and mental health services. It will focus, in particular, on the provision of extra residential, respite and day places, extra home support and personal assistance, and extra places in community based mental health facilities.

Together with the 2005 funding, it is estimated that, by the end of 2009:

- over 4,500 extra residential, respite and day places will be provided for persons with an intellectual, physical or sensory disability or autism
- about 600 persons with intellectual disability or autism will be transferred out of psychiatric hospitals and other inappropriate placements
- about 1.2 million extra hours of home support and personal assistance will be provided for persons with physical or sensory disabilities and
- 400 new places will be provided in community based mental health facilities.

The balance of the 2006 – 2009 disability funding package is being allocated between four other Departments or Offices.

These resources will be used to:

- enhance education services for adults with disabilities and expand pre-school provision
- support projects which demonstrate an innovative and cost-effective approach to service provision and
- improve accessibility to public buildings and amenities.

Details on this are set out in the Budget Summary.

As far as the 2005 allocations for these four Departments or Offices are concerned:

- the allocation for the Department of Education & Science already includes an extra €5.5 million
- the capital envelopes for the Department of the Environment, Heritage & Local Government and the OPW include €10 million and €5 million, respectively and
- I am today providing an extra €3 million for the Department of Justice, Equality & Law Reform.

What I am dealing with today are certain high-priority services. However, I want to make it clear that other disability services will also continue to be dealt with as a normal part of the annual estimates process and will receive extra funding going forward as overall budgetary circumstances permit.

My strong view, based on my experience as Minister for Health, is that the disability programme was for many years at the end of the queue for resources. It did not benefit from the type of professional lobbying and support which the acute hospital and primary care programmes traditionally got from strong, organised interests in the health services. Families of people with disabilities had their hands full simply trying to cope. Nor did it attract the same level of public attention as issues such as waiting lists, medical cards, etc. Instead, most of the running had to be made by voluntary organisations. The National Disability Strategy shows a clear political focus by this Government on addressing the needs of the disability sector in a very concrete and specific manner. We also need to build on the existing partnership between the statutory health service structure, the voluntary service providers, and people with a disability and the voluntary organisations representing them. It is absolutely essential now that all those concerned work together to ensure that those most in need get the improved services they require.

The funding package which I am announcing today and the services which will be provided as a result, represent a considerable and guaranteed advance in the support available to people with a disability. The extra service capacity will meet in a very substantial way the needs which are projected to arise over those years and will make a real difference to the lives of people with a disability and their families. Today's actions give the lie to those who claim that this Government is indifferent to the needs of some of the most vulnerable members of our society.

Conclusion

Before concluding, I would like to comment on the budgetary process itself. The policy decisions we take here today impact on ordinary people's lives. That much is very clear.

As I said at the outset, I have seen twenty Budgets in this House. There have, however, been important recent changes in how the process evolves.

We now publish three year economic and fiscal programmes in the EU Stability Programme Updates included in the Budget booklet. We have moved to multi-annual capital budgets which allow us to focus more clearly on the reasons why we are investing and what we expect from such investment. Every Department of Government now publishes regular Statements of Strategy setting out what it is they are seeking to do.

What is missing, in my view, is a constructive debate on, and examination of, all this material as part of the policy formation process. I am open to considering with the House how we can make improvements in the situation, while retaining the right and duty of the Government to direct and manage the budgetary process. I hope that I am taken up on this offer.

There is a general consensus that Ireland has a bright future. We can grow our economy to give us the resources we require to meet the needs and aspirations of our citizens.

This requires balanced, consistent policies, seeking fairness in the distribution of resources and efficiency in the delivery of public services.

This Budget:

- radically improves the funding for and delivery of services for the disabled
- increases social welfare rates by well above the rate of inflation
- frees those on the minimum wage from income tax
- seeks to reinforce the equity of the tax system through the plan of reform I outlined earlier
- keeps inflation low to help those on lower incomes, and
- enhances our capital spending to improve our public services.

This Budget shows the clear commitment of this Government to a fairer sharing of the resources for some of the most vulnerable of our citizens.

This Budget shows our commitment to improved public services which deliver value for money services to all our citizens.

It demonstrates our determination to invest in our community, our infrastructure and our future.

I strongly contend that the Budget, the country and its future are in safe hands with this Government.

There is more to come in the next two Budgets to be presented to this House. This Budget is my first instalment.

I commend the Budget to the House.

Briefing Paper No. 9
The Bacon Reports and Tax Treatment of Property

Tuesday, 24 February 2015

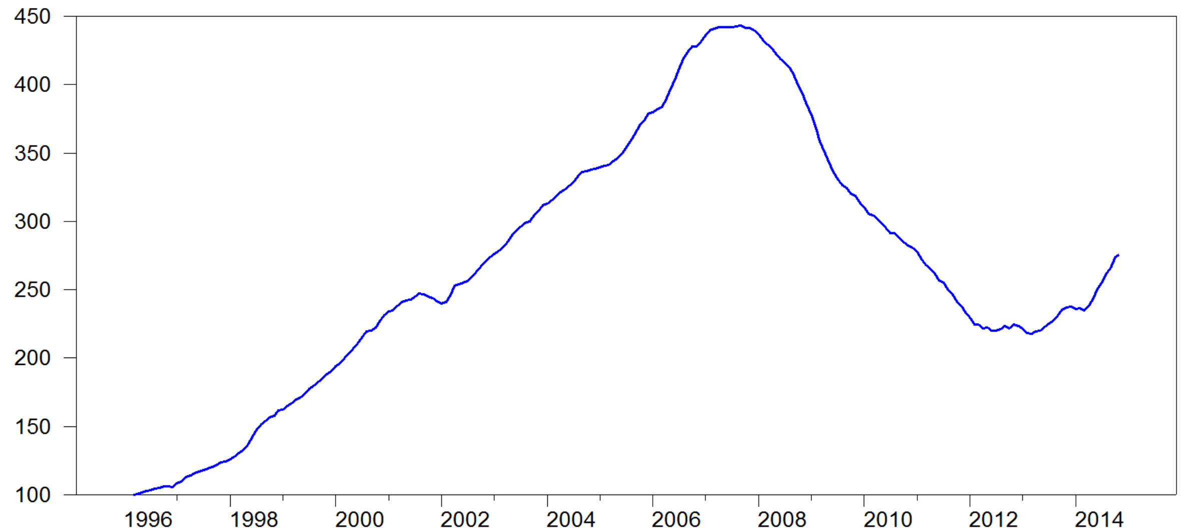
Dr. Pat McCloughan, Professor Karl Whelan, Jim Devlin

1. Introduction

Irish house prices increased rapidly from the mid-1990s onwards. In 1998, the government commissioned economist Peter Bacon to write a report to make recommendations on what actions it should take. This produced the first of three reports on the housing market, with the second following in 1999 and the third in 2000.

Figure 1: House Prices in Ireland (Index, March 1996 = 100)

Sources: ESRI and CSO House Price Indices



Bacon's reports were wide-ranging, focusing on the tax treatment of housing and a large number of planning-related issues. At this time, Ireland had many taxation-related incentives that affected the property market. For example, Section 23 reliefs, first introduced in 1981, provided tax relief to investors in a wide range in different types of properties. A stamp duty regime was in place which featured a minimum rate of 5 percent for the purchase of second-hand homes.

The increasing role of investors and speculators in the residential property market was a source of concern to the Irish government when it commissioned Bacon's first report. The reports contained a series of measures aimed at curtailing the role of investors in the property market as well as encouraging supply and enhancing affordability for first-time buyers and other owner-occupiers. Many of Bacon's proposals were introduced by the government. However, a number of key measures aimed at reducing the role of investors were reversed during 2001.

First Bacon Report, 1998

The first Bacon report on the housing market examined reasons for the rapid increase in house prices and provided recommendations aimed at slowing this process.[1]

The report explained that rapidly increasing house prices were the result of increased demand due to both economic growth and an increase in the number of households, combined with supply failing to keep up with demand. It listed a number of factors contributing to increased demand for housing. Firstly, a period of sustained and rapid economic growth had increased real personal disposable income per capita, allowing more money to be spent on housing. Secondly, falling interest rates in anticipation of Ireland joining the first round of EMU encouraged a rapid expansion of mortgage credit. Thirdly, net immigration had become positive, and was increasing demand for housing. Finally, a shift towards more one and two person households, particularly in Dublin, had increased demand for property.

The report presents a number of recommendations aimed at counteracting the rise in house prices. These mainly focus on increasing supply and reducing demand by investors, along with some recommendations to make houses more affordable for owner-occupiers.

A detailed list of the three classes of measures is provided on the next page along with the actions taken by the government in response.[2] The key measures can be summarised as follows

- **Investors**: A series of measures were propsed to reduce demand for residential properties from investors including repealing Section 23 tax reliefs and removing deductibility for income tax purposes of interest on borrowings for investment in residential property against rental income. These proposals were largely implemented with Section23 schemes restricted and interest relief disallowed.

- **Supply**: Land-owners were encouraged to bring forward land for residential property development, with a rebate on capital gains tax offered for land brought into development before 2002 and a large surcharge proposed to be added to the capital gains tax for land brought into development after 2002. This proposal was implemented.

- **Affordability:** Reductions in stamp duty were proposed to increase the turnover in the market. This proposal was implemented.

[1] An executive summary of the report can be found at http://www.environ.ie/en/Publications/DevelopmentandHousing/Housing/FileDownLoad,2069,en.doc

[2] A summary of the government's response to the first Bacon report can be found at http://www.environ.ie/en/Publications/DevelopmentandHousing/Housing/FileDownLoad,2064,en.doc

Bacon Report One: Proposals and Implementation

Demand Measures	
Proposal	**Implementation**
Repeal of 'Section 23' relief for investment in private rented accommodation from a current date	Tax incentives were not available on a blanket basis as previously. Section 23 relief will only apply in any area where it is shown to be absolutely necessary for the achievement of the objectives of the Integrated Area Plan.
Remove deductibility of interest on borrowings undertaken for investment in residential property, against rental income for personal income tax purposes from a current date	This recommendation seems to have been mostly implemented. Interest on borrowed money for purchase disallowed after transitional period. Interest on loans for improvement only disallowed if property not owned before 23 April 1998.
Make stamp duty payable on purchases of new houses by non-owner occupiers	This recommendation was implemented
Supply Measures	
Proposal	**Implementation**
A rebate of 50% on Capital Gains Tax should be available on serviced land zoned residential brought into residential development in the next four years, to be financed by a surcharge of 50% thereafter on CGT on development land	The rebate was implemented, and the Department stated their intention to implement the surcharge after four years
Increased resources for An Bord Pleanala to ensure appeals can be dealt with more quickly	The Minister approved significant increased staffing resources for the board
Affordability Measures	
Decrease cost of second hand homes for owner-occupiers by reducing stamp duty	Stamp duty rates were reduced broadly in line with recommendation, as per table below
The income limits for eligibility for the shared ownership scheme should be increased, and the rent charge should be decrease	Both implemented
Mortgage lenders should consider offering mortgages with longer repayment structures, say up to 35 years, with a fixed interest option for the first 5 to 10 years, to borrowers with lower incomes	Minister for Housing and Urban Renewal will bring this recommendation to the attention of mortgage lenders for consideration

Reform to Stamp Duty After the First Bacon Report

Stamp Duty for Second-Hand Houses		
Value of house (£)	**Existing Rates**	**New Rates**
0 – 60,000	Up to 5%	0%
60,001 – 100,000	6%	3%
100,001 – 170,000	6% - 8%	4%
170,001 – 250,000	9%	5%
250,001 – 500,000	9%	7%
Over 500,000	9%	9%

Second Bacon Report, 1999

Between the 1998 and 1999 Bacon reports, there was general easing in house price inflation, particularly in prices of new houses. The ESRI\Permanent TSB index had been showing monthly increases of 3 to 4 percent in the middle of 1998. By March 1999, when the second report was published, house prices were rising at rates of just over 1 percent per month.

Bacon's second report attributed this comparative slowdown in large part to the implementation of recommendations from the previous report.[3] Page 48 stated:

"the primary impact towards price stability has been achieved through:

- *Reducing investor demand for residential properties through the removal of deductibility of interest on borrowings undertaken for investment in residential property, against rental income for personal income tax purposes*
- *Promoting liquidity in the second hand market by reforming the stamp duty regime, including extension of the new regime purchases of new houses by non-owner occupiers*
- *Announcing and implementing a strategy in a manner that had credibility in the market and in this way breaking the psychology of house price inflation and expectations of further acceleration."*

The report anticipated further moderation in house prices. As a result of this expectation, the recommendations in this report were more limited and were mostly aimed at encouraging an increase in housing supply. These recommendations include:

- Temporary arrangements, including temporary treatment facilities, being used to make zoned land immediately available for housing.
- Ensuring that any infrastructural constraints to residential development were identified.
- Improving public transport facilities to locations having scope for growth.
- Withdrawing the requirement of prior planning permission in order to qualify for reduced capital gains tax on disposal of development land and introducing arrangements to recover any tax due if land is not developed.

[3] The second Bacon report is available at http://www.environ.ie/en/Publications/DevelopmentandHousing/Housing/FileDownLoad,2071,en.pdf

The government committed to moving forward with the first three recommendations.[4] The fourth, most concrete recommendation, was implemented so that disposals of land that was zoned for residential purposes would benefit from the reduced capital gains tax rate.

There are also a number of recommendations aimed at increasing affordability for individuals on low incomes, such as:

- Extension of the local authority shared ownership scheme
- A private sector shared equity scheme
- Implementation of a local authority scheme for provision of affordable housing

The last one of these was the only one implemented. This was done via the Affordable Housing Scheme, under which local authorities provided affordable houses for lower income households on land available to them. The government decided not to implement any other measures that would involve access to additional mortgage funding without the necessary pre-requisite of an increase in housing supply.

Third Bacon Report, 2000

This report, released in June 2000, still argued that house prices were growing slower than they had been prior to the first Bacon report but conceded that the housing market was much stronger than had been anticipated.[5] The ESRI\Permanent TSB index was showing house prices growing at a 20 percent annual rate during 2000.

The report noted (page 1) that

> "*The increasingly buoyant economic conditions are fuelling demand for housing and making the task of securing housing market stability more difficult. Over the past two years, economic growth has been even stronger than the generally bullish forecasts for the period. Falling interest rates through 1999 and strong inward migration flows have had a reinforcing influence on housing demand. Moreover, these influences are likely to add further pressure into the medium term*."

This was occurring despite a strong supply response to the government's measures. Bacon noted (page 1) about the supply response:

> "*In fact, the rates of increase that have occurred in the past two years have been equal to or greater in magnitude than the predictions made two years ago of the supply that would be required to achieve stability in the housing market. The main reason this has not happened is that demand has strengthened to an even greater extent than was envisaged at the time. Other contributory factors have been that some of the supply increase has been focussed on meeting demand for holiday homes*."

[4] A summary of the government's response to the second Bacon report is available at http://www.environ.ie/en/Publications/DevelopmentandHousing/Housing/FileDownLoad,2065,en.doc
[5] The third Bacon report is available at http://www.environ.ie/en/Publications/DevelopmentandHousing/Housing/FileDownLoad,2075,en.pdf

As a result of these developments, the third report proposed a number of measures aimed at further boosting supply such as the streamlining the planning process via the use of Strategic Development Zones (SDZs). The report also proposed further measures to improve affordability for first-time buyers, introducing a new stamp duty regime with lower rates for first-time buyers purchasing second-hand homes. The report also proposed further new measure to discourage investors. A flat 9 percent rate of stamp duty was proposed for property investors as well as an "anti-speculation" tax of 2 to 3 percent per year on ownership of properties that were not principal primary residences.

The government implemented these measures with the tax measures being introduced in the Finance Act of 2000.

New Stamp Duty Rates for Second-Hand Houses			
Value of house (£)	**First-Time Buyers**	**Other Owner Occupiers**	**Investors**
0 – 100,000	0%	0%	9%
100,001 – 150,000	0%	3%	9%
150,001 – 200,000	3%	4%	9%
200,001 – 250,000	3.75%	5%	9%
250,001 – 300,000	4.5%	6%	9%
300,000 – 500,000	7.5%	7.5%	9%
Over 500,000	9%	9%	9%

Bacon Report Three: Proposals and Implementation

Demand Measures	
Stamp duty thresholds and rates should be revised to ease the burden on first-time purchasers of second-hand houses, improve their position in relation to other owner occupiers and investors, and discourage speculative demand, especially at the lower end of the market.	Stamp duty was decreased for first time buyers, and increased for investors as detailed in the table below. A flat rate of 9% was applied to all purchases for speculative purchases in the Finance Act of 2000, while the rate for first-time buyers of second-hand houses was reduced relative to other owner occupiers.
An annual tax of 2-3 percent of the declared value of properties which are not principal primary residences should be introduced. Landlords should be exempted from these tax measures where certain conditions apply, including compliance with the requirements of a regulatory regime and where there is evidence of a commitment to the availability of the accommodation for renting on a long-term basis.	An annual tax of 2% of the declared value of all newly acquired residential investment properties was introduced for a three-year period. Exemptions were available for landlords who comply with certain standards and requirements.

Supply Measures	
The Government should designate sites as Strategic Development Zones (SDZs) for housing.	This was implemented
An annual tax of £3,000 per potential housing unit site should be applied to the owners of land in SDZs who have not applied for planning permission, or do not commence implementing a planning permission	The Government will introduce a land retention tax of £3,000 per potential site unit per annum for development within SDZs as a quid-pro-quo for fast-tracking planning and infrastructure provision.
There are a number of recommendations relating to improving transport and infrastructure in order to release more housing land	The Government committed to progress a number of measures aimed at making more land available for housing

Reversal of Investor-Related Tax Decisions, 2001

With the global economy slowing down and the Bacon recommendations on curbing the role of investors having an impact, the property market slowed significantly during 2001. With investor activity limited, there were complaints that the rental sector was being negatively affected and there appears to have been an intense lobbying campaign from property and construction sector interests to remove the curbs on investors.

Over the course of 2001, the government reversed course on a number of its tax measures aimed at reducing the role of investors in the property market:

- In February 2001, the Minister for Finance, Charlie McCreevy, announced that he would not be proceeding with the higher rate of capital gains tax of 60 percent on the sale of land that was zoned for residential development after April 2002.[6]
- In a separate decision in February 2001, the Minister for Finance announced that he would be abolishing the higher rate of stamp duty for property investors so that these investors would pay the same rate in purchasing second-hand homes as owner-occupiers who were not first time buyers.[7] In an article in the Irish Times of December 6, 2001, Colm Keena reported that this "*was done against official advice and after intensive lobbying by interested parties*."[8]
- In the budget in December 2001, the government decided to restored interest relief as a deductible expense when calculating tax on residential rental income.

Residential property prices began to pick up again after these decisions. The ESRI\Permanent TSB index records five months of consecutive declines in house prices up to January 2002, at which point the year-over-year change in house prices was just 2.4 percent. Prices began to rise again in February 2002 and had risen by a further 15 percent by February 2003 and a further 13 percent by February 2004.

[6] This was reported on February 16, 2001 in a story titled "Incentive scheme to ease property prices abolished Price rises forecast as penalty scheme dropped" in the Irish Times.
[7] See "McCreevy accused of U-Turn on anti-speculation measures", March 1, 2001, Irish Times.
[8] "Mortgage relief move 'significant'", December 6, 2001, Irish Times.

for Housing and Urban Renewal (March 1999); The Housing Market in Ireland: An Economic Evaluation of Trends and Prospects, a report submitted to the Minister for Housing and Urban Renewal (June 2000); and Evaluation of Options for Resolving Property Loan Impairments and Associated Capital Adequacy of Irish Credit Institutions: Proposal for a National Asset Management Agency (NAMA), Abridged Summary of Report (8 April 2009).

I will start with the housing market. Developments in Ireland's housing market in the late 1990s, in the Dublin region in particular, were symptomatic of fundamental change in housing patterns. House price inflation, especially in Dublin, began accelerating from 1993, reaching 14% per annum in the four years to 1997 and 25% in 1997.

These trends were the result of favourable macro-economic developments in Ireland including lowering interest rates, reinforced by demographic factors and changing social patterns. For example, gross immigration was occurring at an annual rate of 44,000 and concentrated in household formation ages, almost half being aged between 25 and 44 years. By contrast, emigration was concentrated in the younger age of 15 to 25 years, about 62% being of that age. Changing social patterns were reflected in a rise of one and two person households from 41.9% of the total in 1988 to 46.8% in 1997. While housing output increased 80% between 1993 and 1997, the share of completions in Dublin fell.

The recommended policy response contained in the reports considered that, to be effective, a policy response would need to: achieve a better balance between demand and supply in the short term; improve the potential supply of housing in the short to medium term; engage in infrastructure developments; and improve medium and long term planning of development of the east region. The April 1998 report proposed specific policy initiatives under each of these headings, although most debate and commentary focused on the fiscal measures which comprised the following: the repeal of section 23 relief from investment in residential property; the removal of deductibility of interest on borrowings undertaken for investment in residential property against personal income for taxation purposes; and the reforms to the stamp duty code and changes to capital gains tax as it applied to serviced zoned land.

The two subsequent reports of March 1999 and June 2000 contained more detailed proposals directed mainly at improving the supply side response. These latter recommendations were framed in the context of achieving credibility, clarity and certainty. In support of these criteria specific recommendations were made to: achieve higher residential densities; carry out key strategic infrastructure investments to overcome bottlenecks such as the northern fringe interceptor sewer; accelerate the process of securing required planning consents on significant sites in Dublin city and county through the use of strategic development zones (SDZs); improve the deployment of existing planning resources; increase the resources available to the planning system; impose fiscal penalties for non-realisation of potential of SDZs; propose revisions to the stamp duty regime; establish an anti-speculation property tax; establish measures to secure improvements in the quality and availability of rented accommodation; and to strengthen the institutional framework for securing a more effective housing response in the greater Dublin area.

I will turn now to the outcome. Rates of increase in prices of new and existing houses in Dublin and nationally slowed sharply from the middle of 1998. The peak rate of inflation in the new house market was 24.6% in the first quarter of 1998 countrywide and 33.8% in the first quarter of 1998 in Dublin. By the first quarter of 2000, these rates had halved to 12.9% and 16.2% respectively. In the existing house market the peak rate was 36.9% in the third quarter of 1998 country wide and 41.7% in the third quarter of 1998 in Dublin. These rates too more than halved to 17.4% and 20% respectively in the first quarter of 2000. At the same time, the annual rate of new house completions increased about 10%, to approximately 46,500 units, the highest annual rate of completions ever recorded to that time. However, in 2001 the measure to exclude interest deductibility was reversed. Thereafter prices re-accelerated, despite a supply response rising to almost 90,000 units annually, as speculative forces gathered increasing momentum.

I will move now to the development of the proposal to establish NAMA. At the heart of the banking crisis was a concern of capital markets with regard to the adequacy of banks' capital to meet future loan impairments and institutions' capacity to obtain additional capital externally. Future impairments were of concern because for the previous decade Ireland had experienced rapid inflation in property values and lending to the property sector had become an increasingly important component in credit institutions' lending. In addition, there was heightened international concern about the health of the financial sector.

Irish banks were facing an extremely unstable outlook in respect of international wholesale deposits, upon which they had become significantly dependent in the previous decade to fund expansion of their assets or lending. They were experiencing major withdrawals of these deposits, a shortening of the average duration of deposits and substantial recourse to the Central Bank for short-term liquidity support. This was not a sustainable trend. In addition, the initiatives taken by Government to that date were considered to be insufficient to achieve rates of capital adequacy that would encourage investors to hold and invest further equity in Irish credit institutions when prospective impairments were considered. As long as this remained the case, it could be expected that share values would remain depressed and deposit liabilities would be likely to experience continued attrition and foreshortening in duration. Such a prospect would hinder economic recovery, complicate further the required adjustment of the public finances and leave Ireland's international credit rating subject to downward pressures and speculative attacks. Therefore, it was concluded that additional and far reaching measures needed to be undertaken as soon as possible to place the banking system on a sound footing.

Deterioration in the Government debt to GDP ratio was under way as the general Government deficit widened. A significant part of this deterioration arose from the effects of cyclical downturn. Moreover, discretionary budgetary adjustments to curtail the widening deficit would be partially undone by the deflationary impact of the discretionary measures themselves. To some degree, in the absence of international recovery and-or gains in competitiveness and productivity in Ireland, the domestic fiscal adjustment process had the characteristics of a vicious spiral comprising weakening economic activity leading to widening of the Government deficit and indebtedness leading to discretionary adjustments leading to further erosion of economic activity and so on.

The deterioration in Ireland's credit terms associated with a worsening fiscal position was compounded by the additional contingent liabilities assumed by Government by virtue of the guarantee of the deposits of credit institutions from the previous September. Capital markets were uncertain how to value the additional liability of the Government on foot of the guarantee and the resulting confusion was causing Irish bond spreads to widen unfavourably. Against this backdrop, it was considered imperative that initiatives should be undertaken that would lead to stability in banks' deposits and term debt liabilities and eliminate the need for a renewal of the guarantee in place at the time. To achieve this required removing all doubts about capital adequacy of the credit institutions and their capacity to deal with prospective loan impairments.

There are a number of broad approaches, which are not mutually exclusive, to bank capital support schemes. These revolve around recapitalisation programmes involving stress testing against expected losses, asset guarantee schemes and asset management arrangements. The taxpayer returns, over the long term.

Chairman: Thank you, Dr. Bacon, for your opening comments. You wrote three reports, in 1998, 1999 and 2000. In the 2000 report you noted house prices were rising rapidly despite a strong response of housing supply, the law of supply and demand. The report recommended new measures including further proposals to discourage investors and another reform of stamp duty. Maybe you could outline these measures to the committee, how many of the key recommendations were implemented by the Government and what impact they had on the housing market.

Dr. Peter Bacon: The easy part of the question relates to the tax measures because it is an event. There is a finance Bill or supplementary finance Bill. There is a piece of legislation and the event either happens or it does not. All the tax and fiscal recommendations that were made in the reports were implemented. I highlighted one of them being reversed in 2000 or 2001. With regard to the supply-side enhancement measures, the 1999 and 2000 reports contained sections which assess the extent to which measures proposed in the previous report were implemented and what the impact was under four headings. Those headings were price and price stability, affordability and supply-side response. In the latter two reports, there was consideration of impact on the rented sector, which was something not considered at all in the first report.

In trying to answer the question of whether those supply measures were implemented, I point out that these were not an event. They form a process. The principal recommendation on the supply side related to the policies relating to residential densities. Members are either Deputies or Senators, and they will know from constituency work that densities are not an easy subject. It is easy for economists and planners to make recommendations but there are major issues with that topic. What I can state factually is there was a tendency over the period and subsequently for residential densities to rise. Did they rise enough and could they have risen more? Did they rise fast enough? These are judgments and some of these issues are still ongoing.

Chairman: At the core of the position, would it be accurate to state in considering the housing market between 2001 and 2002, prices started stabilising and maybe even calmed a bit?

Dr. Peter Bacon: Yes. As I stated, the rate of price increase halved between 1998 and 2000.

Chairman: Would that effect in the market be related to the implementation of your recommendations?

Dr. Peter Bacon: You can relate that slowdown directly to the fiscal measures.

Chairman: That brings me to my next question, before I bring in Deputy Higgins. In 2001, the Government reversed a number of measures that Dr. Bacon suggested and were introduced. Stamp duty for investors was cut, tax on second homes was eliminated and interest relief was restored as a deductible expense when calculating tax on residential income. What was your view on the reversal of the recommendations implemented on foot of your report?

Dr. Peter Bacon: I think they were too early.

Chairman: Were you consulted about that?

Dr. Peter Bacon: No.

Chairman: There was no-----

Dr. Peter Bacon: Let us be clear. My job is as a paid economic consultant. I get terms of reference, I write and submit a report and I get paid, if I am lucky.

Chairman: The record is that your recommendations were implemented and by your account this morning, that had a measurable impact on the housing market. We saw a stabilisation and maybe even a drop in prices as a result of your recommendations. Your recommendations were then reversed and what happened to the market? Did the prices start increasing again or-----

Dr. Peter Bacon: Yes.

Chairman: -----did they stay stabilised?

Dr. Peter Bacon: It did. To be fair to the record, you must point out that supply did respond to the supply-enhancing measures. The rate of house completions effectively doubled from 25,000 to 50,000 by the mid-2000s.

Chairman: For the record again, you were not consulted on any of those reversals of the measures outlined in your report.

Deputy Joe Higgins: A briefing paper from the researchers to the committee indicates the following, "The increasing role of investors and speculators in the residential property market was a source of concern to the Irish Government when it commissioned Bacon's first report." Was that Dr. Bacon's understanding of why the Government commissioned his succession of three reports? He has just told us of his belief that the recommendations put into effect from the first report had a significant impact on house prices. Which measures specifically does he think were effective in reducing house prices?

Dr. Peter Bacon: The Deputy has two questions. The terms of reference to the first report did not contain or express, in my memory, any concern about speculation. We are talking about late 1997 for these terms of reference for the report. The terms of reference were about concerns that prices were accelerating. The concern of the Department of the Environment and Local Government at the time was to get a handle on why this was happening. People did not know. I do not think there was a preconceived view or belief at that time that speculative forces were strong. At the time, I do not think they were. From 1998 onwards, during the course of this work and as noted explicitly in the second and third reports, the significance of speculative demand was rising and ultimately driving the market. On the question of specific measures, it is very difficult to isolate one measure. Certainly, in the short term and in the sense of bringing down the rate of increase in prices, the measure that bit hardest was the tax deductibility of interest.

Deputy Joe Higgins: That was for investors.

Dr. Peter Bacon: Yes. It was the ability to offset interest costs against revenue.

Deputy Joe Higgins: Yes. Although the rate of increase did reduce in 2001, for second-hand houses, for example, prices still increased at approximately two thirds of the average industrial wage in that year alone. An ordinary person would see that as an inordinate increase. Would Dr. Bacon's proposed measures have been enough to have an ongoing effect in bringing the prices down to much lower levels than this?

Dr. Peter Bacon: I think they would but there would have been adverse side-effects, the

Houses of the Oireachtas
Tithe an Oireachtais

Written Answers - Tax Yield.

Dáil Éireann Debate
Vol. 631 No. 1

Wednesday, 7 February 2007

---

127. **Mr. Kenny** asked the **Minister for Finance** the absolute value of the increase and the percentage increase in total tax raised since 2002; and if he is satisfied with the tax policies underpinning this trend. [4147/07]

Minister for Finance (Mr. Cowen): In 2002, Exchequer tax receipts amounted to €29,294 million. Receipts in 2006 amounted to €45,539 million. This translates into an absolute increase of €16¼ billion or a percentage increase of 55½ per cent since 2002.

A large part of the increases in taxes in recent years came from the Revenue Commissioner's special investigations and also the continued strength of the property market over the period. However, the main reason we are receiving more in tax is the significant growth in the economy over the period. The tax and economic policies being pursued by this Government have put more money into the pockets of taxpayers and they are spending and investing that extra money as they see fit. This extra spending and investment yields extra taxes. I am more than satisfied with the policies that have facilitated this increased economic activity.

Last Updated: *19/04/2015 13:40:32*

Page 41 of 220

Houses of the Oireachtas
Tithe an Oireachtais

Written Answers - Tax Code.

Dáil Éireann Debate
Vol. 631 No. 1

Wednesday, 7 February 2007

146. Mr. O'Dowd asked the **Minister for Finance** the basis on which forecasts of capital tax are made by his Department; and the assumptions in respect of the number of taxable transactions and the trend in house prices that underpinned the 2006 estimate. **[4167/07]**

Minister for Finance (Mr. Cowen): The assumptions underpinning the 2006 capital taxes forecasts were based on economic growth estimates in the Stability Programme Update which was published on Budget day, December 2005. These estimates included GNP, projected changes in the consumer price index and developments in the construction sector.

The methodology for forecasting capital taxes in 2006 firstly required my Department to estimate the outturns for the base year, in this case 2005. These projected outturns were then adjusted to take account of known once-off factors, both negative and positive, likely to [219]impact on the yield in 2006. An example was the discontinuance in 2006 of the bank levy, the receipts from which came in under stamp duties. The figures were then refined to take account of the impact of Budget measures. These various steps gave the base upon which the 2006 forecasts were built.

The base was then inflated for projected economic developments in 2006. In the case of capital gains tax and capital acquisitions tax, estimated growth was driven by the forecast change in nominal GNP and in the CPI, respectively. For stamp duties, since the bulk of the yield is from transactions in residential and commercial property, the forecast for 2006 was largely based on estimated volume and price growth in the residential and commercial property sectors.

The capital gains tax estimate represented an increase of 3.8 per cent and the capital acquisitions tax estimate an increase of 4.4 per cent on their respective 2005 outturns. The stamp duty estimate represented a decrease of 1.5 per cent on the 2005 outturn but this largely reflected the non-renewal of the bank levy.

The estimates for all three taxes assumed a lower rate of growth in revenues from these sources in 2006 than the significant increases experienced in 2005. However the property market in 2006 proved more robust than many commentators predicted around the time of the 2006 Budget and this was a contributory factor in the yields from these sources outperforming their respective targets.

Written Answers - Tax Yield.

Dáil Éireann Debate
Vol. 631 No. 1

Wednesday, 7 February 2007

150. Mr. Boyle asked the **Minister for Finance** if he is confident in mechanisms used to make Exchequer return projections which form an important basis of spending allocations in view of the inaccuracy by millions of the end of year Exchequer projections made at the time of the budget compared to the eventual returns. [4069/07]

Minister for Finance (Mr. Cowen): I assume that the Deputy, in using the phrase "inaccuracy by millions" is referring to the difference, in recent years, between actual tax revenues and the Budget day forecasts.

There have been valid reasons for the extent of these differences in recent years, including the stronger than expected pace of economic growth and once-off factors such as the yield from Revenue special investigations. However, the most significant reason for the difference between tax forecasts and actual outturns in recent years is the very strong growth in capital taxes reflecting, amongst other things, the exceptional growth in the property market.

It is always difficult to make accurate tax forecasts. The underestimate of taxes since 1975 is nearly 5% on average, with the highest underestimates arising in 1976 and 1988. My Department keeps its approach to tax forecasting under review on an ongoing basis. For this reason, a Group chaired by a Senior Economist from the Central Bank, currently on secondment to my Department has been established to conduct a review of the tax forecasting methodology. The Group currently comprises other experts from my Department, the ESRI, the Revenue Commissioners and the Central Bank. It is due to report in June 2007.

In terms of the tax forecasts forming an important basis of spending allocations and in order to dispel any fears of deliberate under-projecting of taxes as a means of putting downward [223]pressure on expenditure, I would like to point out that in the period since 2002, voted expenditure has grown by an average of nearly 8% per year and furthermore in each of the years 2002 to 2006, voted departmental expenditure recorded savings on the original Budget allocation. This indicates that expenditure allocations have been more than adequate in meeting Department's spending requirements.

Houses of the
Oireachtas
Tithe an Oireachtais

Written Answers - Exchequer Revenue.

Dáil Éireann Debate
Vol. 631 No. 1

Wednesday, 7 February 2007

159. Mr. Allen asked the **Minister for Finance** his views on the heavy reliance of the Exchequer on revenue from the housing sector; and if he will make a statement on the matter. **[4124/07]**

Minister for Finance (Mr. Cowen): Activity in the housing sector impacts primarily on VAT, Stamp duty and Capital gains tax. Housing market activity also impacts on Income tax and PRSI receipts and Corporation tax from construction sector company profits.

While revenues from housing market activity such as Stamp duty and Capital gains tax have made an increasing contribution to the Exchequer in recent years, we are not overly reliant on receipts from these sources. For example, taken together the Stamp duty and Capital Gains tax tax-heads are forecast to contribute just under 15 per cent of total targeted tax revenues in 2007 and it is worth noting that a significant proportion of receipts from these tax-heads come from sources other than residential property.

[232]In contrast the 4 main tax-heads — VAT, Income tax, Corporation tax and Excise are forecast to account for 84 per cent of tax receipts this year, even allowing for the lower than usual corporation tax forecast which is due to the cash-flow reduction arising from the ending of the transitional payment arrangements.

Care has been taken not to plan the public finances around an assumption that receipts from Stamp duty and Capital gains tax will continue to grow in future years as they have in the recent past. This is a prudent and sensible approach to take and it has been endorsed by the IMF and other commentators.

Last Updated: *19/04/2015 13:40:39*

Page 70 of 220

Houses of the Oireachtas
Tithe an Oireachtais

Written Answers - Economic Competitiveness.

Dáil Éireann Debate
Vol. 631 No. 1

Wednesday, 7 February 2007

198. Mr. Gogarty asked the **Minister for Finance** his views on the recent Central Bank warning that despite the interest rate rises the demand for credit here remains strong and that Ireland's private sector credit to GDP ratio is now the highest in the euro zone area. **[4079/07]**

Minister for Finance (Mr. Cowen): The relatively high level of private sector debt must be [261] seen in the context of a sharp decline in public sector indebtedness in recent years. Moreover, a large part of the increase in private sector indebtedness reflects the accumulation of housing assets on the part of households. Not seen as a negative?

However, as I have pointed out before, both borrowers and lenders need to be aware that interest rates are still low by historical standards. Moreover, a shock to the economy which affected employment and earnings growth could affect the ability of borrowers to service their debt. As Ireland is a small and very open economy, and hence vulnerable to changes in the global environment, this highlights the need to retain and indeed improve our international cost competitiveness.

I fully support the vigilance of the Central Bank and the Financial Regulator on the issue of private sector credit and in reminding borrowers and lenders of the need for responsible behaviour. The Government, for its part, will continue [262] to contribute to economic and financial stability by pursuing a prudent fiscal policy.

Last Updated: *19/04/2015 13:40:46*

Page 102 of 220

Houses of the Oireachtas
Tithe an Oireachtais

Priority Questions - Tax Yield.

Dáil Éireann Debate
Vol. 633 No. 4

Tuesday, 20 March 2007

86. Mr. Bruton asked the **Minister for Finance** if he is satisfied regarding the structure of stamp duty, which greatly amplifies the growth of revenue from house buyers at times of rising house prices; and if he will make a statement on the matter. [10436/07]

Minister for Finance (Mr. Cowen): The Government is very aware of the importance of the construction sector to the economy, as evidenced by the large numbers working in the area and the sums that come from it in taxation. With the sector directly responsible for 13.5% of total employment, Government policy should be aimed at supporting an important driver of economic activity.

The provision of adequate numbers of new houses has been a key policy priority in recent years. We have seen numbers of house completions increase to over 93,000 in 2006, up from 52,000 in 2001. We are now at a stage where housing demand is beginning to match housing supply, and that is reflected in the market, with a significant slowdown in property inflation. That is clear evidence that our housing policy is working well.

The stamp duty code applies a single rate to the full value of the property, where the rate applicable depends on the value of the property concerned. Given the growing market of recent years, it is not surprising that the yield from stamp duty has increased. However, such growth cannot be taken for granted in future. However, as the Deputy is no doubt aware, no stamp duty is paid on the vast majority of new houses bought by first-time buyers and other owner-occupiers.

Consideration of ways to improve the structure of the tax would have to have regard, among other things, to simplicity and cost. For example, the estimated cost of introducing a system whereby stamp duty would be applied on a marginal basis for houses priced above the current exemption thresholds, based on the full year 2006 yield, is €553 million — that is, more than 42% of the yield on residential property.

In particular, the Government wants to assist those who are trying to buy their first home. That is why I increased the exemption and reduced stamp duty rates for first-time buyers in budget 2005 and why I increased mortgage interest relief for first-time buyers in budget 2007, with benefits to those about to purchase and those who had purchased in the last seven years. By making these changes, I was able to assist first-time buyers directly without impacting on the overall market conditions.

This must be a key consideration in the continuing evaluation of policy in this area given the vital importance of the construction sector to the economy.

Stamp duty is a significant contributor to the Exchequer, which helps fund public services such as health and education, while keeping the direct tax burden low, thereby facilitating continued economic success which is of benefit to all taxpayers. It has helped us to reduce taxes on work and enterprise with clear benefits for the economy as a whole.

Mr. Bruton: Would the Minister agree that a tax which accelerates so rapidly as house prices rise, is inequitable because of its extraordinary [1097]structure? Is the Minister aware that the amount of stamp duty collected in 2006 was fourfold that collected in 2002? Is he also aware that in 2002 the stamp duty paid on a typical house was 4% and came to €9,000, while now, just four years later, the corresponding figure is 7.5% with the average person paying €29,000? Would the Minister agree that the structure of this sort of tax, with such a sharp acceleration in take from many young families is unfair? It needs to be reformed so that the tax is equitable in the way it is applied and is also proofed against this extraordinary rollercoaster of huge surges when house prices rise.

Mr. Cowen: The Deputy will be aware that the stamp duty code has applied a single rate to the full value of the property where the rate applicable depends on the value of the property concerned. That has been the nature of the tax since its inception. While there have been increases in the yield of this tax in recent years as a result of increased property prices, that is not something we can factor into future revenue yields either from that tax or the general Revenue take. Nor can we expect that market conditions, which have softened in recent times, will be renewed with the increased price inflation that would result.

When considering how to improve structures of taxes such as this, one must have regard, among other issues, to simplicity and cost. If the threshold issue was applied to current rates, the full cost of it would be over €550 million or 42% of the yield on residential property. We have been able to reduce the direct tax burden on income, which means there has been an increased contribution from capital taxes and stamp duties as a result. This must also be borne in mind.

Mr. Bruton: I would like to ask the Minister a straight question. Does he believe it is fair that the exemption limit for first-time buyers is now 40% below the average house price in Dublin? The exemption limit for second-time buyers — many of whom are families trading up from smaller homes — is just 23% of the average house price in the capital. In a tax code that is supposed to be fair, what is the meaning of exemption thresholds that are set so far below the price at which anyone can buy a house? Does the Minister not recognise that those sort of thresholds are unfair because they have been left there for so long without taking account of what has happened in the market in the intervening years?

Mr. Cowen: I changed the thresholds in budget 2005, increasing them considerably in respect of first-time buyers of second-hand houses. According to data available to the Department of the Environment, Heritage and Local Government, in the first half of 2006, over 50% of houses purchased by first-time buyers of second-hand properties in Dublin were valued at under €317,500 and were not liable for stamp duty. Those are the figures up to mid-2006, but statis[1098]tics for the third quarter are not yet available. In terms of total Revenue take, it is important to recognise the significant changes we have made in income taxation. The contribution these taxes make to the Exchequer must also be taken into account.

Houses of the Oireachtas
Tithe an Oireachtais

Written Answers - Fiscal Policy.

Dáil Éireann Debate
Vol. 633 No. 4

Tuesday, 20 March 2007

112. Mr. English asked the **Minister for Finance** [1259] his views on the heavy reliance of the Exchequer on revenue from the housing sector; and if he will make a statement on the matter. **[10208/07]**

Minister for Finance (Mr. Cowen): Activity in the housing sector impacts primarily on VAT, Stamp duty and Capital gains tax. Housing market activity also impacts on Income tax and PRSI receipts and Corporation tax from construction sector company profits. While revenues from housing market activity such as Stamp duty and Capital gains tax have made an increasing contribution to the Exchequer in recent years, we are not overly reliant on receipts from these sources. For example, taken together the Stamp duty and Capital Gains tax tax-heads are forecast to contribute just under 15 per cent of total targeted tax revenues in 2007 and it is worth noting that a significant proportion of receipts from these tax-heads come from sources other than residential property.

In contrast, the 4 main tax-heads — VAT, Income tax, Corporation tax and Excise duty are forecast to account for 84 per cent of tax receipts this year, even allowing for the lower than usual corporation tax forecast which is due to the cash-flow reduction arising from the ending of the transitional payment arrangements. Care has been taken not to plan the public finances around an assumption that receipts from Stamp duty and Capital gains tax will continue to grow in future years as they have in the recent past. This is a prudent and sensible approach to take and it has been endorsed by the IMF and other commentators.

Last Updated: *19/04/2015 07:48:22*

Houses of the Oireachtas
Tithe an Oireachtais

Current Debates > Dáil Debates > 2007

Written Answers - Tax Yield.

Dáil Éireann Debate
Vol. 633 No. 4

Tuesday, 20 March 2007

Page 61 of 718

128. Mr. Callely asked the **Minister for Finance** the revenue generated arising from stamp duty on house sales over the past five years; the consideration that has been given to reduce revenue generated in this area; the works under consideration for revenue generation; and if he will make a statement on the matter. [10202/07]

Minister for Finance (Mr. Cowen): The table sets out actual stamp duty receipts in each of the past five years.

	2002	2003	2004	2005	2006
Stamp Duty Receipts, €m	1,167	1,688	2,088	2,725	3,717
Stamps as a % of Total Tax Revenue:	4%	5%	6%	7%	8%

[1271]Although exact data for stamp duty on residential property transactions are not available, the table sets out estimated figures for the period. It shows [1272]that receipts for residential property are just over a third of total stamp duty receipts.

	2002	2003	2004	2005	2006
Stamp Duty Receipts from Residential Property	€349m	€528m	€752m	€945m	€1,311m

[1271]Stamp duty is a significant contributor to the Exchequer, which helps fund public services such as health and education, while keeping the direct tax burden low thereby facilitating continued economic success, which is of benefit to all taxpayers. Policy with regard to all taxes, including stamp duty, is reviewed every year in the context of the annual Budget. In the most recent Budget I abolished stamp duty on mortgage deeds, assisted sporting bodies wishing to purchase land for the purpose of promoting sports and introduced a new stamp duty relief for stock market intermediaries which better reflects modern share dealing practices.

Last Updated: *19/04/2015 07:48:25*

Page 61 of 718

Houses of the Oireachtas
Tithe an Oireachtais

Written Answers - Economic Competitiveness.

Dáil Éireann Debate
Vol. 633 No. 4

Tuesday, 20 March 2007

---

155. Ms Shortall asked the **Minister for Finance** his views on the recent sharp declines in global stock markets; if his attention has been drawn [1296] to the fact that over €7 billion was wiped off the value of Irish held shares during the first week of March 2007; if his Department has conducted an evaluation of the implications of stock market volatility for the Irish economy; and if he will make a statement on the matter. [10234/07]

Minister for Finance (Mr. Cowen): Global stock market movements reflect global developments over which we have no control. While the value of the Irish stock market declined in early March, it remains above the level of this time last year. The outlook for the Irish economy has not changed since Budget Day, and I expect growth of 5.3% this year. My Department will continue to monitor all developments potentially affecting the economy.

Written Answers - House Prices.

Dáil Éireann Debate
Vol. 633 No. 4

Tuesday, 20 March 2007

159. Dr. Upton asked the **Minister for Finance** his views on the fact that another interest rate increase will place Ireland in the high risk category of experiencing a sharp house price reversal; if his Department has conducted an assessment of the implications of a house price reversal for the economy; and if he will make a statement on the matter. [10219/07]

Minister for Finance (Mr. Cowen): I do not accept as a fact that another interest rate increase will place Ireland at high risk of a sharp house price reversal. House price inflation has moderated in recent months. The consensus is that a soft landing remains a more likely outcome for the housing market. My Department monitors all developments which can have an impact on the economy.

Houses of the
Oireachtas
Tithe an Oireachtais

Priority Questions - Tax Yield.

Dáil Éireann Debate
Vol. 637 No. 2

Tuesday, 26 June 2007

75. **Deputy Richard Bruton** asked the **Tánaiste and Minister for Finance** if he had reason to revise his forecast for tax receipts in 2007-08; and if he will make a statement on the matter. [17744/07]

Tánaiste and Minister for Finance (Deputy Brian Cowen): Exchequer tax receipts to the end of May were, at €18.603 million, just €19 million or 0.1% below profile. They were 9.6% up on the same period last year. This compares with a budget day target of an increase of 7.8% for 2007 as a whole.

While overall tax receipts were almost exactly on target at the end of May, there are some vari[106]ations under particular tax heads: corporation tax receipts are €221 million or 17.5% above profile; customs receipts are €4 million or 3.6% above profile; VAT receipts were €28 million or 0.4% below profile; income tax receipts are €56 million or 1.1% below profile; excise duties were €120 million or 4.7% below profile; stamp duties were €16 million or 1.1% below profile; and capital taxes were €71 million or 5.8% below profile. Of these, capital gains tax was €79 million or 7.2% below profile and capital acquisitions tax was €8 million or 5.1% above profile.

Given the significance of tax payments in the latter part of the year, it would be unwise to attempt to draw conclusions about the performance of the economy based on tax receipts at this early stage. The latest available economic estimates show that the economy continues to perform well. Preliminary CSO data for 2006 as a whole indicates that GDP growth was 6%, while, in GNP terms, the growth rate in 2006 was estimated at 7.4%.

In the circumstances, I do not see a need to revise our forecast at this stage. However, my Department monitors tax receipts on an ongoing basis and, as more data become available, any significant changes to the expected end of year receipts will be signalled once the position becomes clear.

Deputy Richard Bruton: Is the Tánaiste aware that the data relating to housing starts suggest that they are 30% down on their peak? Commentators for Davy have indicated that this could lead to housing completions falling from 95,000 to 65,000. Do I infer from the Tánaiste's reply that he sees such a fall-off in housing activity as having no impact on tax revenue? Has he considered the likely impact of such a fall in housing construction on employment in the sector? Davy suggests that as many as 28,000 jobs could be lost in the construction sector as a result of the decline in activity. Does the Tánaiste believe that

Exchequer revenue will be immune to this decline or is he of the view that the data relating to housing starts are wrong?

Deputy Brian Cowen: Housing market activity impacts primarily on VAT, stamp duty and capital gains tax. It also impacts on income tax and PRSI receipts and corporation tax from construction sector company profits. While revenue from housing market activity, such as that relating to stamp duty and capital gains tax, has made an increasing contribution to the Exchequer in recent years, we are not overly reliant on receipts from this source. Taken together, for example, the stamp duty and capital gains tax heads are forecast to contribute approximately 15% of total targeted tax revenues in 2007.

Deputy Richard Bruton: I did not inquire about that matter.

[107]Deputy Brian Cowen: It is worth noting that a significant proportion of receipts from these tax heads comes from sources other than residential property.

On housing starts, a correction has been taking place in the market since last autumn. This has resulted in an easing in house price inflation. The latter is a welcome development because continuing double digit house price inflation would not be sustainable. There is also the question of trying to ensure that we achieve a soft landing for the housing sector, particularly in view of the fact that the Central Bank and Financial Services Authority of Ireland, the ESRI and others forecast over a period that there would be a reduction in housing starts and completions to a level of approximately 65,000 to 70,000 per annum in the next few years.

We need to ensure there is stability and certainty in the market. That is one of the reasons we have decided to bring legislative proposals before the House this evening. We want to maintain confidence in the housing market. The question before the House relates to the impact on revenues. At this stage, we do not think there is any reason to believe we will be below profile in our overall tax receipts, under all the tax heads. We will continue to monitor the situation.

Deputy Richard Bruton: The Tánaiste has not answered the questions I asked. He devoted most of his time to answering questions which were not those I asked. Davy, which is not regarded as reckless, has indicated that tax receipts in 2008 will decrease by €1.3 billion on the basis of the existing figures for housing. Does the Minister intend to stick his head in the sand, like an ostrich, by pretending that is not happening, or will he try to anticipate the impact of the predicted decline on public financial planning? That is the question I would like him to answer. He seems to be pretending that it would be unwise at this stage to anticipate such a fall. That suggests that he believes such a reduction will not happen, or that he believes such a reduction will have no impact. There is no sound basis for either belief. How will the Minister cope with the likely decline in revenue of over €1 billion in 2008? What impact will such a decline have?

Deputy Brian Cowen: In the past, returns in this area have exceeded those which had been forecast. Such forecasts were not based on windfall gains. There continues to be a prospect that our estimates will come in on target, even if there is a downturn.

Houses of the Oireachtas
Tithe an Oireachtais

Written Answers - Construction Sector.

Dáil Éireann Debate
Vol. 637 No. 2

Tuesday, 26 June 2007

---

130. Deputy Arthur Morgan asked the **Tánaiste and Minister for Finance** his views on the over-dependence of the economy on the construction sector; and the steps he will take to cushion against the economic effects of any downturn in this sector. **[17252/07]**

Tánaiste and Minister for Finance (Deputy Brian Cowen): Investment in construction has been driven by strong activity in the residential, commercial and infrastructural sectors. The residential sector has been particularly strong, with the high demand for housing being underpinned by strong economic fundamentals and a rapidly growing population. A gradual easing back of housing output is envisaged in the coming years, with output levelling off at more sustainable long-term levels. However, commitment to the NDP at 5.4% of GNP, will inter alia, ensure that spare capacity from one sector is available in the other commercial and infrastructural sectors.

Last Updated: *19/03/2015 05:41:35*

Page 70 of 519

Houses of the Oireachtas
Tithe an Oireachtais

Current Debates > Dáil Debates > 2007

Written Answers - Tax Code.

Dáil Éireann Debate
Vol. 637 No. 2

Tuesday, 26 June 2007

Page 71 of 519

131. Deputy Aengus Ó Snodaigh asked the **Tánaiste and Minister for Finance** his views on whether further reductions in income tax would make the Exchequer increasingly dependent on other more insecure sources of tax revenue such as those related to property and consumption; and if the proposals contained in the Programme for Government to reduce both the standard and higher rate of income tax are therefore imprudent. [17256/07]

Tánaiste and Minister for Finance (Deputy Brian Cowen): The Programme for Government sets out clearly the Government's guiding economic and fiscal principles for the next five years. We are fully committed to a responsible fiscal policy, including keeping the budget in broad balance.

Within these broad principles, our first priority in the tax area will be to continue to support low and middle income earners, via the tax credits, bands and the PRSI system. The Programme for [273]Government clearly states that once these commitments have been met, any additional resources will be targeted at further enhancing the rewards for work. We are committed to reducing the standard and higher rates of income tax over the lifetime of the Government if economic resources allow.

I would point out that the main consumption taxes are VAT and excise duty. Taken together these taxes account for some 43 per cent of total forecast tax revenues in 2007, whereas they accounted for 44 per cent and 46 per cent of total taxes in 1997 and 1987 respectively.

While revenues from property related taxes such as stamp duty and capital gains tax have made an increasing contribution to the Exchequer in recent years, we are not overly reliant on these receipts. Care has been taken not to plan the public finances around an assumption that receipts from stamp duty and capital gains tax will continue to grow in future years as they have done in recent years.

I reject the Deputy's suggestion that the policies and commitments in the Programme for Government are imprudent. They are based on a sustainable and responsible fiscal policy.

Last Updated: *19/03/2015 05:41:35*

Page 71 of 519

Houses of the
Oireachtas
Tithe an Oireachtais

Written Answers - Banking Sector Regulation.

Dáil Éireann Debate
Vol. 641 No. 6

Tuesday, 20 November 2007

76. **Deputy Joanna Tuffy** asked the **Tánaiste and Minister for Finance** his views on the latest warning by the IMF that Ireland is one of the most vulnerable countries to the ongoing international banking crisis and credit crunch; and if he will make a statement on the matter. [29596/07]

Tánaiste and Minister for Finance (Deputy Brian Cowen): The most recent assessment of the financial markets was reflected in the Central Bank and Financial Services Authority of Ireland's Financial Stability Report published last week. The Report states that, when assessed by the usual indicators of financial health such as asset quality, profitability, solvency, liquidity and credit ratings, the stability and health of the Irish banking system remains robust. The Bank's central expectation is that the Irish banking system is well placed to withstand pressures from possible economic and sectoral developments in the short to medium term. The Bank's Report notes that the strength of the Irish economy continues to support the stability of the financial system.

In terms of output, the Deputy will note that forecasts for the Irish economy show that progress achieved in recent years is being consolidated. In the Pre-Budget Outlook, average GDP growth for the period 2008 to 2010 of 3½ per cent was forecast by my Department. Although we are in a period of uncertainty, with growth in the short term set to moderate below that of recent years, the aggregate growth rate will still remain favourable in international terms.

Last Updated: *20/03/2015 05:01:44*

Page 46 of 387

Houses of the
Oireachtas
Tithe an Oireachtais

Priority Questions - Fiscal Policy.

Dáil Éireann Debate
Vol. 645 No. 1

Wednesday, 30 January 2008

78. **Deputy Joan Burton** asked the **Tánaiste and Minister for Finance** if he is satisfied that the budgetary framework of revenues and expenditures set out by him in budget 2008 remains viable in view of the changed international financial environment and the revised downward projection of housing construction here and output for 2008; and if he will make a statement on the matter. [2387/08]

Deputy Brian Cowen: On budget day, my Department projected a GDP growth rate of 3% for this year and a GNP growth rate of 2.8%. While lower than that experienced in recent years, this is still a robust rate of growth, given the prevailing international conditions. At budget time, my Department estimated that house completions in 2008 would be around 55,000 units.

I believe that, in aggregate terms, the budget day forecasts, which were presented to the House last month, are still appropriate. Of course, as was noted at budget time, there are risks, both internal and external, to these economic forecasts and my Department will, as always, continue to monitor the situation closely.

As regards the budgetary projections for tax and expenditure, it is still very early in the year and there is no reason to alter the budgetary forecasts at this time. Overall, current spending is budgeted to increase by approximately €4 billion or about 8%, capital spending by approximately €1 billion or around 12% and tax revenues by just over €1.6 billion or 3.5% in 2008. The general Government debt level is projected to be around 26% of GDP at the end of this year, one of the lowest levels in the euro area.

As with economic developments, my Department monitors tax receipts and expenditure on an ongoing basis and as more data becomes available during the year, any significant changes to the expected Exchequer position in 2008 will be signalled and presented at the end of each quarter.

It is important to remember that the fundamentals of the Irish economy remain strong and that the economy has responded quickly and effectively to changing economic conditions in the past. Short-term movements in financial markets have limited effects on wider economic trends. Of course, any deterioration in financial market conditions sustained over a prolonged period of time could spill over into economic developments.

Deputy Joan Burton: I thank the Minister for that reply. Does the Minister agree that last week was a bit of a train wreck for the Irish economy in terms of billions knocked off the value of Irish shares, particularly Irish pension funds? We have had a string of job loss announcements, including the most recent one in Wicklow, of several hundred jobs over the next year and a half. Every financial forecast since the general election and on through the budget is [4] slightly worse than the previous one. Does the Tánaiste have figures for his expectation of housing output, including starts and completed houses, this year? Does he expect it to fall as low as 30,000 units? What will be the impact of this on tax receipts and revenue? What plans does the Tánaiste have, if we achieve the growth of 3% he suggests, to assist those who face court in respect of mortgage repayments and those who, having worked in the construction industry for ten years, now find it difficult to find employment? Does the Tánaiste have plans to give a fresh start at work to people whose experience is in the construction industry?

Mr. Brian Cowen: There is evidence that there will be some reduction in the residential housing output and, therefore, less employment in the construction sector. However, as far as construction industry forecasts are concerned, there is still activity in commercial property, house renovation and the increased impact of extra investment in the Government's capital investment programme. There are some compensating factors. The construction industry is not made up solely of the new house residential market, important as that is.

Over the past decade, the number of people employed in the construction industry has doubled. With slower growth rates this year, the level of activity will be lower than the high base of 70,000 last year. We have made an assumption of a reduction of 25%, down to 55,000 units. We must wait and see how it pans out. This also assumes no change in interest rates. I cannot speculate on what will happen in respect of interest rates in the euro area. It would improper of me to do so, since it is a matter for the European Central Bank. Given the reduction in interest rates in the US, there is a possibility of an interest rate cut here. It is speculative and I do not suggest whether it will happen. The ECB has always emphasised price stability as the main mandate under the Stability and Growth Pact.

Any major turbulence in equity markets is unwanted and unwelcome, but these markets often exhibit short-term volatility. The impact should not be over-exaggerated. It is important to bear in mind that share prices go up and down all the time but the underlying real economy remains the same and we must focus on this aspect.

As a small, globally integrated economy with considerable exposure to the US economy, Ireland cannot be immune to external economic developments. The greater than normal level of uncertainty that characterised the global economy was identified as a key risk in my recent Budget Statement. While we can exert no influence over external developments, we can ensure our economy can absorb external shocks in an efficient manner. It is important to stress that the fundamentals of the economy remain strong. Therefore, we must address it from a position of relative strength.

Deputy Joan Burton: Is the Tánaiste trying to have it both ways? In the run-up to the election, he was happy to portray himself as the person responsible for Irish economic growth. Now that we are facing into difficulties, another set of bodies and factors is to blame such as the international financial situation, the European Central Bank and the Council of Ministers. The Minister has no hands-on approach, yet he has some responsibility to bear for the downturn in the economy and the impact it is having on families, particularly those losing their jobs in the construction industry.

Does the Minister have a response for the changed circumstances in which we find ourselves? The Government presides over a continuing set of service price increases which are part of the reason we have one of the highest inflation rates in the EU. The Minister is responsible for the good times but is not responsible when times get bad. Does the Minister have a response ready for what is happening in the economy?

Deputy Brian Cowen: We have a responsibility whether times are good or bad. The consistent policy framework we have adopted over the past ten years has served the country well. During [5] that period there was extraordinary economic growth and employment creation with a reduction of our indebtedness by half. We are in a position to withstand some of these external shocks far more capably than would otherwise have been the case.

I made a response in my budget to emerging economic downside risks. These had begun in August 2007 with the fall-out from the US sub-prime market problems that led to an international credit crunch. My budgetary stance represented a 1.5% of GDP stimulus to the economy at a time when the downturn was emerging. That was the right choice to make. I felt the right course was to borrow modestly to invest ambitiously.

An extra €1.7 billion will go into the economy on social expenditure, half of which will go to social welfare recipients to protect those on the lowest incomes. A €500 million tax package will put more money back into workers' pockets ensuring they benefit from their productivity. A further €1 billion extra over what was planned will go into the national development plan capital investment programme. That is a measured and responsible response to the downside risks that were beginning to emerge.

Houses of the
Oireachtas
Tithe an Oireachtais

Current Debates > Committee Debates > 2007

Vote 18 - Office of the Ombudsman (Revised).

Select Committee on Finance and the Public Service Debate

Thursday, 22 March 2007

Page 3 of 5

Chairman: Last month the Dáil referred these Votes to the committee. A draft timetable has been circulated to members. It provides for opening statements by the Minister and Opposition spokespersons, followed by an open discussion on the Votes. Is it agreed? Agreed. I invite the Minister to make his opening statement.

Minister for Finance (Mr. Cowen): I am happy to appear before the committee to discuss Ireland's stability programme update of December 2006 and to introduce the annual output statements and the Estimates for the year 2007 for the finance group of Votes. The Estimates and output statement for the Office of Public Works will be presented to the committee separately by my colleague, the Minister of State, Deputy Parlon.

The committee will recall that in budget 2005, I signalled my desire to reform the budget and Estimates process. I was particularly interested in generating more constructive debate on the process and examining how modernisation developments could contribute to policy formulation. Government consideration of these issues in the light of inputs such as my Department's pilot project report and views expressed in the Dail culminated in the announcement of proposals for reform in budget 2006. In my Budget Statement on that occasion I set out a proposed series of measures to improve accountability by the Government to the House in budgetary and Estimates matters. My rationale was basically to facilitate a debate on the overall medium-term budgetary position and to set out for the various committees what Ministers and Departments proposed to achieve from the resources for which they were seeking approval.

Significant progress has been made on all these proposals. First, in October last, my Department published the first Pre-Budget Outlook, which replaced the Economic Review and Outlook that had been published in previous years. The new publication updated the economic and fiscal projections not only for the current year but also the outlook for the following two years. In other words, it set out in a more transparent manner the contextual framework within which budget 2007 was prepared. Second, the engagement today with the committee on the stability programme update is to discuss with it the factors underpinning budget 2007 and, more importantly, the projections for years two and three. Finally, all Ministers, including myself today, are submitting annual output statements for 2007 in respect of the Estimates for which they are seeking approval.

There is another element of my 2006 budget package which is the responsibility of this committee. That involves the preparation by the committee of a report for the Dáil on the deliberations of the various committees on both the Estimates and the output statements. While the production and composition of the report is a matter for this committee, it represents an opportunity for the committee to articulate its considered view on expenditure policy priorities for 2008 and later years prior to the Government engaging in its detailed consideration of the 2008-10 budgetary and spending cycle. To assist the committee in this regard, it has now had the benefit of the recent stability programme update, which updates the economic and fiscal projections for the Irish economy for the period ahead. This will enable the committee to form an informed overview of what is proposed for and being achieved by public expenditure in the light of the latest economic and budgetary position.

I will now turn to the December 2006 update of Ireland's stability programme which was published with the budget. As members will be aware, the Stability and Growth Pact is the treaty-based framework for the co-ordination of member states' economic policies. The two basic requirements of the pact are the 3% of GDP deficit limit for the general government balance and the 60% of GDP limit for gross government debt. Equally important, the pact also requires member states to pursue a basic budgetary objective of "close to balance or in surplus", so that budget deficits should be the exception and not the norm. In addition, member states must report each year on their budgetary position by preparing a stability programme which is subject to peer review by the other member states. These aspects are often referred to as the "preventive arm" of the pact.

The programmes are assessed by the Commission with regard to the realism of the budgetary strategy and its compliance with the pact. The analysis also looks at the overall macro-economic performance of the country and highlights relevant policy challenges. Following the Commission's assessment and discussion at the Economic and Financial Committee, the ECOFIN Council formally adopted a favourable opinion on Ireland's stability programme on 27 February 2007. Copies of the Council Opinion have been presented to the committee. Since its introduction, the Stability and Growth Pact, the key elements of which were agreed at the Dublin European Summit in 1996, with reforms agreed at the 2005 spring Council, has had a broadly positive effect in encouraging member states to maintain a more disciplined approach to public finances.

Before outlining the Council opinion, I will deal briefly with the overall economic background and outlook for the next three years as set out in our stability programme update. The performance of the Irish economy over the past few years has, in general, been fairly solid. Last year was no exception, with GDP expanding by over 5%. The corresponding rate of GNP growth is estimated to be closer to 6%. Employment rose by an estimated 4.4% and the level of employment breached the 2 million mark for the first time in the history of our State. Unemployment remained low last year, at 4.4%, which was among the lowest in the EU. While inflation rose to 4% on average on a CPI basis, this was largely driven by external developments over which we have no control — for instance, if the effect of interest rates is excluded, average CPI inflation would have been in the order of 2.6%.

The economic outlook for this year remains positive, with growth of 5.3% in both GDP and GNP terms projected. This is broadly in line with our estimates of our medium-term potential growth and is consistent with the maintenance of full employment. Domestic demand is once again expected to be the main engine of growth. In particular, personal consumption expenditure is expected to expand strongly - growth of 7.3% is forecast - partly reflecting the maturing of the SSIA scheme. Investment spending is forecast to moderate to 5.4%, reflecting our assumptions that new housing output will decline this year.

The pattern of growth, however, has changed in recent years. In contrast to the export-led growth that pertained during the second half of the 1990s, growth is now being driven by domestic demand and this pattern is likely to continue this year. This is not sustainable over the longer term. A resumption of a more sustainable pattern of growth will require an improvement in our cost base, including a better productivity performance.

Turning to the labour market, conditions are likely to remain broadly favourable, with employment forecast to rise by 3.5% this year. The unemployment rate is projected to remain below 4.5% of the labour force, one of the lowest rates in the EU. While currently high, inflation is expected to moderate as the year progresses, heading towards 3% on a CPI basis. Beyond this year, the growth rate is forecast to moderate as the impetus to consumption from the maturing of the SSIA scheme fades and as housing output continues to ease downwards towards more sustainable levels. A lower average GDP growth rate of 4.4% is forecast for 2008 and 2009.

I will now outline some of the main points of the Council opinion and of the related Commission assessment which will be of interest to members. The conclusion in the Council Opinion is that, overall, Ireland's medium-term budgetary position is sound and, as with a small number of other member states, the budgetary strategy is regarded as a good example of fiscal policies in compliance with the Stability and Growth Pact. Ireland has been a consistently strong performer under the SGP with low debt and high growth levels. The general government balance has been in surplus in all years from 1997 onwards, with the exception of a small deficit in 2002. On this occasion, however, the Council advises that it would be prudent to maintain room for manoeuvre against any reversal of the current growth pattern which it regards as having been led by strong housing sector developments.

The Council agrees that the budgetary scenario outlined in the programme is realistic. The stability programme envisages that real GDP growth will reduce gradually from 5.4% in 2006 to an average of a little above 4.5% in the period to 2009. The Commission considers that the main budgetary risks relate to a potential sharp downturn in the current high levels of residential construction and property prices. This is acknowledged by us in the programme, as is the risk on the domestic front that a further deterioration in competitiveness could be brought about through relatively high price or wage inflation.

The healthy position in the public finances is reflected in an expected surplus in the order of 2.6% of GDP for 2006. This significantly stronger result compared to the previous year is attributed in the Commission's assessment mainly to housing related revenues and, to a lesser extent, to the impact of higher output growth on taxes generally. The projected budgetary position is for a general government budget surplus of 1.2% of GDP in 2007 followed by surpluses of 0.9% in 2008 and 0.6% in 2009. These balances include the cost of infrastructural investment which at approximately 5% of GNP is running well ahead of the EU average over the period.

In common with a small number of other member states, Ireland is already achieving its medium-term budgetary objective of a budget at close to balance in structural terms. The commission acknowledges that this position is likely to be maintained over the programme period to 2009. Nonetheless, the commission's analysis is that the structural balance is likely to decline by about 1% of GDP between 2007 and 2008. I should explain that under the pact, member states which are already at their medium-term budgetary objective should endeavour to avoid implementing pro-cyclical policies or an expansionary fiscal stance during economic good times. In this regard, the Council opinion includes an invitation to Ireland, in common with a number of similarly placed member states, to avoid pro-cyclical policies in the coming years.

I would like to be clear on this point. As I said in the budget, I am returning some of the additional resources at my disposal this year to the taxpayer. I have committed some to additional support in the social welfare and health areas. In line with the Stability and Growth Pact, I am also using some of the additional revenue to run a substantial budget surplus.

Under the recent Stability and Growth Pact reform, there is a particular focus on reducing debt levels and achieving long-term budgetary sustainability. Ireland has one of the lowest debt ratios in the euro area. Our gross debt is estimated to have declined to around 25% of GDP in 2006, well below the 60% of GDP treaty reference value. We expect the debt ratio to decline by a further 3% over the programme period.

When it comes to long-term sustainability of the public finances, Ireland is considered to be at “medium” risk. This follows from our changing demographic profile which will see the share of older people rise and, consequently, a large increase in age-related expenditure, particularly on pensions. To cope with the long-term costs of aging, the Council opinion indicates that Ireland will need to run high surpluses over the medium term and to put in place measures that address future expenditure pressures. By setting out available options, the forthcoming Green Paper on pensions policy will make an important contribution in this respect.

The Council’s view is that the stability programme confirms the commitment of the Government to maintaining sound public finances in line with the Stability and Growth Pact. The pact continues to provide the overall framework for medium-term budgetary policy in support of the Government’s objectives for employment, competitiveness, prosperity and balanced economic development, as well as the long-term sustainability of public finances.

I would like to turn to the area of general public expenditure. The strategy underpinning the Government’s approach to the 2007 expenditure Estimates is to: promote sustainable economic and employment growth and national competitiveness; continue to give priority to the key areas of capital investment, social welfare, health and education; provide for expenditure this year to meet in full the requirements of various Government strategies, including those under the National Development Plan 2007-2013; provide the resources necessary to deliver improvements across the whole spectrum of public services, including improved equity and opportunity; optimise value for money in the delivery of public services; and maintain spending on public services at a sustainable level into the medium term, while delivering on our ambitious programme of investment under the NDP and key commitments in the partnership agreement Towards 2016.

Total gross voted expenditure in 2007 will be €56.3 billion, representing an increase of €6.5 billion, or 13%, on the provisional outturn last year. Details of key outputs to be achieved across all sectors are set out in the new annual output statements for 2007, tabled by Ministers to the select committees.

The National Development Plan 2007-2013, published on 23 January last, is a comprehensive blueprint for investment over the period of €184 billion of Exchequer and non-Exchequer funds. It also sets out strong strategies to promote the key horizontal objectives of regional development, environmental sustainability, rural development and

Review of Area-Based Tax Incentive Renewal Schemes

Final Report

November 2005

Goodbody Economic Consultants in association with
Mazars and HKR
Ballsbridge Park, Ballsbridge, Dublin 4 • Tel: 353-1-6410482 • Fax: 353-1-6682388
www.goodbody.ie/consultants/ • e-mail – econsultants@goodbody.ie

9. Conclusions and Recommendations

9.1 Conclusions

Cost to the Exchequer

It is estimated that the area-based tax incentive Schemes will cost the Exchequer €639 m in tax forgone in present value terms in respect of developments undertaken to end of 2004.

By the end of July 2006, when the Schemes are due to expire, it is predicted that the costs to the Exchequer will have risen to €1,933m. Almost 74 per cent of these anticipated costs will arise in respect of the Urban Renewal Scheme.

The major impact on the Exchequer is yet to come, as even those developments completed by end 2004 will give rise to claims for tax relief for a considerable future period.

These tax costs are high relative to the outputs achieved. For example, the present value of tax costs represent up to 43 per cent of the building cost associated with developments undertaken as part of the Schemes.

The Rural Renewal Scheme

Th Rural Renewal Scheme has delivered a modest increase in housing output and has improved the quality of the housing stock in the participating areas. Overall, it has had relatively little impact on industrial and commercial development and thus directly on economic activity. However, it has helped vitalise the towns of Longford and Leitrim, through both residential and commercial developments.

With regard to the housing output under the Scheme, it is evident that there is substantial dead-weight and a significant proportion of the output would have occurred in any event. A key objective of the Scheme was to support a reversal of the population decline in the participating areas. There is evidence that much of the housing output has been taken up by existing residents, further increasing the dead weight associated with the Scheme. As a result, the Scheme has not represented value for money. This has been exacerbated by the tendency, on the part of a significant minority of participants to build relatively large houses.

It is now evident that the very substantial increase in housing output has now resulted in excess supply and that house prices are softening and rents have declined.

A positive feature of the Scheme has been the large number of participants, and thus a reasonably widespread distribution of the tax benefits. However, the Scheme, in common with the other area based incentive, has fundamentally adverse equity impacts.

The Urban Renewal Scheme

The Urban Renewal Scheme has been successfully implemented, and it is anticipated that by mid July 2006 a very high proportion of developments earmarked for the designated sites will have been completed. The structures put in place, including the Integrated Area Plans, have been vital in matching development to local needs and priorities. Areas where resources were applied to managing and marketing the Scheme were particularly successful.

The Scheme has had very positive impacts on dereliction and has been reasonably successful in improving urban design. With regard to economic impacts, the Scheme has enhanced housing outputs in the target areas. This housing has been taken up and there is no evidence of excess supply. Moreover, the Scheme had a strong emphasis on commercial development and has delivered significant benefits in this area.

The Scheme has been less successful in delivering social and community benefits, as significant funding for initiatives in this area was not raised. Because of the heavy involvement of residential investors in the Scheme and the increased supply of rental properties, concerns have arisen that there have been negative impacts on social integration. This has arisen because rental properties have often attracted a transient population, with excessive dependency on occupation by social welfare recipients.

While dead-weight continues to be an aspect of all such schemes, there is evidence that the Urban Scheme kick started developments in a number of areas, and was crucial in focusing developments on inner city locations, that developers might normally have eschewed.

While the Scheme has proved extremely valuable, its very success, together with the strength of the economy and the increase in private capital, has reduced the need for it going forward. Dead weight is now relatively high at the level of the individual project.

The tax benefits of the Scheme have accrued to relatively few higher income individuals. There has also been significant inflation of property prices as a result of the tax incentives and this has benefited a small number of landowners and developers. Thus, the Scheme has had strong negative income distributional effects, although this is to some extent inevitable when only a small number of sites are tax designated.

The Town Renewal Scheme

The Town Renewal Scheme has been less successfully implemented than the Urban Renewal scheme. A large number of developments at designated sites remain to be commenced. In a significant proportion of towns only a minority of developments have been completed by end of 2004. That said, some towns have benefited enormously from the Scheme.

Where progress has been poor, this is largely a result of lack of interest on the part of developers and site owners. To some extent this lack of interest reflected a level of risk of investment in relatively small towns, which the tax incentives were insufficient to offset. It was also the result of the fact that in many towns the designations provided largely for refurbishment of existing commercial property and this proved less attractive to developers than new build.

There is some evidence that the Town Renewal Scheme was not as well managed as the Urban Scheme. Local authority resources were often spread too thinly across a number of towns. Either the allocation of greater managerial resources or a limit on the number of towns included in the Scheme would have produced better outcomes.

The impact of the Scheme has thus been relatively patchy. Where the Scheme was successfully implemented the impacts would have been on a par with those of the Urban schemes. This was not the case for a significant minority of towns.

Where successfully implemented, given its emphasis on refurbishment, the Scheme had a strong impact on dereliction. Urban design issues featured less strongly than for the Urban Scheme, as did conservation. Because of the relatively low level of new build, economic impacts have not been to the fore. Community and social impacts were not really a feature of the Scheme, and there would not have been any real prospect of raising levies to fund initiatives in this area.

It must be recognised that there was substantial cross over in terms of scale between areas designated under the Urban and Town Schemes. Larger towns in the Town scheme that had a relatively high level of designation for new build tended to derive similar economic benefits as did their counterparts in the Urban Scheme.

With regard to dead weight, it would appear that this was lower for the Urban, as the higher risks in towns with lower populations made the tax incentives more crucial in the decision to develop a site.

Living over the Shop Scheme

The Living over the Shop Scheme, as with its predecessors, suffered from low levels of take up. This is a problem that is unlikely to be overcome, as the disruption to retail activities and the loss of storage space act as a deterrent to shopkeepers. Additionally, over the shop residences may not be very attractive to prospective tenants. Because of low take-up, the impacts of the Scheme on the urban environment has been limited. However, the Scheme has been more successful in some urban areas than others. The key factor appears to have been the application of resources to managing and marketing the Scheme.

9.2 Recommendations

It is recommended, subject to compliance with EU State Aids policies, that the expiry date for the current Schemes be extended to end 2007. This would solely be to facilitate the completion of developments that have been granted planning permission under the scheme, but where work has yet to commence.

Thereafter, the Rural Renewal Scheme should not be continued. It is not regarded as cost-effective approach to the problems of rural decline, and is not a model that should be employed elsewhere in the country.

As the Living over the Shop Scheme has a narrow focus on fostering a living urban environment, it should be retained, despite the difficulties with take-up. It is recommended that the tax incentives be made available contingent on a commitment of resources by local authorities to managing the process.

With regard to the Urban and Town Renewal Schemes, the scale of economic activity and the availability of capital have reduced the need for such Schemes. That said, it is recommended that Government retain tax incentivisation as a tool of policy, should economic conditions require further action to regenerate urban areas.

If Government chooses to reintroduce area based tax incentivisation in the post 2007 period, then it is recommended that changes to the structure of the schemes be implemented to reduce the cost to the Exchequer and their inequitable effects.

These changes include:

- Targeting the schemes in areas or towns for which there is evidence of development activity, but where problem sites, such as old dock lands and industrial sites, are being neglected;
- Giving priority to urban areas identified as Gateways and Hubs in the National Spatial Strategy and to towns and cities that host RAPID areas;
- Ensuring that adequate resources are applied to the management of the Schemes;
- Incorporating structures to share experience and promote good practice
- Introducing measures to control abuse of the Schemes;
- Ensuring that designated sites have a prospect of being serviced;
- Establishing the Scheme for a sufficient duration to allow developers to respond;
- Increasing the level of owner-occupation in the housing output mix;
- In order to incentivise the latter, granting 100 per cent relief to owner- occupiers over ten years and restricting the investor relief to 50 per cent; and
- Improving the equity and cost effectiveness of the Schemes by allowing the relief in relation to a proportion of expenditure only.

Indecon Review of Property-based Tax Incentive Schemes

Report for the

Department of Finance

Prepared by

Indecon

17th October 2005

2.6.4 Impact on Financial Returns to Promoters

Table 2.6 presents the views of the financial institutions, auctioneers and accountancy/tax professionals on the impact of the property-based tax incentives on the financial returns to promoters. Among financial institutions and accountancy/tax professionals, all respondents considered the incentives to have led to increased returns to promoters. Over 85% of auctioneers share this view.

Table 2.6: Views of Financial Institutions on the Impact of the Property-based Tax Incentive Scheme – Proportion of Respondents believing that the Scheme has Increased Financial Return to Promoters

	% of Survey Respondents	
Respondent Group	**Yes, result of incentive**	**No, not a result of incentive**
Financial Institutions	100.0%	0.0%
Auctioneers	86.7%	13.3%
Accountancy/Tax Professionals	100.0%	0.0%

Source: Indecon Confidential Surveys of Financial Institutions in Ireland.

Figure 2.8 illustrates the views of those surveyed by Indecon on the effect of the schemes on financial returns to promoters.

Table 14.1 General Recommendations on Property-based Tax Incentive Schemes

1. All tax incentives schemes should require full disclosures of key information to the Exchequer by investors/promoters via a certification scheme or other mechanism to enable the full cost and impact of the schemes to be monitored.
2. The decision to introduce any new tax incentives should be informed by a formal assessment of the likely costs and benefits.
3. Where there is justification for government incentives the option of direct public expenditure as an alternative to tax incentives should be considered.
4. Any tax incentive schemes which are introduced should have a defined lifespan of a maximum of 3 years and extensions should only be considered after evaluation of the results of a formal cost-benefit appraisal.
5. Developers/investors in any tax incentive scheme should be responsible for securing independent certification that the conditions of the schemes have been met.
6. Restrictions on capital allowances which focus exclusively on shelters on rental income rather than on personal income should be refocused.
7. Consideration should be given to introducing a cap on total annual allowances which can be claimed by any individual.
8. Differential allowances in any tax incentive scheme should be introduced depending on whether these allowances are being claimed at corporate or personal tax rates.

General Recommendation 1

All tax incentives schemes should require full disclosures of key information to the Exchequer by investors/promoters via a certification scheme or other mechanism to enable the full cost and impact of the schemes to be monitored.

A major problem from a public policy perspective which applies to many of the property schemes under review is an absence of information on the level of investment, the nature of investors and the costs of the schemes. With rigorous and innovative approaches Indecon has been able to overcome these significant information gaps for this study. Without this information it is not possible for policymakers to know the costs of the schemes or whether their continuation is valid or otherwise. This applies to all tax incentive schemes and it is in our view essential that policymakers have full and up to date information on an ongoing basis regarding such schemes.

14.3 Specific Recommendations for each Tax Incentive Scheme

Indecon has also made recommendations specific to each incentive scheme. Our specific recommendations are contained in Table 14.2. In many cases while the schemes have had a benefit our analysis suggests they have served their purpose and there is absolutely no case for future government incentives. Continuing to approve new projects would contribute to oversupply and represent a clear waste of scarce public resources.

In a number of cases on-going government support for the activity is needed (for example in case of third level buildings) but the tax incentives are an extremely high cost and wasteful mechanism to achieve the objectives. In a limited number of cases (private hospitals, nursing homes and childcare facilities) increased private sector investment is needed to address the economic and social needs in these sectors and would reduce demands on the public sector and have significant economic estimates.

For the incentives which we believe should not continue there is an important issue for the timing of projects which have already secured approval. We see little or no merit in requiring all of these projects to be completed in a very short timeframe. Such an approach would damage the construction sector and increase inflationary pressures. Permitting a much longer timeframe with an associated adjustment in allowable capital expenditure would reduce Exchequer costs and have other economic efficiency benefits.

Table 14.2 Specific Recommendations for each Property-based Tax Incentive Scheme

1. There should be no further extension of capital allowances for hotels and holiday camps for projects which have not lodged a full and valid planning application before 31 December 2004.
2. There should be no further extension of capital allowances for registered holiday cottages which have not lodged a full and valid planning application before 31 December 2004.
3. The capital allowances scheme for sports injury clinics should be ended with immediate effect at the earliest feasible date.
4. There should be no extension of the capital allowances for third level education buildings for projects which have not secured Ministerial certificate of approval by 31 December 2004.
5. Additional public expenditure resources for third level education buildings should be provided.
6. There should be no extension of the capital allowances for student accommodation for projects which had not lodged full planning applications by December 2004.
7. The tax relief to lessors in respect of the expenditure incurred on the refurbishment of certain rented residential accommodation should be ended with immediate effect.
8. There should be no further extension to the capital allowances for investment in multi-storey car parks for projects which had not incurred at least 15 per cent of costs by 30 September 2003.
9. The capital allowance scheme for associated commercial or residential investments with park and ride facilities should be ended with immediate effect. We would support continuation of the incentive for specific investment in park and ride facilities.

10 Public expenditure to support park and ride facilities should be provided.

11. Capital allowances for childcare facilities should continue subject to certain amendments.

12 Capital allowances for private hospitals should continue subject to certain amendments.

13. Capital allowances for private nursing homes should continue subject to certain amendments.
14. For projects under the hotel, holiday cottages, third level buildings, student accommodation and multi-storey car parks, which have already met the requirements for planning and/or Ministerial or other approvals a five year extension to the timescale for completion of the projects should be introduced but the level of all capital allowances claimed should be restricted to 50%.

Ahern to honour stamp duty promise

Monday, June 04, 2007 http://www.irishexaminer.com/ireland/politics/ahern-to-honour-stamp-duty-promise-34285.html By Harry McGee, Political Editor

TAOISEACH Bertie Ahern will move to implement Fianna Fáil's promise to scrap stamp duty for first-time buyers the first day the new Government begins work. In an article published yesterday, Mr Ahern said that the commitments made by his party on stamp duty would become law within weeks.

The measures will only be implemented if — as expected — FF is returned to Government when the Dáil resumes on June 14.

Writing in the Sunday Independent, Mr Ahern acknowledged that home ownership was one of the primary aspirations of the people of Ireland, and provided parents with a valuable asset to pass on to their children.

"Fianna Fáil has always supported home ownership through policy initiatives, and we will continue to do so," he wrote.

He stressed the importance of the construction sector to the Irish economy and accepted that the uncertainty of the past few months — some of it caused by unchecked speculation over the Government's intentions on the matter — had the potential to damage the housing market.

Mr Ahern claims that the FF reforms were the only ones that would minimise impact on the housing market. He also contended they were the fairest as they helped first-time buyers only.

Such buyers came to the property market, he continued, without the advantage of house-price appreciation.

FF was widely perceived to have suffered politically because of its delays in unveiling its proposals for stamp duty reform.

Its coalition partners, the PDs, had proposed an elaborate scheme at which the higher rates of duty (the maximum is 9%) would only be paid above certain thresholds and not for the entire amount.

FG and Labour brought forward joint proposals that gave incentives to first-time buyers and also for a simplified system with only three bands of tax — and like the PD proposal, higher interest would only be payable for sums above the threshold amount.

FF claimed its reasons for delaying its proposals was that it didn't want to create uncertainty in the market, or to begin overheating it again just as house prices were beginning to fall.

Its solution was a much simpler one. It proposed the abolition of stamp duty for first time buyers, with the changes being backdated to April 30 this year.

"Our proposals allow first-time buyers, the life-blood of the housing market, to proceed with their purchases with confidence," Mr Ahern wrote yesterday

Business Planning Review
Meeting with MAC

19 November 2004

Budget and Economic Division (1)

- ISSUES NOTE –

The work of Budget and Economic Division (1) falls into two distinct areas – Budget and Economy.

Reporting to Dermot Mulligan

- Fiscal Policy and Budget Coordination
- Tax Forecasting and Analysis
- EU Budgetary Reporting
- Budgetary aspects of EFC
- Stability and Growth Pact
- Social Partnership

Reporting to Barra O'Murchadha

- Economic Forecasting and Analysis
- Prices and Competitiveness
- Labour Market and International Economy
- Domestic Sectoral Analysis
- Long-term, structural reform and modelling

1. Budget Sections - 5 AP units working to Dermot Mulligan.

Some of the main issues arising in the next 12 months are set out below.

<u>Budget</u>*:* In the short term Budget 2005 will have to be brought to a conclusion. It will then be steered through the EU budgetary surveillance process. Next spring the content of the Budget Strategy Memorandum for Government and Budget 2006 will fall to be considered. This will need to have regard to any developments in the basic fiscal framework that we have operated within over the last five years (the SGP) and changes in the prevailing policy environment, including the prospective outcome of the negotiation of a successor agreement to Sustaining Progress.

The possible broader development of multi-annual budgeting into the current budget (recommended by the IMF), unified budgeting (raised by the opposition) and the possible coordination of Budget processes under the SGP (EU budget semester) will remain topical in 2005.

<u>EU Budgetary and Economic Policy</u>**:** Participation in EU discussions in particular on EU Commission's SGP reform proposals, the mid-term Review of Lisbon Agenda and setting Broad Economic Policy Guidelines will continue. The Commission proposals for SGP reform contain many elements that may be of interest to us but it remains unclear whether agreement can be reached among all MS on a meaningful package of amendments to the SGP. There are potential implications for budgetary timetables, processes and the underlying fiscal stance permissible within the Pact. If agreement is reached the amending regulation would create significant additional work.

<u>Tax Forecasting</u>**:** There is an ongoing process of developing our knowledge of the drivers of tax revenue performance. This has been done in conjunction with Revenue and utilising the ESRI where possible. Adjustments have been made to how we forecast some tax heads. However, progress has been substantially constrained by the very limited resources that Revenue has been able to devote to assisting us in this. It is anticipated that this may improve somewhat with the recent recruitment of an Economist and a Statistician in Revenue.

Substantive tax revenue issues that will have a significant impact on forthcoming forecasting rounds include the 2006/7 ending of the SSIA scheme with the positive impact of the exit tax on savings, the ending of the

Exchequer contribution to SSIAs and the ending of the CT cash flow gain from the change to a current year basis.

EU Budgetary Reports and Accounting: Maastricht budget reporting will continue as will the monitoring of GGB/GGD treatment of various issues at EU level including e.g. assumption of public pension liabilities etc. We have no outstanding statistical issues or disputes with Eurostat on the public finances.

Local authority borrowing and the absence of reliable and timely data remains a concern – revisions to the budget balance in this sector remain unacceptably large. The DoELG are seeking a substantial upward revision in the limit. This is a complex issue but given the profound weaknesses in the financial data for the sector any easing of the limit would seem to be inappropriate at this juncture.

Social Partnership, NESC & ESRI: The forthcoming NESC strategy report may be more problematic in the context of recent views expressed by social partners on budgetary and taxation policy in particular. The ESRI is to be the subject of an Expenditure Review in Q1 of 2005. The Review will have to address the shortcomings observed of the previous review in 1997, the Exchequer contribution of €2.9m in 2004 and the public interest value delivered for that money.

2. Economic Sections - 5 AP units working to Barra O'Murchadha.

Some of the main issues arising in the next 12 months are set out below.

There are a number of items that will have implications for the prospects of the macro-economy over the next couple of years including an easing of new housing output, the impact of the maturing of SSIA, oil prices and €/$ exchange rate.

Housing Construction: The construction sector is of major significance to the economy, disproportionately so given the historic levels of output of recent years – an estimated 80,000 units in 2004. In 2003 it made up 10% of GNP and 11% of total employment.

The prospective reduction in housing output has significant implications for growth, employment, taxes and the estimation of the CABB. Roughly speaking in 2005 each 1% drop in the volume of new house construction reduces economic growth by 0.1%. Going hand in hand with the issue of a prospective fall in output is the issue of the sustainability of price.

<u>Special Savings Investment Accounts</u>: The SSIAs will begin to mature in May 2006 with the bulk of the money being freed up in April 2007 (42.6% of the total). As the total value of the accounts is estimated to be some €15 billion the maturing SSIAs has the potential to have a major impact on the economy (and the financial system) in 2006, 2007 and perhaps 2008.

There is little research in this area and what there is could not be relied on as a good indicator of likely outcomes. The range of views assume that up to 76% (€11.4 billion) will be consumed (Goodbody) to the EU Commission who believe that the impact will be negligible. It will be an important part of our work to clarify our thinking on these issues and to refine the range of possible scenarios.

<u>Oil Prices</u>: 2004 has seen greater volatility in oil prices since the early 1990's. Our Budget 2004 economic projections assumed oil prices of $28 per barrel. For a significant period oil has traded well above this level exceeding $50 for a period (now eased back towards $40). Analysis of a sustained rise in oil prices of $10 per barrel estimates that growth would be lowered by around 0.5% in the next year. Our assumption is for an annual average cost of $45 dollars a barrel in 2005. The risk on oil may be easing particularly as the $ has weakened against the € but this presents its own difficulties.

<u>Exchange rates</u>: The early months of 2004 saw the € appreciate strongly against the $ before easing back towards the rates underpinning the 2004 forecasts. However, the € has begun to appreciate again, in particular in the aftermath of the US Presidential election, and this may continue on foot of continuing concerns over the US twin deficits. A current account deficit of 5.4% of GDP this year makes the prospect of depreciation a real possibility with consequences for global demand. Similarly the reduction or elimination of the fiscal deficit implies reduced expenditure or increased taxes – these would reduce US household consumption with negative effects on US and world growth. A sustained appreciation of 10% against the dollar could reduce growth by ¼%.

<u>International Surveillance of the Irish Economy</u>: The level of external surveillance of the Irish economy is considerable. It includes the EU (SGP, Cardiff, BEPG, Lisbon etc), IMF Article IV, OECD and visits from four ratings agencies each year. The IMF delivered a substantially positive report on Ireland this month and we are in discussions with them on the possibility of moving to a 24 month cycle – progress is slow. The OECD review of Ireland has been put back to January 2006 – mission and preparations in Q3 of 2005.

Labour Market Developments*:* A particular issue that will need to be monitored is construction employment which is currently well above historical levels and this can be anticipated to fall back as new house output unwinds (see above). Some work has been done on the public service "pay gap" as set out in the O'Leary/Boyle paper that addresses Benchmarking. This is at an early stage and it is intended to develop it further next year.

Competitiveness**:** As the Department highlights the key economic challenge as the need maintain competitiveness this has been brought under one AP (with obvious overlaps with others). A coordinated view is necessary given the wide range of items that impact on national competitiveness ranging from macro-indicators (wages, prices, productivity, exchange rates) to micro indicators (price of telecoms etc.) As such it is not possible to construct an overall single measure of competitiveness. Nonetheless, we continue to monitor developments in macro and micro indicators and the various international league tables as they are published.

Other Issues**:** There is currently no modelling capability in the area – we are in the process of recruiting a new econometrician for this work.

3. Restructuring the Divisions Work

The area is being restructured to better fit business needs and to facilitate the addressing the issues set out above.

A revised organisation chart with associated responsibilities is attached and the business plan will be brought in line with the new structure in the 2005 round of planning.

The main changes involve separating the Economic and Budget functions, to bring greater clarity to work and responsibilities, and bringing all staff into one location for the first time since 1996, to facilitate closer team working on the economic side.

The budget area is largely unchanged. The main differences have been to enhance the staffing of the *"EFC"* area to address the increased

- budgetary surveillance requirements of the enlarged EU, and
- demands of SGP reform as being currently rolled out by the Commission.

The "*social partnership",* ESRI and NESC coordination functions have been moved into the budget area as they were a very poor fit on the economic side.

On the economic side, there has been a progressive and ongoing move to a structure that is more team than section orientated because of the interdependence of activity. The main areas or responsibility cover macro-forecasting, international, structural/medium/longer term and sectoral analysis.

A key business issue for the Division is the development of the appropriate skills mix consistent with broader business needs. Much of the work is specialist or technical in nature. The successful reorganisation of the area (one that delivers greater technical capacity to match business challenges) will importantly rely on initiatives such as

- Secondment of economists from elsewhere in the public service.

- Secondment of a CSO statistician to facilitate better understanding of national accounts and sampling techniques for tax forecasting.

- Pursuit of direct recruitment options where skill "gaps" arise.

- Use of opportunities to develop our own specialists through the piloting post-graduate education in lieu of the traditional AO year out.

- Development of applied training modules where specific technical expertise is absent.

Budget and Economic Division (1)

Derek Moran

<u>ECONOMY</u>

Barra O'Murchadha

<u>Labour Market & International</u>

Orla O'Brien

Scline Scott
John Howlin(1)
Patrick Mullane(1)

Labour Market

EU Economy

World Economy

IMF/OECD

MEB

Ad hoc studies

<u>Long Term & Modelling</u> (2)

Liam Reamonn

Economist Vacancy

EPC (EU/OECD)

- *Cardiff Report*
- *BEPGs*
- *Ageing*
- *CABB*

LTI/Demography

Modelling

Ad hoc studies

<u>Sectoral Analysis</u>

Marie Mackle

Eddie Tierney

Investment

Construction Sector

Manufacturing Sector

Services Sector

Ad Hoc studies

<u>Forecasting & Analysis</u>

Sharon Daly

Kate Levey(3)

Macro-policy

Forecasts

Consumption

Exports

Imports

ERO

Briefing

<u>Prices and Competitiveness</u>

John McCarthy

Con Creedon(4)

Prices

Exchange Rates

Competitiveness

Wages/Earnings

Productivity

Briefing

<u>BUDGET</u>

<u>Dermot Mulligan</u>

<u>Fiscal Policy</u>

Brian Finn

Aoife O'Sullivan
John Uhlemann

Budget

- Policy
- Reporting
- Coordination
- Production

Briefing

<u>Tax Analysis</u>

Donal Murtagh

Alan Mahon

Tax Forecasts

Monitoring & reporting

Outturn Analysis

Forecast methods

Tax Base WG

Ad hoc studies

<u>EU Budgetary Reporting</u>

Margaret O'Donnell

Sandra Crowley

National Accounts

ESA issues

General Government Consultative Group

EU Returns

White Paper

<u>EFC & SGP</u>

Ronnie Downes

Eve Francis

EFC (1)

SPU

SGP Issues

Budgetary Surveillance

Ecofin & Eurogroup

<u>EFC & SP</u>

Joe Kirwan

Colm O'Connor

EFC (2)

Social Partnership

ESRI

NESC

Publications (ERO)

(1) Attending Masters Degree course in economics at UCD. John McCarthy acts as post-graduate study coordinator.
(2) Work currently split between J. Kirwan (Cardiff & BEPGs), Ronnie Downes (EPC & Ageing), John McCarthy (CABB)
(3) Works to John McCarthy on prices/inflation
(4) Works to Sharon Daly on Forecasting

Business Planning Review - 3 March 2006
Budget and Economic Division

ISSUES NOTE

The work of Budget falls into two distinct areas – Budget and Economy.

The Economy - reporting to David Hegarty

Unit	**Staff**
Economic Forecasting and Analysis	Sharon Daly, Patrick Mullane
Prices and Competitiveness	John McCarthy, Michael Haugh
Labour Market and International Economy	Orla O'Brien, Scline Scott, Michelle Dalton
Construction Sector Analysis	Marie Mackle
Longer-term Analysis, Lisbon and Modelling	Loretta O'Sullivan, John Howlin, Denise O'Connell

The Budget - reporting to Barra O'Murchadha

Unit	**Staff**
Fiscal Policy and Budget Coordination	Brian Finn, Aoife O'Sullivan, John Uhlemann
Tax Forecasting and Analysis	Donal Murtagh, Alan Mahon
EU Fiscal Reporting and Statistical Analysis	Ciaran Judge, Margaret O'Donnell, Eddie Tierney
Budgetary Surveillance & SGP	Joe Kirwan, Laura Casey
Budgetary Surveillance & Social Partnership	Anne Donegan, Colm O'Connor, Colm Forde

Economic Analysis and Forecasting & Prices and Competitiveness
(Sharon Daly, John McCarthy, Patrick Mullane and Michael Haugh)

First round of forecasting for the BSM will start shortly. The issues that have to be addressed include private residential housing output, SSIA, commodity prices, interest and exchange rates and uncertainties in the international environment.

Impact of SSIA maturity remains an imponderable; we have assumed a low propensity to spend the proceeds

Growth has been largely, indeed almost exclusively, driven by domestic demand over last couple of years. Forecasts assume a recovery in export performance but we cannot be sure that this will materialise. We need to get a better handle on factors driving the manufacturing (and export) sectors

The economy is very exposed to the fortunes of the construction sector. While medium-term underlying demand for housing is probably now higher that the previously oft-quoted 50,000 units figure, the biggest risk is the possibility that some external shock negatively interacts with and affects the sector.

Preparation of new SPU update in late September or early October will pose challenges as it should carry more relevance to policy making than its predecessor the ERO.

Construction and Sectoral Analysis

(Marie Mackle)

We are very reliant on construction for both employment and economic growth. As a result it is the biggest domestic risk to economic development especially where some external shock negatively interacts with and affects the construction sector.

Ongoing need to monitor very carefully trends and developments in the construction sector and within individual sub-sectors

The development and analysis of non-residential construction remains important. Data is more limited in this area. Non-residential construction accounts for about half of construction output so it is worth devoting time to.

We need to develop a better understanding of the shift from manufacturing to services, the driving forces and possible policy implications

International and Labour Market

(Orla O'Brien, Scline Scott, Michelle Dalton)

Social Partnership talks are leading to a number of demands in terms of analysing pertinent issues such as immigration, developments in wages etc.

With the arrival of new staff, analysis/forecasting of earnings has moved to this section from the forecasting section

In response to criticisms from OECD as to our lack of participation in the EDRC, we are planning to participate in some 11 EDRC reviews over the 2006/2007 period

Given current emphasis on the all-island economy, we intend to monitor developments in the Northern Ireland economy so that we can react to requests for input to ministerial speeches etc.

IMF Article 4 mission scheduled for May

Longer term Analysis, Lisbon and Modelling

(Loretta O'Sullivan, John Howlin, Denise O'Connell)

This section has a wide-ranging portfolio, some of which is essentially new work.

On ageing, age-related expenditure projections were published in SPU which substantially updated, for policy changes and demographics, the estimates contained in the unpublished long-term issue group report.

The section participated in the EPC AWG process which led to the publication of EU wide projections recently. Further work is envisaged under the AWG process and we need to think about whether we wish to expand the partial SPU exercise

Section co-ordinates Lisbon process; an implementation report has to be submitted to the Commission (by D/Taoiseach) in the autumn

We want to develop an in-house macroeconomic modelling capacity so that we can do budget etc. simulations rather than relying on ESRI

BUDGET/EU SECTIONS

Most of the work areas on this side are linked and there is a need for a high degree of integration. The Budget/SPU/Maastricht/Tax Forecasting areas which are spread across 4 sections are all closely inter-linked.

BUDGET REFORM

(Brian Finn, Anne Donegan, Aoife O'Sullivan, Colm O'Connor)

The Minister announced a number of changes to the budgetary process in December. Preparations are being made to accommodate within the normal cycle:

- A spring meeting with the Finance and Public Service Committee to discuss the economic and fiscal background to the current and following two Budgets, and,
- An autumn (late September/early October)publication of an update of the three year economic and fiscal forecasts in the SPU, in place of the existing Economic Review and Outlook.

It is now unlikely that the first meeting with the FPSC will take place before 2007.

E-BUDGET PROJECT

(Brian Finn, Ciaran Judge, Donal Murtagh, Aoife O'Sullivan, Eddie Tierney, Alan Mahon)

Work has commenced with CMOD to develop an e-budget system which uses technology to link the core outputs involved in Budget preparation across sections and thereby minimise the potential for inconsistencies or errors.

The first elements of the project have been completed (i.e. a narrative description of process, procedures and outputs).

The overall objective is to develop an integrated relational database system (similar to e-estimates) that will facilitate the full range of analytical, reporting and publishing requirements of the Budget, tax forecasting, Maastricht and SPU sections.

TAX FORECASTING

(Donal Murtagh, Alan Mahon)

Through a combination of own research, cooperation with the Revenue Commissioners and through the Direct Tax Base Working Group work is ongoing to improve methodology and produce more robust tax revenue forecasts.

Specific priorities for 2006 are

- identify factors driving high yields in Stamp duty and CGT – this includes participation with Revenue in the analytical outputs from the computerisation of Stamp Duty returns ,and

- Statistical sampling of Revenue's data base to improve Income Tax forecasting with the participation of the ESRI in an advisory capacity.

E.S.R.I. EXPENDITURE REVIEW
(Barra O'Murchadha, Joe Kirwan)

The group's report will be submitted to the March meeting of the Assistant Secretary Group.

COUNTRY SURVEILLANCE
(Joe Kirwan, Anne Donegan, Colm O'Connor, Laura Casey)

Ongoing development on the knowledge necessary to the critical analysis of convergence/stability programmes of all 25 Member States

The section also provides detailed analysis and briefing on the Excess Deficit Procedure which, at present, applied to 5 Euro area and 7 other MS.

In order to develop our knowledge base on strategic economies it has been decided that AP's will participate in a number of relevant OECD EDRC Review meetings in Paris each year.

RISK MANAGEMENT & BUDGET PRODUCTION
(Brian Finn, Aoife O'Sullivan, John Uhlemann)

A review of procedure has been undertaken and steps are being put in place to reduce the possibility of errors in the 2006 Budget documentation recurring in future.

Business Planning Review - 6 May 2005
Budget and Economic Division (1)

- ISSUES NOTE –

1. Economic Sections working to Barra O'Murchadha.

Economic Forecasting & Analysis *(Sharon Daly [AP]; Kate Levey)*
At this stage work has commenced on the first round of forecasting for the BSM. The issues highlighted in November 2004 still stands and are ongoing, in particular the impact of reduced private residential output on our economic growth prospects, the release of SSIA funds into the economy and the uncertainties in the international environment.

A number of new issues also arise. It has become increasingly evident over the last two years that there is a need to simplify the forecasting rounds. The number of forecasts produced annually is being rationalised to 4 per annum (BSM, ERO, BSM 2 and Budget Day). This is in an effort to bring more clarity for Central Budget Section and Central Section in particular. We are frequently asked for updates to different parts of the forecasts and this can create confusion.

Changing the ERO to a multi-annual basis will provide a challenge for the section. The Department currently only publishes multi annual forecasts once a year at Budget time. Consequently we are out of step with other commentators, the ESRI and Central Bank publish quarterly forecasts and the Commission and OECD publish bi-annually. Moving to a multi-annual basis will increase the workload associated with the ERO as both the format and content must change to become an update of the SPU.

However, as we are frequently comparing Budget forecasts which are months out of date with updated forecasts from domestic and international commentators a multi-annual ERO would be most useful from a briefing point of view. There may be some difficulty when dealing with "Government" in the forecast as the estimates process will not have been finalised when the ERO is published. An explicit assumption regarding Government consumption would need to be agreed.

International Economy & Labour Market *(Orla O'Brien [AP], Scline Scott, Patrick Mullane[1])*
As indicated at the last review the level of external surveillance of the Irish economy is considerable (as is our commitments to EU and OECD committees – see Annex 1). The section is actively engaged in trying to build and manage relations on an on going basis. The IMF Article IV Mission spans the period 5-16 May. The key issues from our point of view are (a) a good report and (b) to make substantive progress on moving to 24 month cycle

As regards the OECD, the EDRC review process starts in September with a formal examination in Paris 24 January 2006 and a report March 2006. Ireland is the EDRC examiner for Greece currently – next examination is on 24 May. We are favourably disposed to a request from the UK to swap for the Netherlands from 2007.

The Monthly Economic Bulletin was redesigned and relaunched in April with an extensive "mail-shot" – the revised version has been well received.

[1] Completing Masters in Economics

As regards Labour Market Issues, migration is becoming much more important as we go forward. We have participated in workshops in relations to a NESC commissioned report. Increased focus will be necessary on the down-stream congestion effects of large scale migration. Childcare is likely to be a Budget / Pay talks issue as usual and we will be inputting to the Group established by MAC. A particular issue is construction employment which is currently well above historical levels and this can be anticipated to fall back as new house output unwinds.

On the Global economy, the position remains favourable but risks have heightened (oil prices & imbalances) since Autumn 2004. Some evidence of slowing consumer spending in the US but forecast is for a still strong 3.5%. The performance of the EU remains disappointing with indications of easing consumer spending in UK and France so far in Q1 but Germany sees a fall in unemployment.

Investment, Construction and Sectoral Analysis *(Marie Mackle [AP]; Eddie Tierney)*
As indicated elsewhere the construction sector remains the major issue for this section. It is of major significance to the economy, disproportionately so given the historic levels of output of recent years – an estimated 77,000 units in 2004. The prospective reduction in housing output has significant implications for growth, employment, taxes and the estimation of the CABB.

Roughly speaking in 2005 each 1% drop in the volume of new house construction reduces economic growth by 0.1%. Going hand in hand with the issue of a prospective fall in output is the issue of the sustainability of price. There appears to be evidence that prices are easing and that credit growth for the purpose of housing has at least levelled off.

The section has identified the need to explore data sources and development of analysis of non-residential construction as a priority. Data is more limited in this area and up to now. Non-residential construction accounts for about half of construction output so it is worth devoting time to. The recent memo for Government concerning NESC recommendations on housing may require further study of housing policy on foot of decisions taken will take place during the year. On other areas, the prospects for manufacturing employment and output compared with those in the services sector will be examined

Prices and Competitiveness *(John McCarthy [economist]; Con Creedon)*
The issues identified in the last review remain important. 2004/5 has seen greater volatility in oil prices since the early 1990's. Our Budget 2005 economic projections assumed oil prices of $45 per barrel. For most of this year oil has traded well above this. Analysis of a sustained rise in oil prices of $10 per barrel estimates that growth would be lowered by around 0.5% in the next year. The risk on oil may partly mitigated by the $ weakening against the €.

The early months of 2005 saw the € appreciate strongly against the $ before easing back recently towards (but still well above) the rates underpinning the 2005 forecasts. A sustained appreciation of 10% against the dollar could reduce growth by ¼%.

In the context of the imminent maturing of SSIAs from May 2006, the section is providing the secretariat to the Long Term Savings Group (LTSG). This is a departmental group charged with preparing a report for end May 2005 for the MAC on long term savings policy in Ireland. The LTSG is covering issues such as; long term savings rates and patterns in Ireland and other developed economies, savings via pensions, savings by teenagers and younger earners including mechanisms to encourage savings amongst these groups, and the impact of SSIA's on savings behaviour and the economy. The IMF will present a paper next during their visit on saving in Ireland which may provide an interesting external perspective on the issues

Structural Reform, Long-term & Modelling *(Loretta O'Sullivan (economist), John Howlin[2])*
This unit has just been established. Role profile and issues need to be fleshed out.

2. Budget Sections working to [vacancy].

Fiscal Policy and Budget Coordination *(Brian Finn [AP], Aoife O' Sullivan, John Uhlemann)*
The timetable for the BSM/Budget has been developed jointly with PED. The structure and content of the BSM 2006-2008 is being considered. This will need to have regard to the changes to the SGP, the impact of the costs of the nursing home charges, the prospective outcome of the negotiation of a successor agreement to Sustaining Progress and a new NDP

Budget reform will remain a priority concern. While current proposals, circulated in the draft memorandum, do not envisage change until 2006 significant preparatory work will be needed. In this regard as part of the proposed enhancement of parliamentary involvement steps will be necessary to ensure the quality of the published budget material to be used in the scrutiny of the SPU in early 2006 and inclusion of quality data on budgetary aggregates in the revised SPU/ERO in September.

Ongoing work is necessary to ensure the requirements of the Official Languages Act are complied with. Data development aimed at upgrading existing holdings and developing new sources.

SGP, EFC, EU Budgetary/Economic Policy *(Ronnie Downes [AP]; Eve Francis)*
Agreement on reforming the Stability and Growth Pact was endorsed by the Spring European Council, in March 2005 to improve budgetary flexibility to enable the struggling Eurozone economies more time to correct their high deficits; to improve the focus on consolidating budgets in good economic times and to enable Member States with low debt and high potential growth (such as Ireland) more budgetary freedom of movement over the economic cycle. This change of orientation will be integrated into BSM

This is not without risk. If the reforms are interpreted as a weakening of the Pact there is a danger that the pressure for responsible budgetary policies will diminish with the attendant risk of higher interest rates. On the domestic front, there is a risk that the budgetary freedom of movement could be misinterpreted as creating a new, looser target for fiscal policy, without regard to prevailing economic circumstances. The challenge will be to manage expectations in this area in a realistic and responsible manner - a draft Memorandum on these issues is with the Minister.

In terms of Budgetary Surveillance under the Stability and Growth Pact, at present, ten Member States are subject to the Excessive Deficit Procedure: four Eurozone MSs (Germany, France, Greece, the Netherlands); six of the new Member States (Czech, Cyprus, Hungary, Malta, Poland, Slovakia); and in addition, Portugal, Italy and the United Kingdom are close to (or in some cases above) the 3% Treaty limit, and EDP procedures are expected to be initiated soon in at least the first two cases.

---

[2] Completing Masters in Economics

The reports of the Nyberg commission and Regling and Watson suggested that there was a basis for taking some action by about the end of 2005. I've recently re-read some of the relevant documents from that time to get some insight into our mindset. This is not easy with the elapse of close to ten years since the 2005 financial stability report was published. Nevertheless, with the benefit of hindsight, I agree with the view that there was a basis for action in 2005. The Central Bank should have escalated and reinforced its warnings on risks and vulnerabilities at the time. At the time, the bank considered that the approach taken was the correct one and I would like to set out why it held that view.

The Central Bank was aware of plans to phase out tax incentives for property. In October 2004, because of the increases in property prices and also the growth of the property sector, I raised the issue in the Governor's pre-budget letter to the Minister for Finance. I advised that no further extension should be allowed to the termination date of mid-2006 for the range of tax-driven incentives. In the event, a review of tax incentives was announced in the budget in 2004. The review was completed in 2005 and the budget in December 2005 announced their phased withdrawal. The Central Bank was also very much aware that a slowdown in credit growth and property prices was dependent to a significant extent on the future increases in interest rates. It was clear that interest rates would not remain for long at their historic low levels and the Central Bank made this known to other authorities, to the banks and to the general public.

In my introductory comments at the launch of the 2004 financial stability report, I warned that the then level of interest rates did not reflect where the euro area economy would be in the medium to long term. In the round-table discussions with financial institutions in December 2004, the Central Bank representatives pointed out that the equilibrium rate for retail mortgages was approximately 6%. While it could take time to reach that level, it was twice the prevailing rate. The spring bulletin of February 2005 and the summer bulletin of May of that year also cautioned about the effects of rising interest rates on borrowings. The impact of rising interest rates was widely picked up by the media following our reports. One leading newspaper reported that interest rates may double. Other media also gave good coverage to prospective interest rate increases. A further message to the same effect was given at the same time ... at the time of the publication of the financial stability report in 2005 with, again, extensive coverage by the media. In preparing that report, the bank emphasised the psychological impact of the expectation of interest rate increases. In the event, interest rate rises were later than expected by markets because of adverse developments in the euro area. Interest rates did increase in December by 0.25%. This was the start of aggressive monetary tightening, with six further increases of the same amount in the period between December 2005 and March 2007. Because of the importance of the effect of interest rate rises for credit growth, the Central Bank's warnings on prospective rate increases were persistent and strong.

Towards the end of 2005, house price growth eased considerably as part of an international trend. The real price index of commercial property, as the Nyberg commission shows, was fairly flat since about 2000. The Central Bank considered that increases in interest rates were the most effective way of cooling the property market and, with a lag, easing credit growth. The bank also considered the exchange rate to be an important factor in slowing the economy. The euro appreciated by 35% and 12% against the dollar and sterling, respectively, between 2000 and 2005. As indicated, the decision of the Minister for Finance to phase out the tax incentives for property was also expected to play an important part. So too were the measures being considered by the Financial Regulator on risk ratings for high LTV mortgages and speculative commercial property. The bank considered that this range of measures should be sufficient to reduce the growth in property prices and, later on, credit. However, it wasn't until about 2006 whereas heading a Central Bank needs ... to act, to be decisive, to take decisions ... under the 71 Act, albeit your interpretation was not to issue the kind of guidelines ... as some of the rest may interpret from the Honohan letter ... but did that hamper your ability to do that? In essence, were you qualified enough to do the job with the benefit of hindsight?

Mr. John Hurley: Well, as you look around, the governing council table you'll see that quite a number ... or maybe at a certain stage, a majority of people would have come though the same path ... would have had the same experience ... and would have been a ... come from ministries of finance. You're given a different role and the role then gives you an independent role - to give advice and to ... to ... to carry out that advice. And that's done in the form of the publications that were issued and the press conferences I held. I think, Deputy, if you look at the press coverage over the years, you will find that I was praised for being at loggerheads with the Government on occasion because I had to stand up and say things that weren't appreciated. And that's in the press coverage. So, the reality is you have to take an independent line and you have to do and say things that are the responsibility of a Central Bank. But the ... the career path in the governing council ... of the majority of the people at the particular moment in time would have been very like my own.

Chairman: Okay, thank you. I just need to deal with one matter before I move on. And that's just to come back to Senator MacSharry's earlier question is ... can you comment upon your relationship with the Ministers for Finance ... Minister McCreevy and Minister Cowan during your tenure as Governor in terms of regularity of meetings that you would have had with them on an annualised basis? Just in the documents that we would have here before us ... it ... it would show that you would've had scheduled meetings on a regular basis with the Minister for Finance at that time. If you could maybe comment with regards to the regularity.

Mr. John Hurley: I think mostly the meetings ... I can't put an exact time on them because maybe the ... the formal meetings might be once every two months or more ... seven or eight meetings a year. But, of course, we would be meeting in addition to that, outside the formal meetings, at the different fora and at different events. What ... as ... as a matter of course, meetings were arranged particularly around ... at the time of publications or at the time of issuing letters to the Minister. You would always take the occasion to have a discussion in those ... at those times. So, it was fairly frequent and there was never an occasion where a request for a meeting was denied.

Chairman: Under the ... because of section 33AK, I'm not going to bringing diary schedules up. But it would indicate that the meetings took place between 2001 and 2007 maybe seven to eight times annually, would that be correct?

Mr. John Hurley: That would be right, yes.

Chairman: Okay, and-----

Mr. John Hurley: Formal meetings but of course you would meet much more frequently than that.

Chairman: And in or around 2003, it would seem to indicate that meetings should be held with economists and senior loan officers, lending managers at the banks with the view to communicating the Central Bank's opinion of financial stability issues to them. Would you further like to ... would you further like to elaborate upon that?

Mr. John Hurley: That ... that was I think the gestation of the round-table discussions with

Statement of John Moran, Secretary General (2012-2014)

Dear Members of the Committee

I joined the Central Bank only in July 2010 to restore credibility to Ireland's supervision of wholesale banks, becoming more centrally involved only in 2011 when appointed Head of Banking Policy and Restructuring and later (2012) Secretary General of the Department. For that reason, I confine my observations to matters arising after 2010.

I have been directed to make a written submission on nearly 20 diverse topics of inquiry. It would not have been possible given the restrictive word count to do justice to each. So, rather than provide short (and probably not so instructive) text for each topic, I have taken the liberty to make more general observations pertinent to the range of items.

My observations are presented under the following headings:-

- Ireland's crisis was not just a banking problem but very much a fiscal one
- Burning the bond-holders - not the silver bullet solution
- The civil service and the political process
- The Department's relationships with the NTMA and the Central Bank
- Other changes made in the Department during my three years there.

A Our crisis was not just a banking problem but very much a fiscal one

Some people like watching thriller TV programmes or movies, accustomed to plots with high-suspense and goodies or baddies. They might wish for the drama of Ireland's economic collapse to be couched in terms of irresponsible over-paid bankers, reckless developers, the night of the bank guarantee, and the burning of these faceless bondholders. It makes good TV as they say!

A simplistic rhetoric has therefore been entertained that if we had not had a collapse of Lehman Brothers and the Irish banks and had burned the bondholders, we would have had no issues.

True, our property price collapse led to awful widespread destruction of personal wealth and unemployment.

But the sad reality is that an acute lack of fiscal capacity at Governmental level removed flexibility in easing the impact of those problems. The fiscal rectitude we are experiencing since, was a necessary result of the terrible and perilous structure of Ireland's fiscal profit and loss (or if you like taxes and spending). That P&L collapsed causing recurring deficits to be painfully funded by piling yet more debt onto the back of future generations. As we come out of this crisis, this debt will end up being be more than twice the net debt expected from the bailout of the banks.

This all should not be forgotten.

Annual current spending (sadly, recurring) and reductions (again, recurring) in the annual taxation burden had been set at levels out of all appropriate relationship with the quantum of sustainable revenues of the state in the early years of the 21st Century.

Budgetary spending decisions had been funded in the years leading up to the crisis from what were very fragile revenue sources, built on the quicksand of an economic performance overly concentrated on one over-blown sector - property. The country was then building perhaps 50,000-60,000 houses surplus to its medium term annual requirement. Spending had been increased assuming that this excess activity was not just justified at that time, but worse, would continue into the future. No one was planning for what might happen to stamp duty, PAYE revenues and social welfare payments or even to spending or wages in the economy and people's standards of living if construction were to resize to 25,000 units of output, a more sustainable quantum – even if we had managed a soft landing on property prices.

Second order impacts arising from excessive public sector wage levels and unsustainable property prices had also in turn led to excessive wage demands in the private sector and excessive costs in the real economy. Even parts of the economy which should have been doing well in a then growing global economy were in fact losing market share and had become uncompetitive.

It is true that it is important to understand why the government, the civil service, the regulator or even the banks themselves had not done more to restrict the excessive growth of the property market and prevent the dramatic collapse of the economy and the banks.

It is important to know why and how the government took decisions around the bank collapse which added further pressure on the State's funding capacity.

But I believe it is equally important, and perhaps even more important, that we understand for future proofing our state what was it in the structure, operation, and DNA of the organs of our state, the political system, the civil service, the broader public sector that allowed this precarious fiscal situation to develop. Looking at decision processes related to the collapse of the banks will be informative for that more general question too.

Had we not had to fund large fiscal deficits for 2010 and for the foreseeable future thereafter, the State's negotiating power either with the international markets or indeed with the European and IMF backstop funders would have been very different. It might have helped to avoid being shut out of markets and to have avoided a troika bailout entirely.

But that was not to be. A situation had been allowed to develop in the years running up to the crisis such that, without external funding from some source, the lights would have had to be turned out, not just in the banks who should have been able to rely anyway on the support of the ECB as liquidity provider of last resort, but in the public services of the country. This scenario is being re-enacted by Greece as I write this submission.

Why had we not structured our tax system more sustainably? Why had non-recurring stamp duty not been sensibly converted into annuity tax revenues like property tax or water charges? Why had unusually high stamp duties and PAYE taxes from an overblown property sector not been put into a rainy day fund for unemployment payments when things would not be so rosy? Why were the windfall gains spent to throw oil on the fire itself?

Had these alternative routes been taken, how much less painful might the last couple of years have been when the rug was taken out from under our fragile structure by the rapid withdrawal of international wholesale funding in 2008?

Where was the debate recommending these alternatives, which might not have been so politically popular? How did the decisions get made? Why did no political party manifesto contain proposals for the introduction of property taxes, charges for the consumption of water, more appropriate burdens of sustainable taxes to pay for necessary public services, the reductions of public sector pay implementing high-technology projects on time and on budget. In housing and planning, that department addresses a wide range of issues affecting members, including technical, planning, economic and environmental matters.

Representation and lobbying - representation and lobbying has always been a key element of CIF's activity. As the members' representative body for the construction sector, it was our responsibility to represent members and the issues of the industry and to convey those to the media, Government and public bodies, national and local. The CIF's policy position was clearly set out, after my time in August 2012, which formalised what had always been the federation's approach in this area. We have always carried out our engagement with Government in an open manner. We believe transparency should be a requirement for political and public service ... Civil Service engagement, when it comes to public policy issues. We have always published our reports and policy papers and we have provided information about meetings and conversation ... and conversations concerning political and policy issues to our members. It's part of a two-way process that encourages a better understanding of the issues involved on both sides.

A variety of the Departments, in keeping with the subject matter of the inquiry, the variety of the Government Departments that we would have met included the Department of the Environment, which had responsibility for construction policy ... for publishing the review and outlook for the construction industry and for many of the issues with which the industry dealt. Our main contact with the Department of Finance would have been through the budgetary process where we made an annual pre-budgetary ... pre-budget submission, and usually met the Minister for Finance during that process or as part of that process. Our submission would normally focus on taxation policy, both industry-specific and general, and the public capital programme. Our interactions with the Department of the Taoiseach were generally around the macroeconomic position of the construction sector in Ireland and its place in the wider Irish economy. During the years of social partnership, CIF was involved in more extensive discussions with the Department on issues relating to the implementation of successive national development plans and on pay-related issues in specific national agreements. Striving to increase supply to meet demand across all subsectors of the industry was a recurrent theme of discussion. Other Departments are listed in my submission: the Departments of Education, Jobs, Enterprise, Transport, Communications, Health, all of which we had communications with in relation to various aspects either of policy or the implementation of specific public expenditure programmes.

Members of the Oireachtas - the CIF engages on a broad level with Members of the Oireachtas, nationally and regionally. This is done in an open manner, includes distribution of our annual pre-budget submission and other relevant information materials. We interact with local authorities where there are programmes of local road investment, implementation of water and waste treatment programmes, social housing investment and a variety of other issues. We would meet with An Bord Pleanála to discuss policy matters - generally once a year - planning policy, including timescales for decision making.

In relation to the banks, banking regulators and banking representatives, we had very few ... we had very few interactions with banking authorities such as the Central Bank prior to the economic downturn and that, of course, was in the period that I was there. Banking was just not a feature of CIF's activities pre-2008. Access to finance was not an issue for CIF members with the federation in that period. And I should also point out that the CIF, as an organisation, had no knowledge of the banking arrangements of any of its individual members or of how they financed their businesses or of their cash reserves or their borrowings.

Now, construction in Ireland has always been an important part of the Irish economy. It industry by way of tax reliefs or incentives?

Mr. Liam Kelleher: No way, we would make our budget submission each year, we would put forward what we felt were ... having listened to members, and the members would have been involved in drawing up a budget submission, we would have made that submission, it would have covered taxation areas and taxation issues important to the members and we would have sought to fit in the submission with what we knew to be Government priorities of the day, be it the national spatial strategy or the investment in gateways or whatever it might be. And that would be the nature of it.

Deputy Eoghan Murphy: Let's look at your budget submission, then, from 2001, which is in the documentation as well. Where's the reference ... CIF, page 183. Mr. Bacon was before the committee, Mr. Kelleher, and in 2001 we saw that a number of measures designed by Mr. Bacon to calm the rising house prices were reversed by the Government. Stamp duty for investors was cut and the tax on second homes was eliminated and Mr. Bacon said this reversal of policy was too early. And an article in *The Irish Times* from 6 December 2001 by Colm Keena suggested that the decision on stamp duty was made by the then finance Minister, Charlie McCreevy, against official advice and after intensive lobbying by interested parties. And your budget documentation, on page 183, shows the CIF lobbying for these changes. You said earlier that you were under pressure to ... under pressure to increase output at the time, but is this not an example of the CIF lobbying to change what the Government intended to do in relation to the property sector?

Mr. Liam Kelleher: But, you know, at budget time there are 200 or 300 submissions from representative bodies, from interest groups, from trade unions ... that go into the Department of Finance, that go to the Minister for Finance. Every one of them is looking for some sort of, something extra in the budget, for their particular group, that's the nature of the democracy. The Department, the Minister, the officials, they weigh up the submissions, they have a view on policy. They develop policy and they implement budgetary policy.

Deputy Eoghan Murphy: And the evidence for the submission, where does it come from?

Mr. Liam Kelleher: The evidence of?

Deputy Eoghan Murphy: For the submission that you made in 2001 or any budget submission, where does the evidence come from for proposing those changes?

Mr. Liam Kelleher: Where we were seeking changes? I think you've got to think back to what the environment was like in the 2001-2002 period. I think I said earlier, and there's a piece of correspondence in the core documents, that I had with Minister McCreevy at the time, that we were concerned that, post-2000, there would be a squeezing of capital investment relative to current expenditure, after Structural and Cohesion Funds started to taper down. Then you had 9/11, I think you had foot and mouth disease around the same time, you certainly had a very sharp deterioration in global and Irish economic conditions for a period. It wasn't all a rollercoaster ride upwards. There were periods of softness, and drop. And inward investment, post 9/11, had dried up pretty significantly. So I would say the policy environment of that time was very different from when Peter Bacon had made his recommendations and that, you know, hopefully, and that's what we would have wished for, that the Government of the day, the Minister of the day, would have adjusted policy in this area to help the construction industry, yes.

Deputy Eoghan Murphy: Thank you. My time is limited so I've got to move on to an-

Thursday, 14th October

Session I: Meeting with David Doyle, Former Secretary General

The main points were as follows:

- Advice was consistently provided on the overheating economy. It was clear during the period 2001-2006, when Mr. Doyle was Second Secretary General SPD, that fiscal policy decisions were considerably ahead of anything recommended by the Department. People voted on the basis of Programmes for Government which were promising higher spending and lower tax. There was also pressure from the Social Partners. Messages on economic policy must be delivered to the Cabinet by the Taoiseach or the Minister for Finance. Mr. Doyle himself attended just 2 Cabinet meetings throughout his career.

- The bursting of the dot-com in 2001 gave rise to a reassessment. Advice was provided by the SG (Mr. Doyle) to the Minister and the Taoiseach at this time and there was short term acceptance at political level of the fiscal and economic situation. Serious, robust conversations were held with the Minister in 2007 on emerging issues.

- The pace of economic activity was strong in 2001-2006 but the Department did not believe that this could continue. In 2005/6 the Minister was advised that the country was depending on unsustainable tax revenues that the economy had been dramatically over-heated and that problems would emerge which would be due to domestic policies and that a more sustainable fiscal position had to be maintained. A presentation to this effect was made to Secretaries General.

- There was a significant amount of activity between the Department and line Departments between submission of the BSM to Government and the finalisation of the Budget, as the Estimates Files will show. The Department did not agree with massive spending increases and made this clear to the Minister. Political events had an impact on policy.

- In 2000-2006 debt levels were in low double digits – related to specific approach of the Department.

- By 2007 the damage was done. While fiscal policy was one dimension, credit policy, which was highly inappropriate, had an even greater impact. Credit policy was in the remit of the Central Bank, which had the function of ensuring that financial market conditions were appropriate for sustainability. The Department fought to retain financial regulation within the remit of the Central Bank. The outcome was that the regulatory body was set up in the ambit of the Central Bank. The ECB's supervisory role with regard to the Central Bank was questioned.

- With regard to communication, Mr. Doyle noted that the introduction of the Pre-Budget Outlook was an attempt to may budgetary information more user friendly. However, negative changes in the economy outpaced these changes. Parliament needs to engage more with the Budget. The Department could have a more formal and thorough engagement in the Programmes for Government and Social

Minutes of MAC Meeting on 31 May 2004

Attendance: Secretary General, Secretary General PSMD, David Doyle, Donal McNally, Derek Moran, John O'Connell, Colm Gallagher, Kevin Cardiff, Jim O'Brien, Carmel Keane.

Apologies: Noel O'Gorman

Agenda Item 1: Approval of draft minutes of 24 May

The minutes were approved subject to drafting amendments at Item 2. There were no matters arising.

Agenda Item 2: 2004 Budget, Expenditure, Taxation and Pay

Mr Doyle reported a total net voted expenditure increase of 4.6% against a target of 7%. No significant changes in expenditure were anticipated. Mr McNally reported that overall tax receipts were 9.7% ahead of the same period in 2003. He updated on receipts and emerging trends under the main tax heads. The Secretary General, PSMD reported that a plenary meeting on the second phase of the Sustaining Progress Pay Talks was scheduled to take place on 4 June. He updated on ongoing industrial action by Prison Medical Officers which has been referred to the LRC and on the dispute with POA which will go to arbitration.

Agenda Item 3: Budget 2005

The MAC reviewed work in progress in the preparation of the Budget Strategy Memorandum. The current economic forecast and overall objectives were discussed. The Memorandum is scheduled for inclusion on the Government agenda at end June.

Agenda Item 4: Update on EU Presidency

Mr McNally reported progress of the Savings Directive. He updated on tax issues arising in the context of the IGC and on the agenda for the forthcoming EFC meeting. Mr Cardiff reported on the Financial Services Conference due to take place in June. Mr O'Connell reported on the outcome of the EPAN meeting which took place in Dublin Castle on 26-28 May.

Agenda Item 5: Decentralisation

Ms Keane reported on the Decentralisation Plan for the Department which describes the people, property and business issues to be addressed. She said the document before the meeting was the initial outline of the decentralisation implementation plan for the Department. It will go through successive and repeated iterations and will progressively address all facets of decentralisation. The plan was prepared in response to the requirements of the Flynn Report. It deals with the decentralisation of 134 posts to Tullamore. A separate plan will be developed for the additional 32 posts to the ICT cluster whose location has yet to be decided.

The MAC discussed the draft plan. It was agreed that any further comments would be sent to CSD by close of business on Wednesday, 2 June.

Agenda Item 6: Progress Report on PVG

The MAC approved for submission to the Civil Service Performance Verification Group, the draft report on Progress with the Civil Service Modernisation Programme, subject to amendments on pages 4, 7, 12, 14, 15. This report was prepared in collaboration with the Department of the Taoiseach. It was agreed that copies of the report when completed would be circulated to the Partnership Committee.

Agenda Item 7: Monthly Financial Report

The MAC noted the Financial Report to month ended 30 April. The MAC agreed that the additional information contained in Part 3 added value to the report.

Agenda Item 8: Progress Report on MIF Project

The MAC approved the Summary Progress Report to the MIF Central Unit.

Agenda Item 9: AOB

The MAC approved the assignment of a Principal Officer to BED and noted that the vacancy at PO level in CMOD would be filled by internal competition.

Increases in Public Service Allocations 2000-2008

	2000 €m	2008 €m	% change 2000 - 2008
Social Welfare	6,829	17,741	+160 %
Education	3,716	8,465	+128 %
Health	5,362	15,356	+186 %
Capital Investment	3,930	9,011	+129 %
Total Expenditure	25,925	62,395	+141 %
GDP	105,018	179,989	+71%

IRISH AUCTIONEERS & VALUERS INSTITUTE

"THE VOICE OF IRISH PROPERTY"

38 MERRION SQUARE, DUBLIN 2. TELEPHONE: +353 1 661 1794, FAX: +353 1 661 1797

email: info@iavi.ie Internet: www.iavi.ie

Mr Charlie McCreevy T.D.
Minister for Finance
Department of Finance
Government Buildings
Upper Merrion Street
Dublin 2

3 November 2003

- 4 NOV 2003

Dear Minister,

Over the last 12 months this Institute has considered, very carefully, many of the issues related to the taxation of property and of property transactions.

Our attached pre-budget submission has confined its focus to those matters, because we believe our greatest expertise lies in the matters with which we are most familiar. Our principle concerns relate to stamp duty, both in the commercial and residential areas, to roll-over relief on CGT, for farming land compulsorily acquired and to the taxation of development land and the need for further investment in infrastructure.

Our very clear belief is that adjustments in stamp duty, for owner occupiers in the residential market and right across the commercial market, will result in a greater volume of transactions, which will adequately compensate for any loss in revenue through lower rates. Furthermore, we believe that the increase in supply which will follow adjustments, in the duty rates and the thresholds in the residential market, will help to contain the still strong growth in values in the second-hand housing market.

I hope that you will give consideration to these points prior to your Budget in December. We would welcome the opportunity to meet with your officials to clarify our messages.

meeting held 18/11/03 by D. McNally (see Budget 2004 file.)

Yours sincerely,

Aidan O'Hogan
President

BUDGET SUBMISSION TO DEPARTMENT OF FINANCE ON THE MATTER OF STAMP DUTIES ON COMMERCIAL & RESIDENTIAL PROPERTY TRANSACTIONS

EXECUTIVE SUMMARY

The IAVI is concerned at the current levels of Stamp Duty in both the Commercial and Residential markets and their negative impact on those markets and on the economy generally.

The Institute therefore recommends that in the forthcoming budget, the following changes be made

A. Residential

The Institute is satisfied that the existing stamp duty regime in respect of the "new homes" and "buy to let" markets works adequately.

Within the owner occupied second-hand residential market it is apparent to members that the Stamp Duty regime for owner occupiers is a deterrent to mobility within the market, discriminates against city dwellers and is reducing supply, factors which are disadvantageous especially to first time buyers.

The Institute has therefore recommended changes in the thresholds at which the various rates of duty would apply for owner occupiers.

The Institute recommends the following revised rates and thresholds to apply only to owner occupiers, buying second-hand homes;

	Threshold	First Time Buyer	Full Rate
1.	Up to €250,000	Exempt	Exempt
2.	€250,001 - €350,000	1%	3%
3.	€350,001 - €500,000	3%	5%
4.	€500,001 to €1.25m	6%	6%
5.	Excess €1.25m	9%	9%

The Institute's members believe that, if these changes are implemented, they will significantly increase the volume of property coming to the market, and thus the loss of revenue through a reduction in the rates, and increase in the thresholds, will be more than compensated for by the additional volume. Furthermore, the Institute believes that the overall impact of increased volumes, will be to slow down the rate of growth in house prices - an impact which is consistent with the Governments well enunciated agenda.

B. Commercial

The Institute recognises that the introduction of the 9% rate is a deterrent to inward investment, is damaging the values of pension funds, is an incentive to potential investors to invest outside the country and to create special purpose vehicles (SPV) which minimise the impact of the tax.

The Institute is therefore advocating a return to a single rate of duty of 6% on all commercial property transactions and also recommend that the Government make a commitment that the rate of duty will remain the same for the next 5 years, in the interests of signalling a stable taxation policy

C. CGT – Roll Over Relief

The Institute's members are also conscious of the impact which the abolition of roll-over relief on CGT is having for farmers, especially in the case of non voluntary sales i.e. CPO cases. The Institute strongly advocates the restoration of roll-over relief, ideally for all bona fide farming reinvestment, but at an absolute minimum in the case of taxes paid following a CPO.

D. **Building Land**

The Institute opposes the introduction of any new national taxation on building land. Any such measure is likely to reduce supply which will put further upward pressure on new house prices

Nevertheless, the Institute recognises that additional revenues from this source are potentially recoverable but urges that this be done by Local Authorities through enhanced levies for infrastructural connections – such levies to be phased in over a five year period so as to create an incentive for existing landowners to develop at the earliest possible date.

The Institute does urge the Minister to continue and to increase investment in the major transport infrastructure projects.

The Institute urges the Minister to make these changes in the forthcoming budget.

October 2003

6 Dempsey Terrace,Wexford.
Tel: 053-74608
Fax: 053-74131
Mobile: 087-203 7586

Leinster House
Tel: 01-618 3629
Fax: 01-618 4783
email: tony.dempsey@oireachtas.ie

Tony Dempsey T.D.

AIRE AIRGEADAIS
16 AUG 2005
OIFIG AN RUNAI AIRE

12 August 2005.

Minister Brian Cowen,
Minister for Finance,
Government Buildings,
Upper Merrion Street,
Dublin 2.

Re: Taxation Incentives for Property Development.

Dear Brian,

I have been contacted by a constituent, Mr. Seán Doyle (please see a copy of his letter attached). As you will see from same Mr. Doyle is extremely concerned in relation to the 31st July 2006 deadline imposed on various taxation incentive schemes relating to the construction of a broad range of property developments.

In relation to this issue I have a number of questions I would like to pose. Firstly is the deadline of 31st July 2006 an absolute deadline and if so does your department intend to put alternative arrangements in place to facilitate developers who wish to proceed with projects currently included under the present schemes?

Given the complex nature of the planning process Mr. Doyle asserts that many projects will not be deliverable within the timeframe as set out is it the intention of your department to take into consideration delays that may occur as a result of the planning process? I am certain that any information you have in relation to this issue would be greatly appreciated by Mr. Doyle and others who find themselves in a similar situation.

Wexford County as a whole is experiencing unprecedented levels of growth in terms of residential and tourism, in order to ensure this continues into the future we must facilitate those willing to invest in development of various projects. It is with this concern in mind that I am writing to you.

Thanking you in anticipation of your help in this matter and to date,

Tony

Tony Dempsey T.D.

Seán Doyle Group (Wexford) Limited

Kilmuckridge, Gorey, Co. Wexford.

Telephone: 053 30666 – Fax : 053 30980 – E-mail : sdcs@iol.ie

August 9, 2005.

Mr. Tony Dempsey, T.D.,
Ardbracan House,
Barntown,
Co. Wexford.

Re: Tax Incentives for Property Development

Dear Tony,

As you know I am a member of the C.I.F. and they have suggested we contact you in connection with tax incentives for property development, as follows:

Tax incentives have benefited Ireland greatly over the last 15 years and can continue to do so in the future. The economy has moved on but it has not benefited everybody equally (economically, socially or geographically). Area based and community focused tax incentives can help address emerging regional, economic and social imbalances.

However, taxation incentives for property development (including those available under the Urban, Town and Rural Renewal Schemes) are set to end on 31st July 2006. This wil have major implications for investment in your area.

50% of designated sites nationwide have yet to be development because servicing, planning and other statutory problems have held up projects. This means that areas in our own county/constituency that are urgently in need of investment could be losing out.

Over 40% of all projects under the Urban, Town and Rural Renewal Schemes, which were instigated to address issues of dereliction, under-utilisation and economic decline in designated areas, are tied up in the planning system and have no chance of satisfying the July 2006 deadline for the completion of projects. These projects will not in all likelihood be built out.

/Continued…… ………..

Continued............

This scenario raises questions as to the essential infrastructure from housing to playgrounds and parks that will be lost by your local authority. It also raises questions as to the essential funds that will be lost by local authorities in the form of development levies and other charges as a result of the decision to abolish tax incentive schemes.

The local implications of the 31st. July deadline are such that the Government should:

Extend tax incentives to ensure that all existing designated areas are developed.

Abolish the July 2006 deadline for the completion of projects currently in planning. These projects should be built out in within the timeframe laid down in their planning permissions.

Extend tax incentives to other parts of the country that have not benefited equally from the transformation of the Irish economy over the past decade, particularly as a mechanism for achieving more balanced regional development in line with the National Spatial Strategy.

Target tax incentives at those areas of the economy experiencing bottlenecks such as health, education and childcare facilities; leisure and sports facilities, arts and cultural facilities.

I am attaching a Summary of the CIF Submission to the Department of Finance which outlines the real benefits of these schemes to local communities and the real benefits that can flow from them in the future.

I appreciate your consideration of the above and any feedback you can provide.

Yours sincerely,

Seán Doyle.

CONSTRUCTION INDUSTRY FEDERATION

Submission to Department of Finance/ Revenue Commissioners on Tax Exemptions and Tax Reliefs

June 2005

SUMMARY AND RECOMMENDATIONS

1. When properly focused, taxation incentives have an important economic role to play as an instrument in the state's ability to encourage investment in areas and sectors of the economy where such investment is needed. This is particularly important in terms of the current review of tax exemptions and reliefs. Having established a strong economic performance as a nation, public policy processes are now increasingly focused on how that performance is maintained and geographically distributed within the country in a balanced and sustainable manner.

2. The ESRI, OECD, National Competitiveness Council and IMF in recent reports highlight Ireland's low capital stock, the need for accelerated public and private infrastructure provision and for social as well economic infrastructure. These reports reflect the findings and recommendations of, *inter alia*, the National Spatial Strategy (NSS). A key element in attaining sustainable and more evenly distributed economic development is, therefore, the eradication of Ireland's accumulated capital deficit and the achievement of more balanced regional development.

3. The evolution of taxation incentives in Ireland, from their introduction in the mid-1980s, indicates that in order to be effective, tax exemptions and tax reliefs must be implemented in a very targeted fashion, with the focus on those sectors of the economy and geographical areas in need of investment that can neither be met within a sufficient timescale or through public sector or market-driven investment alone.

4. Whilst encouraging the continuation of taxation incentives for property development, the CIF argues, therefore, that the implementation of future tax exemptions and tax reliefs should be guided by a national audit of new and emerging 'sectoral' pressure points in the economy and the NSS.

5. Taxation incentives may already exist in respect of certain 'sectoral' pressure points, such as capital allowances for Multi-Storey Car Parking and Park and Ride Facilities, Childcare Facilities, Third Level Educational Buildings and Sports Injury Clinics. Where this is the case, these allowances should be retained and, where required, enhanced.

Where 'sectoral' pressure points have been identified that are not covered by existing taxation incentives - in areas for example such as health provision, recreation and leisure, cultural and art facilities - appropriate taxation and other fiscal incentives should be introduced as a matter of priority.

Dáil Éireann
Teach Laighean
Sráid Chill Dara
Baile Átha Cliath 2

Dáil Éireann
Leinster House
Kildare Street
Dublin 2

Tony Dempsey T.D.
email: tony.dempsey@oireachtas.ie
Fax: 01-618 4783
Tel: 01-618 3629
Leinster House
Mobile: 087-203 7586
Fax: 053-74131
Tel: 053-74603
6 Dempsey Terrace, Wexford.

7. Tax incentive schemes also have an important role to play in terms of achieving social inclusion, particularly in terms of housing. The existence of urban renewal reliefs has contributed to increasing the stock of both rental and owner-occupied housing. There continues to be strong merit in increasing the stock of rental housing. Indeed, with the assistance of capital allowances, there is scope for delivering alternative forms of social/rental assistance schemes going forward.

8 The use of the NSS as a framework for area-based taxation incentives should be augmented by (1) a system of master planning for the existing and new Gateways and Hubs and (2) an enhanced Integrated Area Plan system for other parts of the country that allows indicative needs to be identified.

9. A number of avoidable pressure points have emerged in respect of the operation of current tax incentive schemes. By June 2004 over 40% of the investment in urban renewal schemes from their introduction in 1999 was in the planning system, while a large number of applications were lodged during the second half of 2004 in advance of the December 2004 deadline for the receipt of valid applications.

A key issue, therefore, is the July 2006 deadline for the completion of qualifying projects. The July 2006 deadline provides an insufficient timescale for projects to be built out, particularly in light of the ongoing planning and other statutory delays experienced by many project promoters. Furthermore, the July 2006 deadline will encourage an irrational glut of projects onto the market at the same time. The deadline should be removed, therefore, so as provide for the orderly delivery of projects. A more rational approach would be to allow project proposals to be completed in compliance with their planning permission, which sets out a five-year timeframe after the receipt of planning permission for the completion of projects.

10. A large number of projects have not yet reached planning because of a combination of factors, including delays in the servicing of lands, other planning and statutory delays and the fact that certain areas have thus far remained unattractive from an investment standpoint even with taxation incentives. These areas should be prioritised for inclusion under the new modified Integrated Area Plan system recommended above.

Congress Pre-Budget Submission 2006

IRISH CONGRESS OF TRADE UNIONS

32 PARNELL SQUARE, DUBLIN 2.

Most tax breaks or tax expenditures are of little or no benefit to the state, but of immense benefit to small number of very high income earners – the very people who should be paying more tax, not less.

The breaks should be abolished - if only to terminate the scandal of a number of very high earners not paying tax, or paying very little. Last year, a study by the Revenue of high earners[12] revealed a number of alarming statistics. It revealed that 12.5% or 50 of the top 400 earners in Ireland paid income tax at an effective rate of less than 10 per cent. Almost 100 paid at less than 25 per cent back in 2001. In 2005, it was again revealed that these high earners were still avoiding tax at the expense of working people.

In our Submission on Tax Expenditures[13], Congress set out the few schemes which we believe should remain and we look forward to the analysis of the consultants of the cost of the schemes in lost taxes; of their benefits, if any; of their economic impact, including distortions on the market. Most should be abolished in the forthcoming Budget.

The Property Based Tax-Avoidance Schemes

Congress has been highly critical of these tax breaks which subsidise property investment. The beneficiaries are mainly persons of "high net wealth". These include tax breaks for investors in multi-storey car parks, park and ride schemes, urban renewal, rural renewal, investments for Third Level purposes, hotel holiday camps and cottages' allowances, town renewal schemes, over the shop schemes etc. Property based tax shelters should be eliminated.

Artists' Exemption

Congress favours retaining this, with an upper limit. Without an upper limit, it is regressive. It should be retained to encourage artistic endeavour for artists with low incomes. No case has been made by

---

[12] Revenue Commissioners' Study, Effective tax rates of top 400 earners: report for the tax year 2001

[13] Congress, 2005, *Submission on Tax Expenditures*, ibid.

anyone for PAYE workers to subsidise high-earning artists. Therefore a limit on tax free earnings in a period should be imposed in this Budget.

Bloodstock Industry

This iniquitous subsidy to wealthy breeders should be immediately terminated. The sector is not an infant industry and does not require state financial support. Similarly, in spite of the lobbying of the British and European Bloodstock industry on behalf of the stud owners here, no case has been made by any of them for PAYE workers to subsidise high-earning stud farmers and breeders.

BES

The BES is essentially a tax shelter. It should be terminated as it is of dubious value in job creation especially when we are near to full employment.

Capital Taxes

A key guiding principle of taxation policy is that Income and Capital Gains should be treated equally. This means that gains on speculation or deal-making is taxed at only 20 per cent, when work is taxed at 42 per cent. Thus taxation polices on unearned capital, unearned wealth, on speculation and unearned incomes contradict stated policy of encouraging work and enterprise. Taxation policies reward inherited wealth, capital gains from deal-making, speculation etc. with far lower tax rates than are imposed on work, effort and enterprise.

Capital gains tax (CGT) is levied at only 20 per cent while income tax is levied at 42 per cent for most earners. Congress does not accept the argument that the reduction in CGT led to more tax revenue in the long run. More revenue was generated because there was a boom in the economy and particularly in property and in the stock exchanges. Further, the much lower rate of tax on Capital Gains than on Income was a very strong incentive to seek to record what would otherwise have been *income* as *a capital gain* and it would be extraordinary if this did not have some impact on CGT receipts.

There is a very strong case for restoring the high capital gains tax of 60 per cent on windfall gains from rezoned land as an immediate way of cooling the housing market. The incentives from the low taxes on the windfall gains from selling off viable assets which generate employment, like the three Jurys/Doyles hotels in Ballsbridge, would be greatly reduced if there was a high rate of CGT on such windfall gains, and so preserve jobs and hotels used by the public.

In some cases, a Capital Gain can be recorded where the amount is taken in the form of a Capital Gain rather than Income which would have been liable to Tax at the higher rate of 42%. This produces distortions as it is well worth an individual's time to try to convert what would otherwise have been income into a Capital Gain. A possible approach would be to charge Capital Gains at the same rate as Income Tax and to aggregate gains with income to determine the rate of tax which should apply. The argument for doing so in the case of short-term Capital Gains is especially strong. There is an argument which can be made for a more favourable treatment of Capital Gains which accrue over longer periods – perhaps a sliding scale from 42% to 20% over a number of years.

Taxes on capital are very low in Ireland, especially relative to income taxes and indirect taxes. The taxes on inheritances, Capital Acquisitions Taxes, are very low and should be raised to reasonable levels. Similar action should be taken on capital gains, which had been as high as 60 per cent in 1990, albeit with lower rates for longer periods of ownership.

The Health levy of 2 per cent should be applied to all capital gains, inheritances and other capital transfers as a first step in treating them as income.

CONSTRUCTION INDUSTRY FEDERATION

Construction House, Canal Road, Dublin 6. Tel: 01-4066000. Fax: 01-4966953. E-mail: cif@cif.ie Website: www.cif.ie

Mr Brian Cowen TD
Minister for Finance
Department of Finance
Upper Merrion Street
Dublin 2

AIRE AIRGEADAIS
27 OCT 2006
OIFIG AN RÚNAÍ AIRE

06/0609/MF
Mr K. Cardiff
Referred pl.
R Kearney
27/10/06

27th October 2006

Dear Minister,

I would like to thank you and your Officials for meeting with the CIF delegation on Monday, 16th October last to discuss our pre-Budget Submission.

As an investment industry, the construction sector performs best in a stable, fiscal and regulatory environment which supports private sector investment confidence. Exchequer revenues and employment have benefited from the strong performance of the sector. The current supply response to housing demand and the anticipated (already evident) moderation in new house price growth (now and into 2007) are welcome.

Media speculation about possible Budget 2007 changes to stamp duty has had a significant negative impact on the volume of property transactions (including transactions not affected by stamp duty). The likely impact of public statements indicating policy change or review of property transactions taxes need to carefully consider the likely impact on the market and the implications for Exchequer revenues and market confidence.

Ireland's economic and social infrastructure remains low relative to our main trading partners and many economic commentators have pointed to the need for accelerated public and private infrastructure provision to address this deficit. The National Development Plan 2007-2013 provides a medium term investment platform to give effect to the National Spatial Strategy and make Balanced Regional Development a reality. Continuing major investment programmes are required in education, health, transport, water services, housing and energy. Against the background of a 14% return on capital investment to the end of 2003, the Exchequer should increase its level of infrastructural investment to at least 5% of GNP. This has been achieved only once in the last ten years despite the commitment in the current programme for Government.

CONSTRUCTION INDUSTRY FEDERATION

CONSTRUCTION INDUSTRY FEDERATION

Construction House, Canal Road, Dublin 6. Tel: 01-4066000. Fax: 01-4966953. E-mail: cif@cif.ie Website: www.cif.ie

06/0609/MF
Mr K. Cardiff
Referred pl.
R Kearney
27/10/06

Mr Brian Cowen TD
Minister for Finance
Department of Finance
Upper Merrion Street
Dublin 2

AIRE AIRGEADAIS
17 OCT 2006
OIFIG AN RÚNAÍ AIRE

27th October 2006

Dear Minister,

I would like to thank you and your Officials for meeting with the CIF delegation on Monday, 16th October last to discuss our pre-Budget Submission.

As an investment industry, the construction sector performs best in a stable, fiscal and regulatory environment which supports private sector investment confidence. Exchequer revenues and employment have benefited from the strong performance of the sector. The current supply response to housing demand and the anticipated (already evident) moderation in new house price growth (now and into 2007) are welcome.

Media speculation about possible Budget 2007 changes to stamp duty has had a significant negative impact on the volume of property transactions (including transactions not affected by stamp duty). The likely impact of public statements indicating policy change or review of property transactions taxes need to carefully consider the likely impact on the market and the implications for Exchequer revenues and market confidence.

Ireland's economic and social infrastructure remains low relative to our main trading partners and many economic commentators have pointed to the need for accelerated public and private infrastructure provision to address this deficit. The National Development Plan 2007-2013 provides a medium term investment platform to give effect to the National Spatial Strategy and make Balanced Regional Development a reality. Continuing major investment programmes are required in education, health, transport, water services, housing and energy. Against the background of a 14% return on capital investment to the end of 2003, the Exchequer should increase its level of infrastructural investment to at least 5% of GNP. This has been achieved only once in the last ten years despite the commitment in the current programme for Government.

CONSTRUCTION INDUSTRY FEDERATION

Executive Summary : Overview of Key Budgetary Issues

While the general outlook of the Irish economy is favourable, a number of risks to economic growth have been identified in 2006. Ireland's competitive advantage is slipping, the cost of doing business in Ireland is increasing and cumulative burden of regulation continues to increase costs to businesses. Those risks cannot be ignored, and action is needed to tackle them now. The new social partnership document, *Towards 2016*, has an objective of "mitigating these [economic] risks and strengthening the competitiveness and productive capacity of the economy." Fiscal policy to enact that objective must be at the heart of Budget 2007.

The continuing increase in oil prices threatens stable economic growth. While the exposure of the economy to energy price inflation is more muted than previous oil price shocks, the impact is adding to inflationary pressures in the economy. The 2007 Budget strategy must address the impact of oil price inflation in the Irish economy, and the promotion of renewable, domestically produced sources of energy.

Budgetary policy in 2007 must prioritise the management of inflation emphasising business competitiveness and investment in infrastructure by:

- Pursuing a counter inflationary fiscal policy as a response to energy price inflationary pressure in the economy.
- Continuing to prioritise public investment, maximising value for money, and efficient and timely delivery.
- Planning funding provisions for the new National Development Plan, to remedy infrastructural deficits and undertake planned capital investment in the future.
- Maintaining a disciplined approach to current expenditure given the more muted economic outlook.
- Continuing to pursue a low tax rate strategy to underpin competitiveness and economic growth.
- Maintaining the value of take home pay for workers.

In July 2006, Government figures showed that revenue from stamp duty was up 43% from the previous twelve months, while capital gains revenue was 15% higher than 2005. These figures reflect the strong relationship between the continued success of house building, general construction activity, property and the buoyant Exchequer receipts. Receipts from stamp duty and capital taxes have increased from less than €2bn in 2002 to an estimated €7.5bn this year. Receipts from VAT, a significant proportion of which comes from housing, have increased by 47% over the same period.

This economic situation should set the stage for significant and efficient capital expenditure programmes. In line with government regional and sectoral development policy, the healthy financial position should facilitate the creation of balanced regional and sectoral growth. Goodbody Consulting (*Ireland's Strategic Infrastructure Investment 2020*), and others, has repeatedly highlighted the economic case for infrastructural investment ahead of demand to maximise return on investments. The ESRI Mid-Term Review of the National Development Plan 2000 – 2006 noted the 14% return on capital investment to end 2003. Attention must be made to the public sector ability to achieve value for money; timely, effective delivery; and efficient spending of allocated resources.

The construction industry is an investment industry performing best in a stable fiscal and regulatory environment which supports private sector investment confidence. Instability undermines private investment which will directly impact on economic growth, Exchequer revenues and construction activity and employment. Given the reality of the current supply response to housing demand and the projected levelling of growth of new house prices for 2007, it is vital that the 2007 Budget does nothing to interrupt the continued strong supply of new housing output for the years ahead.

Unnecessary delays being experienced by the industry with regulatory agencies including utility companies must be minimised. These unnecessary delays put upward pressure on, for example,

Key Recommendations

Sustaining Economic Growth

- The development of a bold new National Development Plan to improve national competititveness through balanced regional investment, improvements to the state's planning system and efficient use of multi-annual capital envelopes to secure efficient delivery.
- Address bottlenecks in the public sector's capacity to deliver Government infrastructure investment targets.
- Compliance with new contract procedures puts additional managerial and administrative costs on business and erodes competitiveness. Government must ensure that implementation of new contracts does not increase regulatory or cost burden on Small and Medium Enterprises.
- New public sector contracts, when introduced following a full, published Regulatory and Economic Impact Assessment, to be used unamended in all public finance procurement with a formal vigourous review process, involving the industry, within two years.

Taxation

- Government should continue to pursue a low-taxation strategy to underpin economic competitiveness and economic activity with no inflationary impact.
- The current Revenue review of procedures for the application of VAT on land and property transactions is welcome, but must not lead to the broadening of the base of this tax. VAT on property transactions should be simplified so that general tax advisors can advise clients comprehensively. The definition of building land for VAT purposes must not be altered as this could affect supply of developed land being brought to the market.
- Department of Finance should undertake a full-scale review of capital transactions taxes and their economic impact in Ireland, with a view to a comprehensive tax reform in this neglected area and the removal of the 9% stamp duty level. Government should reintroduce indexation of Capital Gains Tax.
- To achieve balanced regional development, Government must use all levers at its disposal, including the use of targeted taxation incentive schemes on a regional and sectoral basis.
- The 35% withholding tax rate under the C45 scheme should be modified to include a 6% pension contribution for self-employed construction industry sub-contractors.
- Government must widen the standard rate of income tax bands to reduce the number of workers paying at the higher level, and to maintain the value of take-home pay at a time when it is under pressure from emerging price inflation.
- The cost of statutory redundancy should be met wholly from employers' contribution to the Social Insurance Fund.

Housing

- Given the reality of the current supply response to housing demand and stability in the growth of new house prices, it is vital that the 2007 Budget does nothing to jeopardise the contribution of the house building sector.
- Aggressive zoning and servicing of suitable land during the lifetime of relevant Development Plans should be pursued by all responsible bodies in areas of high housing demand for residential development so as to maintain housing output at a high level. Government must commit funding to the reintroduction of a major serviced land initiative. Deficits in infrastructural servicing should be reduced through partnership arrangements between local authorities and developers. Detailed arrangements for elimination of these deficits would be best served through partnership discussion with the construction industry.
- VAT should be rebated directly to first time buyers as an incentive to facilitate home ownership for those in need. The definition of building land for VAT purposes must not be altered as this could affect supply of developed land being brought to the market.
- Joint Ventures for delivery of public housing programmes should be encouraged using design build approaches between local authorities and housing developers.

Capital Gains Tax

There has been a remarkable increase in Capital Gains Tax in recent years. In the first six months of 2006, Capital Gains Tax was 53% higher than the same period of 2005, contributing some €923m. CIF believes that the 20% rate has been good for the economy, the Exchequer and the construction industry and that maintaining the 20% rate should be central to CGT policy in the future.

In the 2003 Budget, the indexation of the cost base for the computation of capital gains was abolished. The argument advanced was that the substantial reduction in the rate of Capital Gains Tax meant that indexation was no longer warranted. The implication of this decision is that the effective tax rate of Capital Gains Tax on assets held from 2003 will increase significantly. For example, an asset bought at the beginning of 2003 and sold ten years later having doubled in value where the underlying rate of inflation averaged 5% over the period would result in an effective Capital Gains Tax rate of 54%. If the inflation averaged 3% over the period, the effective rate would be 30%.

The abolition of indexation has had the effect of substantially increasing the effective rate of Capital Gains Tax on disposals in future. CIF believes that indexation should be reintroduced.

Stamp Duty

CIF has drawn attention in its budget submissions over the years to the impact of stamp duty in the housing and property markets. The markets in land, commercial and industrial buildings and in residential accommodation need to work as efficiently and smoothly as possible. This does not just apply to the markets for newly-constructed assets. The resale market is vital in all sectors, re-allocating the stock of built assets continuously to the most appropriate users, i.e. the users who value these assets most highly. It is in the national economic interest to promote, so far as is possible, a frictionless market in second-hand constructed assets, and the completion of transaction chains which this facilitates is an important support to the demand for new assets, which constitutes the output of the construction industry.

But it is also a worthwhile objective in itself. No useful purpose is served by inhibiting residential mobility. Particularly in a tight labour market of the kind experienced in recent years, workers should face as few impediments as possible in re-locating around the country or even within the larger urban areas. Stamp duty inhibits residential mobility, and becomes a greater burden, given the progressivity in rates of tax, as asset prices rise.

In the non-residential market, the combination of stamp duty and, in some cases, the crystallisation of capital gains tax liabilities, constitute a powerful disincentive to the rational re-allocation of asset portfolios and to the completion of socially desirable projects. Taxes on capital transactions, as distinct from taxes on income, expenditure or property, always have the effect of inhibiting transaction volume for no evident economic purpose, other than the raising of revenue. Stamp duties are not, it must be stressed, taxes on property; they are rather taxes on *transactions* in property. They have quite different economic effects, and in CIF's view these effects are undesirable.

Furthermore investment in property is mobile and the higher property transaction costs announced in the 2003 Budget are providing an incentive to invest abroad. Foreign property investment is currently valued at €10bn p.a. which at current stamp duty rates if invested in Ireland would amount to €900m in tax revenue to the exchequer. The 2003 increases in stamp duty should, CIF believes, never have been imposed in the first instance, and should be reversed at the earliest opportunity. By discouraging transactions in the property market the proceeds for capital gains tax on commercial property transactions are also diminished. The value of pension fund property holdings was also reduced. More generally, CIF continues to believe that the Department of Finance should undertake a full-scale review of capital transactions taxes and their economic impact in Ireland, with a view to a comprehensive tax reform in this neglected area.

are recognised as reliable International standards by the Central Bank of Ireland, the European Central Bank, and the European Parliament.

To achieve REV status, IPAV educates its qualified valuers through its specially tailored courses, held in the Institute of Technology in Tallaght. This ensures that IPAV members who complete this course meet with the expected minimum educational standards, MER, of TEGoVA, a copy of which has been supplied to the committee. IPAV's qualified valuers are those who are professionally qualified, experienced valuers, with a minimum of ten years practical experience, and who have at their fingertips vast knowledge, comparable instructions, and details of sales in their own area. Since the REV qualification was first introduced in Ireland in 2013, all IPAV REV valuers must agree and sign up to a contract that demonstrates their commitment to IPAV and also confirms the level of self-regulation it imposes. Compliance and standards are the cornerstone of the EVS valuation reports, and IPAV compliance officers monitors and examines valuers' written valuation reports on an *ad hoc* basis. IPAV, as the administrator of the REV scheme in Ireland, is subject itself to five years reviews.

I will now move on to R5d. R5d - appropriateness of relationship between Government, the Oireachtas, the banking sector, and the property sector. Again, Chairman, I wish to begin by starting ... I can only comment on the role of IPAV and its members' relationship with the Government, the Oireachtas, the banking sector, and the property industry generally. I will summarise briefly as follows.

The Government: IPAV has always engaged with members of Government in regard to lobbying on various items of legislation and issues of interest as they arise. For example, IPAV makes an annual pre-budget submission to the Minister for Finance and Minister for Public Expenditure and Reform, and, in recent years, has also made presentations to the Joint Oireachtas Committees on Finance and the Public Service, and Department of Agriculture. IPAV has engaged, as necessary, with the Minister, Minister of State, and senior officials in the Department of Environment, Community and Local Government in relation to housing and related matters. Ministers and Ministers of State have attended and addressed IPAV's annual conferences and regional seminars over the years. IPAV has always kept lines of communication open with Members of the Dáil and Seanad, both Government and Opposition, in briefing them on relevant issues as they arise both individually and in committee. IPAV makes regular submissions to joint Oireachtas committees where useful exchanges of views regularly take place. IPAV has nominating rights to Seanad Éireann and members are from time to time elected to either House.

The property industry itself: IPAV has engaged with parallel professions and professional bodies in the property business and industry. IPAV representatives have regularly attended conferences organised by related professionals and institutions and have made, and continue to make, a determined effort to engage with all stakeholders in the industry. Representatives of such professional bodies are invited to attend IPAV's annual conference.

And the banking sector: IPAV has engaged as much as possible with the Central Bank of Ireland and individual financial institutions. IPAV lobbied for the inclusion of the blue book as one of the preferred standards in the CBI final report issued in December 2012.

And my conclusion, Mr. Chairman: Overall, it is IPAV's view that the relationship between the four sectors, Government, Oireachtas, banks and property stakeholders, should be one of being independent of each other, yet communicating through the correct and transparent channels for the betterment of all, and the common good of Irish society. While the priorities of the

Mr. Tom O'Connell: Yes.

Deputy Eoghan Murphy: So when the board made decisions, when it agreed editorial or financial stability reports, when it drafted pre-budget letters, was it making those decisions with the full information?

Mr. Tom O'Connell: Well, those guys were pretty smart, you know. Some of them were in the property sector themselves ... there were businesspeople and others. Had they got the full information? I'm not sure, but, I mean, the drafts, or papers if you like, were filtered through to the board and it was up to the top people in the Central Bank to decide what went or what didn't go, you know.

Deputy Eoghan Murphy: Was it your contention that key facts were intentionally kept from the board of the Central Bank?

Mr. Tom O'Connell: Well, I thought ... I mean, that point about the zoning was an important point, I mean, it's not a ... it's not an issue where there's any impropriety involved or anything like that, in my view, but it's just a common sense economic point that housing supply had to increase and in order to do that you needed more zoned land.

Deputy Eoghan Murphy: And what about then memos that you would have written about reining in lending to the property sector, which you referenced in your opening statement, by imposing credit ceilings? And the memo came back with the words, "That is out of the question", added to the memo. Why did that happen do you think, and was that information brought to the board?

Mr. Tom O'Connell: No, that would have ... that was a note that went to the Governor and yes, ... as I said ... the Governor initially had said, "We'll have to consider bringing this to the board ... this issue to the board, as to whether we restrict the banks in their lending", but the point you mention, "That is out of the question", seems to have overridden that, so that item would not have gone to the board, I think, by definition.

Deputy Eoghan Murphy: And just to clarify again, would the board have been aware of that model that was in the first draft of the financial stability report of 2007 on overvaluations of house prices, Irish property prices, that was then dropped out? They wouldn't have been aware of that?

Mr. Tom O'Connell: No, they would not have known in my view.

Deputy Eoghan Murphy: Okay, so that was also kept from them. When it came to then the drafting of the pre-budget letters, just, these letters that went, were you involved in the drafting, the initial drafting of these?

Mr. Tom O'Connell: Yes, I would have been. I would have overseen it or put some pointers to the chaps who might draw it up, you know.

Deputy Eoghan Murphy: But you wouldn't be involved in final sign-off of those?

Mr. Tom O'Connell: Well, the Governor would have the final say on that, you know. For example, if he didn't like the tone of the draft that was sent to him, he would alter it. He'd come back to us and, yes, he had the final say. Yes.

Deputy Eoghan Murphy: Did the Governor or the board have the final say on the pre-budget letters?

Mr. Tom O'Connell: The Governor would generally show it to the board, so they would have an input into it in my ... yes.

Deputy Eoghan Murphy: Okay, so would those same vested interests, those same things that were happening that we have just discussed about, would they have also been in play with the submission or the drafting of the pre-budget letters in terms of information being kept from the board?

Mr. Tom O'Connell: Well, I don't think that would have arisen with the pre-budget letter. You know, most things would have been on the table. Now, I can recollect in the past though, having said that, that, you know, from the economics department we might have suggested maybe some tax change or whatever, but that would typically have been not ... that wouldn't run because the view in the bank was that taxation was a matter for Government and we don't sort of suggest that they tax X and subsidise Y, you know. So they would be, sort of, general economic issues, talking about the stance of upcoming fiscal policy in the budget recommendation, maybe bank lending property prices would have figured quite strongly, I think, too, yes.

Deputy Eoghan Murphy: Okay. So that's an example of information not going to the board, but not because of a conflict of interest or a potential one or an intermediary stepping in the way but because it wasn't what the Central Bank did. Is that correct? You didn't give advice on taxation issues. Is that what you said?

Mr. Tom O'Connell: No, no, no. Yes ... I think ... I can recollect way out back in the past we probably did, you know. We put something in about maybe something should be taxed, let's say for environmental reasons or something like that. But the view was that it's not for us to say what taxes should go up or taxes down, it's really for Government, you know.

Deputy Eoghan Murphy: And did you ever disagree yourself with any of the pre-budget letters that were sent to the Minister between 2002 and 2008?

Mr. Tom O'Connell: The ... no, I think ... I think I would have been in general agreement with those, you know, because we would have drafted the approach and the approach generally wouldn't have been massively altered by the Governor or the board for the most part.

Deputy Eoghan Murphy: And did you ever write to the board yourself expressing concern about information being kept from them by the person your reported to?

Mr. Tom O'Connell: No, I didn't, no.

Deputy Eoghan Murphy: And then when we come to the 2004 pre-budget letter, it's noted by the board, after the budget, that the advice from the Central Bank was not fully adhered to. In that scenario, what does the Central Bank do? Does it write a post-budget letter? Does it note this in its financial stability report?

Mr. Tom O'Connell: No, I mean, I think the view is that ... the bank or the Governor is giving advice to the Government, the best advice as he sees it, and the Government is the final arbiter in these things, you know. They can decide to ... not to accept that advice. I mean, it would be fairly common, you know. The Bank of England might be recommending to the British Government the same thing or the Fed in the States, you know, it would be fairly common.

Chairman: I need you wrap up and I'll bring in-----

Deputy Eoghan Murphy: And my final question, the failure to pursue post-budget announcement what hadn't been adopted by the Central Bank pre-budget. Did that have anything to do with the membership of the board of the Central Bank, or vested interests, as you describe them, operating within the bank?

Mr. Tom O'Connell: Well, I can only surmise about that. You know, a lot of people on the board had a strong political affiliations, as you are probably aware. I have ... I mean, it'd be logical for them to put their preferences to their political friends, I suppose, from time to time-----

Chairman: Sorry, I'm not even going to go there. I'm just going to wrap that up. Senator MacSharry, please.

Senator Marc MacSharry: Thanks and welcome, Mr. O'Connell. Just to get through a few ... the mandatory pieces first. Was there any interaction with the banking supervisory team on macroeconomic or financial aspects, for example, on the strong credit growth in the years preceding the crisis?

Mr. Tom O'Connell: Well, there certainly would have been ... as part of the ... procedure for processing the stability report. In fact ... yes, maybe you're, sort of, asking about, you know, the interaction with the regulator, or between the bank and the regulator, and there would have been quite a lot of fora there. You had the memorandum of understanding between the bank and regulator for starters. Then you had the ... the Governor used to have a Monday morning meeting, you know, dealing with current issues and so on, and we'd all be there together. You had the financial stability committee itself, of course, which dealt with things. The regulator and the bank would have been on that. And, of course, we were on the same floor, so we'd bump into one another quite a few times a day. But having said that, I mean, to take one example I remember when the Seán Quinn thing burst, you know, I wouldn't have had any-----

Chairman: Mr. O'Connell, you were in the Central Bank, I think, in 1970 until 2010. By my recollection that's 40 years. Now you probably have a better understanding than any of us inside in this room as to what the obligations of section 33AK actually are. If you want to waive them, inform us that you want to do so and I'll try and guide you but I would be advising you in that regard, okay?

Mr. Tom O'Connell: No, sorry, Chairman, no, I was taking that as an example. When the problem thing arose ... I wouldn't have interacted with my financial regulatory colleagues on the same floor about that but I think I mentioned maybe to one of the guys at the water fountain on one occasion "This is an issue for you", and they'd say "Yes, it is an issue", so you know we wouldn't be going into detail on it, no.

Senator Marc MacSharry: Okay, apart from water fountain interactions, was there a structural or formal interaction between your department and the banking supervisory team in a variety of issues, but you specifically said the stability report?

Mr. Tom O'Connell: The financial stability committee would have been the forum, I suppose, where the interaction was greater-----

Senator Marc MacSharry: Were you on that and was there-----

Mr. Tom O'Connell: Yes I was, yes, and there were regulatory people there too.

Senator Marc MacSharry: That's grand, so there was interaction. That's good. And it

Wright Report on Strengthening the Capacity of the Department of Finance

Budgetary and Other Processes

1) **After Cabinet review of Budget strategy in June, and consistent with its April submission to the European Commission, the Government should release for public and parliamentary review:**
    - **the Department's economic and fiscal forecast,**
    - **the Department's assessment of the economic and fiscal risks to this outlook,**
    - **related sectoral analysis by the Department and**
    - **the Government's proposed quantum for fiscal action in new spending and tax expenditures.**

    The Minister and the Department should consult widely on this framework, particularly with the relevant Oireachtas Committee.

The Department of Finance complies with this recommendation by producing two sets of published economic and fiscal forecasts every year:

1. by end-April for the Stability Programme Update (SPU);
2. the annual Budget forecasts in October and the submission of a Draft Budgetary Plan to the European Commission by October 15th each year.

In addition White Paper (i.e. no policy change) fiscal forecasts for the Budget year are also prepared shortly in advance of the Budget. The key dates have changed in line with the EU Semester.

This forecasting cycle is in line with European requirements which have evolved since the publication of the Wright Report in March 2011. The two-pack EU regulations concerning budgetary frameworks require publication of draft budgetary plans, including economic and fiscal forecasts, by mid-October each year. The draft budgetary plan required under the two-pack is published at a stage in the budgetary semester that informs the public and political debate. This document outlines the Department's latest view on the macroeconomic and fiscal outlook as well as the risks affecting this. It also provides aggregates for the fiscal stance that is considered as appropriate for the Budget.

Publication of an additional set of forecasts just over two months after the publication of the SPU forecasts has not been deemed necessary in recent years. In addition, under the two-pack the Department's forecasts are now subject to endorsement by the Irish Fiscal Advisory Council. This provides an additional level of external assurance of the numbers.

In advance of Budgets 2014 and 2015 the Department's macroeconomic forecasting team presented its view of the outlook to the Joint Oireachtas Committee on Finance, Public Expenditure and Reform one week before the Budget. This provides an opportunity for parliamentary scrutiny of developments in advance. The Minister for Finance has also presented the SPU to the same Committee in advance of publication for a number of years.

Given these developments since the publication of the Wright Report the Department sees the publication of twice-yearly macroeconomic forecasts as appropriate at the current juncture. Given the volatility of Irish quarterly GDP, a more frequent forecasting cycle could produce confusing signals to policymakers as forecast revisions would be large. The twice-yearly cycle also fits the endorsement calendar as agreed with the Irish Fiscal Advisory Council. However the Department does not rule out additional forecast rounds on an ad hoc basis if high-frequency developments necessitate it.

On risk, both the SPU and macroeconomic text which accompanies the Budget includes a detailed section on the Department's view of the risks to the outlook. Quantitative impacts of various stylized shocks are also included.

Regarding sectoral developments, the Department has produced ad hoc working papers in recent years on, inter alia, the impact of the foreign-owned sector on economic developments.

2) **Departments would not seek spending enhancements beyond the spring consultations leading to the Budget review at Cabinet.**

Following the split of the Department of Finance into two entities, this recommendation now falls under the remit of the Department of Public Expenditure and Reform.

3) **To the extent that November tax results surprised to the upside, such revenue should be used for debt reduction, not new spending or tax relief.**

The Department of Finance agrees that fiscal policy should follow a sustainable path based on sound economic fundamentals. Broadly speaking, this recommendation advises that fiscal policy should be cognisant of underlying trends as opposed to one-off factors such as an upside surprise in November tax receipts.

Following the move to the two-pack the Budget is now published in mid-October and fiscal policy is based on the most up-to-date data available at that point. Therefore, any upside experienced in November has no bearing on the fiscal policy contained in the October Budget.

In addition, under the "six-pack", which amended and strengthened the Stability and Growth Pact, Member States must make an appropriate annual improvement in their cyclically-adjusted budget balance, net of one-off and other temporary measures, towards their medium-term budgetary objective (MTO). Until Member States, including Ireland, reach their medium-term budgetary objective, annual expenditure growth (excluding expenditure relating to interest, co-funding for EU expenditure and non-discretionary changes in unemployment benefit expenditure) are subject to increases below potential growth rate. However, once the MTO is reached, deviations from the Expenditure Benchmark (i.e. for expenditure increases or revenue reductions) will not be considered significant, if the MTO is maintained. In addition, Ireland cannot make tax revenue reductions unless matched either by expenditure reductions or increases in other revenue items or both.

As a result, from 2016 onwards any positive revenue surprises cannot be used for additional expenditure beyond what is permitted under the expenditure benchmark or additional tax relief. Instead it will reduce the Exchequer Borrowing Requirement and, therefore, favorably impact on our debt situation.

4) **The Panel supports the establishment of a Fiscal Council to review and publish commentary on the Department's analysis and the Government's proposed quantum for fiscal action. The Panel believes that such a Fiscal Council must be independent of Government, have qualified membership, a straight forward role and the ability to report in a timely manner.**

For example, following a release of the Government's fiscal plan, the Fiscal Council could review:

- **the Department's economic and fiscal outlook,**
- **the Department's risk assessment,** (this is not a formal Two Pack requirement)
- **whether the proposed fiscal framework, including provision for new Government budgetary action, entails acceptable risks for the economy.** (this is not a formal Two Pack requirement)
-

The Irish Fiscal Advisory Council (IFAC) was established on an administrative basis in June 2011, and became a statutory body when the Fiscal Responsibility Act 2012 came into force on the 31st December 2012. The Act also sets out the Council's functions, which can only be amended through primary legislation. This in effect ensures compliance with recommendation 4.

The Fiscal Responsibility Act (FRA) put the IFAC on a statutory basis and assigned it the monitoring and assessment functions required of an independent national institution under the Fiscal Compact. The FRA also provides for the funding of the IFAC. The provisions ensuring the independence of the IFAC comply with the European Commission's Common Principles.

The IFAC was established with a mandate to independently provide an assessment of, and to comment publicly on, whether the Government is meeting its own stated budgetary targets and objectives. The Council is also charged with assessing the appropriateness and soundness of the Government's fiscal stance and official macroeconomic projections, as well as an assessment of the extent of compliance with the budgetary and debt rules. This process took place for the first time as part of Budget 2014.

Regulation (EU) 473/2013 introduced a requirement that draft budgets and the stability programme update must be based on macroeconomic forecasts that are produced or endorsed by an independent body. This endorsement function has been set out in an amendment to the Fiscal Responsibility Act 2012 and has been assigned to IFAC.

Additional powers cannot be assigned without primary legislation. This feature along with the fact that the Councils budget is not subject to the annual budgetary procedure helps ensure that the Council's independence is fully protected.

5) **To the extent the December Budget exceeds the quantum of action identified in June, the Fiscal Council should reassess the risks of these further actions for the economy.**

Please refer to Recommendation 4.

6) **The Fiscal Council could also usefully assess the impact of future Social Partnership wage and fiscal provisions on Ireland's economic competitiveness.**

Please refer to Recommendation 4.

Economic and Fiscal Forecasting

7) **Forecasts in Budget Memoranda to Cabinet and for public consultations should include well-articulated scenarios of alternative outcomes, consistent with the Department's risk analysis.**

Firstly, under Commission regulations and the Budgetary Framework Directive, we are required to base fiscal planning on the most likely macro-fiscal scenario or on a more prudent scenario. The macroeconomic and budgetary forecasts must be compared with the most updated Commission forecasts and if appropriate, those of other independent bodies. Significant differences between the chosen macro fiscal scenario and the Commission's forecast have to be described with reasoning, in particular if the level or growth of external assumptions departs significantly from the values retained in the Commission's forecasts.

Further to the information set out in respect of Recommendation 1, Departmental publications that provide economic and fiscal forecasts set out emerging risks, both positive and negative, to the emerging economic and fiscal outlook. In addition, Government is informed of risks as appropriate throughout the year, including in the mid-year Macro Fiscal Update (MFU). Of course the risks to the economic outlook have implications for the public finances but there are also risks, separate to those associated with the general economic situation, which can have very serious consequences for the public finances. These too are identified in the MFU.

Quantitative sensitivity analysis of fiscal and economic outcomes analysis to changes in global growth and the savings rate (respectively) is conducted as part of on the Department's forecasts and presented in both the SPU and Budget documentation. A qualitative assessment of macroeconomic and fiscal risks is also set out.

Details of engagement with economists and academics from the public and private sector that also assists in developing positions on risk analysis is provided in response to Recommendation 8.

8) **In addition, the Department should provide a public work-shop, with private sector and academic interests, once a year so that the assessment of the economic and fiscal challenges can be debated before the Department finalises its forecasts.**

The Department regularly meets with and briefs, as part of its day-to-day operations, credit rating agencies, potential investors, international institutions. In recent years the Department has considerably increased its level of interaction with economists from elsewhere in the public sector and in the private sector. For example, the Economics Division has since January 2011 held a series of seminars with private and public sector participation. Seminars have been held in the context of the past four Stability Programme Update to discuss the macroeconomic and fiscal forecasts as well as the risks associated with those forecasts.. A further seminar was held on estimation of the output gap and the structural balance in January 2012 and again in November 2013. In November 2013 a Chief Economist was recruited via external competition. His role includes the public communication of the Department's view of the outlook externally in various forums.

Advice over the Budget Cycle:

9) **The Department of Finance should keep a written record of advice tendered and decisions taken as part of the budgetary process.**

Each year, as the Budget approaches many Pre-Budget Submissions are received by the Department primarily from individuals and from representative groups. Each Submission is recorded and filed. A copy is sent out to officials who are responsible for the relevant policy area. The Department also circulates these Submissions, as appropriate to the Department of Public Expenditure and Reform.

A summary of the principal Submissions is also circulated as a Paper to members of the Tax Strategy Group (TSG). This Paper, along with the policy papers on Budget options which are also prepared by various Departments for the TSG, are subsequently published by the Department of Finance (further details of the TSG are at (16) below).

Written submissions on various options are prepared for the Minister. The Minister will decide, in consultation with the relevant officials, whether or not a particular option should be pursued. These decisions are recorded in writing. Options which have been approved by the Minister are then included in the Budget and Finance Bill process which, of course, is subject to Oireachtas scrutiny.

10) **The Panel strongly supports the public release of substantially more economic analysis by the Department. However, policy advice to the Minister for Finance in the preparation of the Government's Budget should not be subject to release under Freedom of Information for at least five years.**

See response to recommendation 42 as regards the publication of economic analysis papers by the Department.
The recommendation that policy advice to the Minister for Finance in the preparation of the Government's Budget should not be subject to release under Freedom of Information for at least five years has not been implemented.

The reason why the recommendation has not been implemented is because it is not consistent with the Programme for Government which seeks to enhance openness, transparency and accountability of all public authorities.

The Freedom of Information, Act 2014 and its predecessors (1997, 2003 Freedom of Information Acts) govern the full, partial or non-release of policy advice provided to the Minister for Finance in the preparation of the Budget and indeed all information held or created by the Department. The Freedom of Information, Act 2014 seeks to promote and enhance openness, transparency and accountability of all public authorities. It provides for a Code of Conduct to enhance the release of information held by State bodies. As part of its work in developing a publication scheme under the Code of Conduct which is now part of the FOI process, the Department will be examining the extent to which it can proactively publish information and analysis related to the work of the Department.

Macro-economic Risks:

11) The Panel recommends that the Department prepare comprehensive macroeconomic risk assessment for Ireland as part of its annual advice to Cabinet.

The Department has substantially increased the level of risk assessment it carries out in relation to its published forecasts as previously set out in Recommendations 1 and 7. A similar level of risk assessment is carried out in advising Cabinet.

The Department has expanded its technical toolkit to include a fanchart platform using Monte Carlo simulation techniques. Probability bounded risk estimates using a fanchart type analysis of both the growth outlook and its impact on headline fiscal aggregates are prepared

More broadly, a National Risk Assessment[1] was published for the first time in October 2014, co-ordinated by the Department of An Taoiseach. This includes a section on economic risks which included extensive input from the Department of Finance.

12) The Department should establish sufficient formal arrangements with the Central Bank, including its Financial Regulation function, the NTMA and NAMA and establish sufficient technical capacity internally to manage this process.

Senior officials from the Department of Finance, the NTMA, the Financial Regulator meet on a regular basis to discuss issues of strategic importance. The 'Principals Group' consists of

- Derek Moran, Secretary General, Department of Finance
- Ann Nolan, Second Secretary General, Financial Services, Department of Finance
- Conor O'Kelly, CEO, NTMA
- Patrick Honohan, Governor, Central Bank
- Cyril Roux, Deputy Governor, Financial Regulation, Central Bank
- Stefan Gerlach, Deputy Governor, Central Banking, Central Bank

Other senior officials attend as required depending on the issues being discussed.

The Department has a Memorandum of Understanding (MOU) with the NTMA with regards to the roles and responsibilities of each party in relation to the compilation of debt data and servicing forecasts. This is in response to the internal and external recommendations on the General Government Debt consolidation discrepancy. The data provided by the NTMA under this agreement is the national debt, debt servicing requirements and the level of cash and other financial assets held. The MOU is limited in scope in relation to the statistics unit and does not cover any other areas of co-operation between the Department of Finance and NTMA.

Furthermore, there is also a Government Finance Statistics Liaison Committee (GFSLC). This Committee provides an oversight role in relation to Ireland's Government Finance Statistics, including the twice yearly Excessive Deficit Procedure (EDP) returns. Its primary purpose is to ensure that Ireland's GFS data compliers – Central Statistics Office (CSO), the Central Bank of Ireland (CBI) and the Department of Finance are accurate and comparable. The Committee also provides a forum for

[1] Available at:
http://www.taoiseach.gov.ie/eng/Publications/Publications_2014/National_Risk_Assessment_report_2014.pdf

cooperation and discussion of methodology and classification issues among the three principal GFS data compliers.

In addition, there is also a General Government Debt Expert Group. This exists as a sub-committee of the GFSLC and provides information and expertise in relation to General Government Debt and thus contributes to the on-going monitoring and improvement of accuracy, quality and timeliness of Government Finance Statistics reporting, including that required under the Excessive Deficit Procedure, in relation to General Government Debt under the European System, of National and Regional Accounts (ESA 2010).

The department's oversight of NAMA is now managed by the Shareholding Management Unit (SMU), which is staffed with banking specialists who are seconded from the NTMA's banking division. This unit is responsible for ensuring the fulfillment of the Ministerial responsibilities under NAMA legislation to ensure NAMA meets its objectives and has regular interaction with senior executives of NAMA both on a formal and informal basis and meets senior executives of the Agency on a frequent basis.

13) **The Government should introduce legislation to establish a coordinating committee of these financial agencies, chaired by the Secretary General of the Department of Finance, which would require the full exchange of any information that could entail fiscal or economic risks to the country, among the above agencies.**

As stated above in relation to Recommendation 12, stronger ties have been established between these financial agencies particularly through the 'Principal's Group' but no legislation has been introduced to cement the status of this group.

In recent months, at an operational level the Department has also increased its engagement with other State departments and bodies on the identification and management of risk, including fiscal and economic risks. Although this engagement at this level is also not supported by a legislative mandate, it has resulted in an improvement in information sharing and risk management understanding and has also led to revisions in risk management practices at many of the Departments concerned.

The Department has sought in tandem to improve its own internal risk analysis and risk management and mitigation processes. The Department has engaged extensively with the development of the National Risk Assessment process (including identification of economic and financial risks in the 2014 NRA document). The Department will work with the Department of the Taoiseach in progressing a methodology for managing and mitigating these identified risks

Construction Policy:

14) **The Department should include sectoral assessments in its annual economic analysis and forecast that is released for public consultation.**

Following the split of the Department of Finance into two entities, this recommendation primarily relates to the former Sectoral Policy Division of the Department which is now under the remit of the Department of Public Expenditure and Reform.

A key part of our reform programme involves the Economics Division. This Division is resourced by expert economists in both the macroeconomic and microeconomic field with experience drawn from the private sector and elsewhere in the public service. The Department's economic resources have been increased and the Department is now conducting additional sectoral analysis as part of its economic planning and forecasting function. See response to recommendation 1 on the publication of economic research by Departmental staff.

The Economics Division, working in conjunction with other divisions in the Department, is devoting considerable attention to the construction sector at present with a particular focus on the analysis of possible constraints on housing supply, including costs levels in the sector and the availability of development finance.

Tax Policy Advice:

15) The Department should substantially increase its analytical capacity in the tax policy area.

The Tax Policy Division in the Department of Finance has a total of approximately 35 staff. Nine tax policy Graduate AOs have been recruited each of whom have a variety of tax, law and economic qualifications. Vacancies at a more senior level are now also regularly advertised publicly, for example the recent PO tax policy competition and the Assistant Secretary post in the tax policy area which was run by the Top Level Appointments Committee (TLAC).

The Tax Policy Unit in the Department of Finance has over the past five years progressively sought to increase its technical skills capacity. In this regard, the Tax Policy Unit has engaged, following a competitive tender process, with the Irish Taxation Institute to provide an externally accredited tax policy learning and development programme for its staff. This training programme, entitled the Diploma in Tax Policy and Practice, involves well over a 100 hours of tax technical training and runs over two years. The Diploma is being progressively rolled out to all staff in the Tax Policy Unit who do not already have specific tax qualifications. Nearly all of the Tax policy staff have now completed the Tax Diploma. A further 23 Department of Finance staff commenced the Diploma in early 2015.
In addition, a number of staff in the Tax Policy Unit have completed or are currently undertaking professional tax qualifications (such as the AITI Chartered Tax Advisor qualification) and a number of short term secondments to external agencies (such as the European Commission's Directorate for Taxation) to increase specialist knowledge have been organised.

Tax policy staff are also pursuing a range of other relevant qualifications including for example Master Degrees in Economics and in Economic Policy Analysis.

Separately, a specialist tax economic analysis unit has been established in the Economic Division of the Department staffed by externally recruited economists. The Head of this Unit now sits on the Tax Division's internal management committee and the Unit works very closely with the Tax Policy Division.

In line with similar programmes in other parts of the Department, the tax Policy Division has also organized a small number of short term assignments into the Department from private sector tax advisory firms and also in one instance from another EU member state.

The Tax Policy Unit has also sought in recent years to increase its interaction with external stakeholders. One example of this is the Department of Finance Tax Policy Conference, the second annual event taking place in November 2014. These new annual conferences provide a new mechanism for the Department to interact with stakeholders and publicise new tax policy research.

At the recent annual tax conference the Minister for Finance announced a new tax research partnership with the ESRI. All of this research will be published.

In addition, the Tax Policy Unit has recently established a new Tax Training Network, membership of which is available to all staff in the Department of Finance and the Department of Public Expenditure and Reform.

The aim is to put in place a contact group of people across the Department who are interested in tax policy and would like to be kept informed of upcoming tax research seminars, tax conferences and training opportunities being run by or involving the Department of Finance's Tax Policy Unit.

To date, approximately 50 people across the Department of Finance and the Department of Public Expenditure and Reform have signed up for membership of the network.

The organised events will qualify for CPD – continuing professional development – for the Irish Tax Institute and certain other accounting bodies. A growing number of staff in the Department have a range of ITI tax qualifications.

16) The Department should organise itself to consult with tax and financial experts and prepare advice that is most appropriate to an efficient tax regime for Ireland.

As part of the annual Budget process, the Tax Policy Unit chairs and provides the Secretariat for the Government's Tax Strategy Group. The Tax Strategy Group considers approximately 10 to 20 separate Tax Policy Papers prepared by the Tax Policy Unit in advance of the Budget. These papers are published after each Budget and are available to read on the Department's website
In 2010-2011, a review of the Business Expansion Scheme was carried out and an Ex-Ante Economic Impact Assessment of the new Employment and Investment Incentive was published.

A Study on the Economic and Budgetary Impact on the introduction of a Common Consolidated Corporate Tax Base in the European Union was commissioned by the Tax Policy Unit from Ernst and Young, Washington DC and was published in January 2011.

- The Tax Policy Unit assisted in the preparation of the National Recovery Plan 2011 – 2014, published in 2010.

- The Tax Policy Unit prepared a comprehensive review of tax expenditures in 2010 in line with the provision in Section 1 of Finance Act 2011.

- The Tax Policy Unit published an Economic Impact Assessment of Potential Changes to Legacy Property Reliefs. Subsequent legislative amendments were made on foot of the recommendations in the Report (2011).

- A Review of the Film Relief Tax Scheme was completed and the Scheme was substantially amended on foot of the Review (2012).

- A comprehensive review of the R&D tax credit scheme was completed and legislative changes made to the Scheme (2013).

- A suite of research relating to Ireland's corporation tax policy was completed and this inputed into the Road Map for tax Competitiveness published with the Budget in 2014.

- A review of 26 tax reliefs related to the agri-food sector was carried out and the recommendations were again implemented in the Budget and Finance Bill in 2014.

Public consultation processes are an integral part of the deliberative process. Recent consultations include:

- legacy property reliefs;
- tax relief for charitable donations;
- tax residence rules;
- VRT and Motor Tax and
- Film Relief
- R&D Tax Credit Scheme
- Special Assignee Relief Programme (SARP)
- Foreign Earnings Deduction (FED)
- Seed Capital Scheme (SCS)
- Employment and Investment Incentive (EII)
- Agri-taxation Reliefs.

Building on the experience of the above reviews and on best practice internationally, the Department published guidelines for the evaluation of tax expenditures (covering both ex ante and ex post evaluation) with the Budget in 2014.

Medium Term Analysis:

17) The Government should commit to the preparation of regular medium- term economic plans for Ireland at least every five years.

In December 2013, the Government published its Medium Term Economic Strategy 2014-2020 (MTES). The Strategy sets out broad policy orientations and specific actions to achieve job-rich economic recovery. It provides an overall framework for social and economic policies that are being developed and implemented by the Government over the period from 2014 to 2020.

The MTES has a number of key objectives:

- to set out a path for economic growth to full employment;
- to provide an overarching whole-of-Government strategy to which other sectoral and horizontal policies and strategies are aligned;
- to identify new strategic priorities that will make the biggest impact to increase the economy's potential growth;
- to maintain the discipline and reform momentum achieved under the EU/IMF programme;
- to set out the fiscal parameters and targets required under both the EU Stability and Growth Pact and the Fiscal Compact; and
- to ensure that the mistakes of the past are not repeated.

These objectives are within the Strategy's three pillars:

- Ensuring Debt Sustainability
- Financing Growth
- Supporting Employment and Living Standards

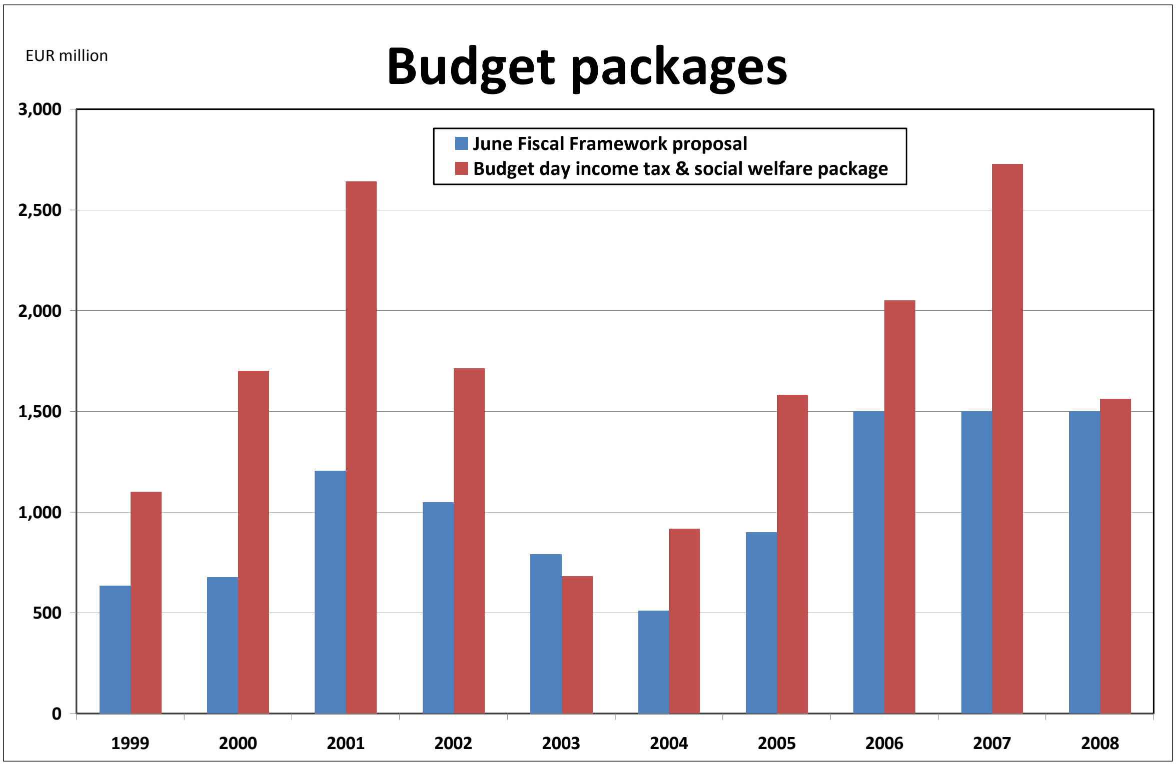
3.2 Pro-cyclical fiscal policy

3.2.1 The Panel reviewed international assessments of the risks of pro-cyclicality. A summary of commentary by the EC, OECD and IMF is at Appendix 6. These institutions frequently pointed to the risks of overheating prices and wages in Ireland, thereby decreasing its international competitiveness. Signals of overheating were especially loud in the early 2000s, when the Council gave an official warning to Ireland under article 99.4 of the Treaty, but became more muted as the global (and Irish) economy recovered from the burst of the ICT bubble. Nevertheless throughout the period, and especially from 2004 to 2008, these criticisms were leavened by favourable comment and even praise for Irish policy.

3.2.2 To review the Department's advice on the risk of pro-cyclical fiscal policy, the Panel began with a review of budgetary advice over the last ten years. The current budgetary process includes a number of stages. The Department consults other Departments, assesses the state of the economy, and works with the Minister to prepare a Memorandum to Cabinet on Budget Strategy in June of each year. That Memorandum projects economic and fiscal circumstances and outlines a quantum of spending and tax expenditure actions that are appropriate to the circumstances. Work to detail specific actions following this Cabinet discussion continues to the autumn. Since 2006, a Pre-Budget Outlook is usually issued in October to guide public dialogue up to the delivery of the Budget in early December. Significantly, final payments for previous year corporation tax and income tax payments by the self-employed yield critical information on the Government's current revenue position, well after the October Outlook and the initial Cabinet determination of Budget strategy in June.

3.2.3 The Panel reviewed in detail the annual June Memoranda to Cabinet on Budget Strategy. Generally speaking, we found that advice prepared by the Department for Cabinet did provide clear warnings on the risks of pro-cyclical fiscal action. These views were signed-off by the Finance Ministers of the day who would submit the Memoranda to Cabinet. Department officials do not, of course, participate in Cabinet discussion. This advice was more direct and comprehensive than concerns expressed by others in Ireland, or by international agencies.

3.2.4 With very few exceptions, however the quantum of spending and tax relief outlined in December Budgets was very substantially above that advocated by the Department and Minister in June. This can be seen in the chart following:



3.2.5 The differences between the position advocated in June and the outcome in December are stark but must be seen in the proper context. The Panel is conscious that the June quantum was seen as a starting point in the budgetary process. We present the chart simply to demonstrate that the June framework around which the Department's fiscal guidance was given was consistently and substantially exceeded. We examined why relatively prudent fiscal advice in June was systematically ignored in the Budget process. A number of factors contributed to this failure.

3.2.6 As noted earlier, very strong economic and fiscal performance in the 1990s created an extraordinary sense of optimism in Ireland. This fuelled enormous expectations of Government to create spending and tax initiatives to share the fruits of recent economic gains, even as the country's overall competitiveness degenerated substantially and revenues became unsustainable. These pressures were reflected in the political debate of the day where all political parties were eager to meet public expectations for more and better services. Consistently higher growth and revenue outcomes late in the Budget cycle further inflated expectations. Finally, the public and policy makers were insufficiently sensitive to the effects of extraordinarily expansive monetary conditions at the time, and to the fact that fiscal policy was the key potential counterbalance to this pressure.

3.2.7 Beyond a general sense of optimism, we review below two other aspects that contributed to this massive, sustained slippage from the June Fiscal Plans. First, a very poor budgetary process obscured ministerial and Government accountability to Parliament, and was overwhelmed by other spending processes – Programmes for Government and Social Partnership. Second, while departmental advice in June was generally appropriate, we have a number of observations as to how departmental advice could have been more effective over the entire budgetary cycle. We review these factors below.

3.3 Budgetary and other processes

3.3.1 All parties establish a platform going into an election. A vital part of coalition Government is the preparation of a joint Programme for Government by governing coalition partners. Such agreements are core to the political stability of the governing coalition and often include very specific spending and tax expenditure commitments. These initiatives are presented as given, without a full economic or fiscal analysis by the Department of Finance.

3.3.2 The process leaves the Department to debate the pace of delivery of new spending and tax initiatives but not the Government's commitment to these important fiscal matters. The Department could, and did, argue for reallocation of existing spending to offset new commitments in a Programme for Government. But this proved increasingly difficult, and ineffective, given the magnitude of Programme for Government commitments and the availability of resources. Included below is an excerpt from the 2002 Programme for Government that illustrates the specificity of these commitments.

The parties remain committed to the achievement of the taxation objectives set out in Action Programme for the Millennium. Over the next five years our priorities with regard to personal taxation will be:

– to achieve a position where all those on the national minimum wage are removed from the tax net, and
- to ensure that 80% of all earners pay tax only at the standard rate.
– to use the potential of the tax credit system to effectively target changes and to pursue further improvements in the income tax regime if economic resources permit.

• We will complete the reduction of the standard rate of corporation tax to 12.5% in 2003.
• We will increase Capital Gains Tax exemption limits.
• We will examine the tax treatment of share options.
• We will keep down taxes on work in order to ensure the competitiveness of the Irish economy and to maintain full employment.
• We will vigorously pursue actions to ensure that that everyone is tax compliant.

3.3.3 The 2002 Programme for Government, like others, undertook to achieve these changes while promoting "low inflation" and "responsible fiscal policies" and maintaining the "public finances in a healthy condition". However, the dominant impact of Programmes for Government was to create a ready list of politically driven spending and tax initiatives to insert into Budgets, including to the extent of any last minute revenue availability.

3.3.4 The Social Partnership process was also a major driver of spending. Initiated in the 1980s, this process led to a number of national social and economic agreements between 1987 and 2009, which included pay settlements in the private and public sectors. The 1987 agreement and agreements in the 1990s tended to trade-off wage moderation for lower personal tax rates, with the effect of increasing take home pay. In the negotiations leading up to these agreements, the general levels of increases were effectively settled between the private sector employers and trade unions, with the increases applying by extension to the public service.

3.3.5 This process was extremely important to Ireland emerging as an economic growth leader in Europe. Wage costs were set at competitive levels. The process also created a climate of labour harmony that further enhanced the investment climate.

3.3.6 However, the process helped to generate profoundly different outcomes after 2000. An over-heated economy generated labour shortages and high wage demands. These pressures overwhelmed private sector wage negotiations and, through the Partnership Process, also inflated public sector outcomes. Such demands were difficult to deny given the burgeoning revenues generated by an over-heated economy. Economic overheating, along with the Social Partnership Process, led to a major deterioration in competitiveness in the Private Sector and to very high Public Service wages, especially relative to international partners. Primary School teacher salaries, for example, rose from seventh of ten countries in the OECD comparator group in 2002 to third, behind only Germany and Switzerland by 2008.

3.3.7 As the representative of the Public Service employers, the Department of Finance had an important input to the Partnership Process, and consistently warned of growing threats to competitiveness. But it did not drive the process, and was reluctant to oppose packages that included outcomes that retained labour peace for the economy as a whole.

3.3.8 Over the ten year period of review, the Programme for Government and Social Partnership Processes helped overwhelm the Budget process. Instead of providing an appropriate fiscal framework for prioritisation of competing demands on the Government's overall agenda, the Budget essentially paid the bills for these dominant processes. Relatively clear advice to Cabinet in June on the risks of excessive spending and tax reductions was lost by the time of December Budgets.

3.3.9 Spending pressures of this magnitude could have been resisted even within the established Budget process. However, the chance of success would be substantially enhanced by modernizing the budgetary process to protect the Government's annual fiscal framework.

3.3.10 In the current budgetary process, the period for public dialogue on economic and fiscal challenges facing the economy is far too short. Departmental advice on the economic outlook and sectoral challenges, for example, should be subject to more public and external scrutiny before Budgets are finalised. The process must also support a more rigorous commitment to the planned quantum of fiscal action. The objective of a renewed budgetary process should be to enhance ministerial accountability to Parliament, and the public by:

- creating a meaningful consultation period, and seeking broad feedback on the Government's fiscal plan,
- releasing more departmental analysis to inform public debate, and

- providing for third party validation of departmental analysis and the Government's fiscal plan through some form of Fiscal Council.

3.3.11 *Recommendations:*

1) *After Cabinet review of Budget strategy in June, and consistent with its April submission to the European Commission, the Government should release for public and parliamentary review:*

   - *the Department's economic and fiscal forecast,*
   - *the Department's assessment of the economic and fiscal risks to this outlook,*
   - *related sectoral analysis by the Department and*
   - *the Government's proposed quantum for fiscal action in new spending and tax expenditures.*

   The Minister and the Department should consult widely on this framework, particularly with the relevant Oireachtas Committee.

2) *Departments would not seek spending enhancements beyond the spring consultations leading to the Budget review at Cabinet.*
3) *To the extent that November tax results surprised to the upside, such revenue should be used for debt reduction, not new spending or tax relief.*
4) *The Panel supports the establishment of a Fiscal Council to review and publish commentary on the Department's analysis and the Government's proposed quantum for fiscal action. The Panel believes that such a Fiscal Council must be independent of Government, have qualified membership, a straight forward role and the ability to report in a timely manner. For example, following a June release of the Government's fiscal plan, the Fiscal Council could review:*

   - *the Department's economic and fiscal outlook,*
   - *the Department's risk assessment,*
   - *whether the proposed fiscal framework, including provision for new Government budgetary action, entails acceptable risks for the economy.*

5) *To the extent the December Budget exceeds the quantum of action identified in June, the Fiscal Council should reassess the risks of these further actions for the economy.*
6) *The Fiscal Council could also usefully assess the impact of future Social Partnership wage and fiscal provisions on Ireland's economic competitiveness.*

3.4 Economic and Fiscal Forecasting

3.4.1 The Department's economic and fiscal forecast is critical to the budgetary process. It helps to guide choices on economic and fiscal policy. The Panel's terms of reference specifically directed us to review the Department's record on economic and fiscal forecasting. The Department works closely, but informally, with colleagues in the Central Bank, ESRI and Revenue Commissioners to prepare its economic and fiscal forecasts. All those who discussed forecasting with the Panel judged the Department's work to be as good as any other institution making forecasts of the Irish economy. However, the recent past also demonstrates that it is extremely difficult to project "turning points" particularly in a rapidly growing economy.

3.4.2 More critical comments were made on the issue of whether the Department and Government could not have been more active in publishing alternative forecast scenarios. Given the record of advice and concern on pro-cyclical fiscal policy in the Department, a forecast scenario of a major correction could have been very informative, in retrospect. An improved budgetary process overall would also strengthen the forecasting function. The Panel believes that this function would be further strengthened by a more robust engagement with outside economists.

3.4.3 *Recommendations:*

7) *Forecasts in Budget Memoranda to Cabinet and for public consultations should include well articulated scenarios of alternative outcomes, consistent with the Department's risk analysis.*
8) *In addition, the Department should provide a public work-shop, with private sector and academic interests, once a year so that the assessment of the economic and fiscal challenges can be debated before the Department finalises its forecasts.*

3.8.4 *Recommendation:*

14) *The Department should include sectoral assessments in its annual economic analysis and forecast that is released for public consultation.*

3.9 Tax Policy Advice

3.9.1 The panel reviewed whether the Department adequately advised on the vulnerability of the tax system to a downturn. First, the Department was very clear on the risks to the Exchequer of a downturn in the construction sector, providing specific estimates of the fiscal risks, and clear advice on the dangers of relying on related tax revenues.

3.9.2 However, there was no analysis or advice on the broader risk to the tax system from a more general downturn in economic activity from levels created in part by pro-cyclical fiscal policy. This lack of policy initiative is again disappointing, given the very active tax agenda of the Government over the last ten years. In fairness, the Government's tax agenda was effectively defined at the political level, as part of the Programme for Government. For example, Programmes for Government limited the income tax base by removing minimum wage earners from the tax net and committing to keep 80 per cent of taxpayers at the lowest rate of taxes. These were effective political messages for the electorate, but not good tax policy. Once established as Government policy, there was no market for departmental advice on the suitability of such commitments. But such analysis should have been provided and communicated forcefully to the Minister for Finance and the Government.

3.9.3 The result was the narrowing of the tax-base to an unsustainable degree and commitment to major tax expenditures. The narrowness of the tax base and the complexity of the tax system suggest to the Panel that there is need for a review of the entire system.

3.9.4 *Recommendation:*

15) *The Department should substantially increase its analytical capacity in the tax policy area.*
16) *The Department should organise itself to consult with tax and financial experts and prepare advice that is most appropriate to an efficient tax regime for Ireland.*

3.10 Department's Response to the Crisis

3.10.1 The Panel reviewed the Department's support to the Government since the banking crisis broke. The Department played a key role on the banking side by using the Domestic Standing Group to organise a whole of Government assessment of the situation at the early stages of the crisis. The Department also played a lead role in managing the Government's fiscal response to the crisis, including several major policy packages:

- major fiscal action in Budget 2009,
- again in the supplementary 2009 Budget,
- in Budget 2010, and
- in the Public Service Agreement, 2010-2014 (the Croke Park Agreement).

3.10.2 These actions reflect a marked enhancement in leadership from an organisation not called upon to lead for much of the previous decade.

3.10.3 Every party that worked with the Department over this period commented positively on the quality of effort and professionalism displayed during this period of need. At the same time, the extraordinary pace of activity has exposed some major shortcomings in the Department's capacity. When the banking crisis broke, the Department had neither the time nor the resources to conduct in-depth investigation of issues. This reflected shortages of skills in the requisite disciplines and inadequate knowledge of underlying developments in the sector.

3.11 Medium Term Analysis

3.11.1 Any Finance Ministry should have a medium-term economic planning capacity. Economic planning and analysis are specific elements of the Department's statutory functions since the Department of Economic Planning and Development was merged with the Department of Finance in 1980. The Department has developed the *National Recovery Plan 2011-2014* and will monitor its implementation over the coming years.

4.7 Structure

4.7.1 The Department of Finance is unique among Civil Service Departments in that Assistant Secretaries do not report directly to the Secretary General. There is an additional level of management – Second Secretary General[1] - between the Secretary General and the Assistant Secretaries in the Department of Finance. This arrangement blurs accountability, under-utilises the expertise of Assistant Secretaries and helps to inhibit effective internal communications.

4.7.2 It is our view that the existing and future needs of the Department require changes to the roles and responsibilities of the Second Secretary grade. It is simply not possible for the Secretary General to deal with the large number of high-level, pressing issues confronting the Department without this senior level of support. However, removing Second Secretaries from their responsibilities as managers of large Divisions would free them up to play a more strategic support role than is possible at present.

4.7.3 *Recommendations:*

28) *Assistant Secretaries should report directly to the Secretary General of Finance.*
29) *Second Secretaries should cease to have divisional line management responsibilities, but should be able to call upon resources across the Department as and when necessary.*
30) *The Second Secretary currently responsible for Sectoral Policy Division should be designated as Chief Operating Officer for the Department. The function of this post would be to lead the co-ordination across the Department of major issues, for example, to lead the interaction between the Budget and expenditure sides of the Department, and otherwise to help ensure the entire Department is connected to key policy and management issues.*
31) *The Second Secretary post leading the Budget, Tax and Economic Division could focus primarily on the increasingly important role of interacting with the institutions of the European Union and other international institutions.*
32) *The Second Secretary responsible for Financial Services should retain responsibility for this function until such time as the banking crisis is considered to*

[1] One of the positions at the second level is graded as Secretary General, and is in charge of Public Service Management and Development Division.