Cork Chamber

Advancing business together

BUDGET 2022

SUBMISSION

Foreword

2022 will be a critical year for normalising the economy following two years of suppression and turmoil related to the pandemic. It will be a critical 12-month cycle not only for short term business continuity but for setting in motion the steps that will secure long term competitiveness.

Infrastructure, housing, business supports, education and training must be key components tackled by Government. Quality of life, sustainability and equality must define all decisions made. If we do not substantially address the climate crisis, this generation will be on the wrong side of history, creating a legacy that could undermine every step of progress made since the foundation of the state.

As Chair of the Cork Chamber Budget Committee I thank our members, Andrew O'Brien, Catherine Desmond, John Fuller, Joanne O'Brien, Julie Healy and Stephen Keohane for their contribution. I also thank Seamus Coffey, who has provided a macroeconomic perspective in which to ground our submission.

Seamus Downey, Budget Committee Chair

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A Macroeconomic View

The following perspective is provided by Seamus Coffey, Lecturer of Economics, at University College Cork.

As the country's largest economic actor, the government's budgetary decisions can have significant impacts on the economy and household incomes. While microeconomic and regional considerations are important, the role of the public finances in providing a macroeconomic buffer to stabilise the economy is also important. This has been evident during the pandemic with emergency schemes introduced to support businesses and household incomes.

The pandemic and the public health response to it might not be a typical recession but the budgetary response has been a useful example of the role the public finances can play in supporting businesses and household incomes.

Over the past 50 years, the Irish economy has gone through numerous periods of ups and downs. For most of these the public finances contributed to the problems – either adding further fuel to a booming economy or further pulling the rug from incomes and economic activity in times of recession.

It could be argued that the last time Irish budgetary policy was appropriate to macroeconomic conditions was following the first oil crisis in 1973/74. The government responded by introducing policies that led to a large budget deficit which pumped money into the economy.

As the economy recovered some efforts were introduced to cut the deficit in 1976 but these were ended with the general election of 1977 which saw all political parties promise to reverse budgetary policy and introduce tax cuts and ramp up expenditure.

The deficit this resulted in left Ireland exposed and when the second oil crisis of 1979 further expanded the deficit it quickly emerged that all our borrowing capacity had been used up.

Now, rather than increasing borrowing to support the economy we faced the unpalatable prospect of having to reduce the deficit in the middle of a recession. Instead of helping business and households get through the recession budgetary decisions of the 1980s made things worse. This was played out again in the years after the crash of 2008 when the State once more found itself with no borrowing capacity at the time it was actually needed.

The global nature of the pandemic means that central banks have stepped in to increase the borrowing capacity of governments. In relative terms, the deficit now is as large as it was in 1982 or 2009 but the actions of central banks mean the need to reduce it is lessened.

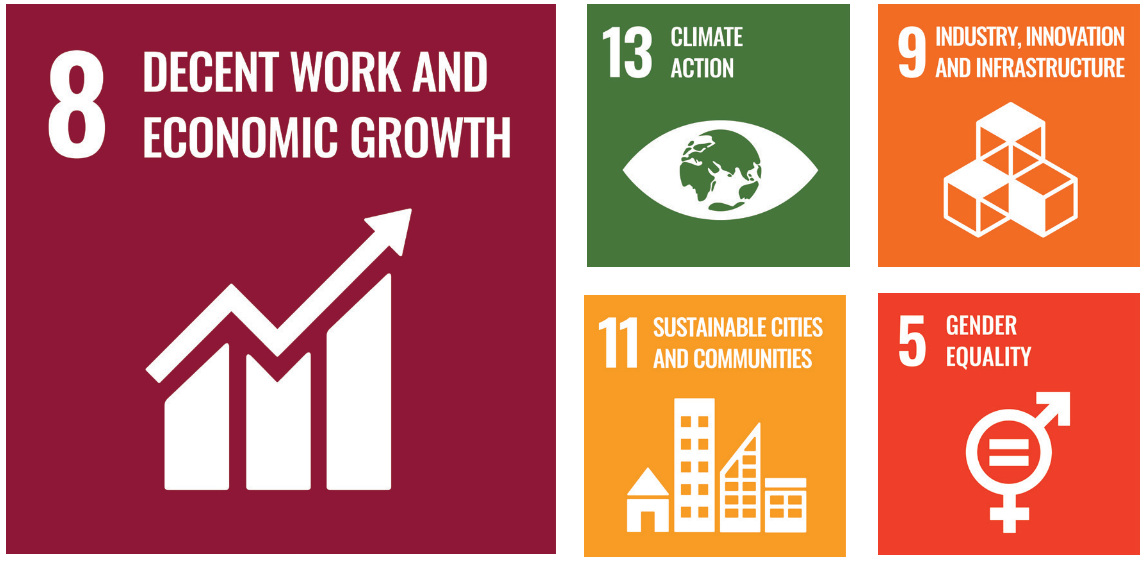
The tax and spending decisions that are made in the budget should be driven by the nature and size of the public sector we want. If this is to increase then the government's revenue base should increase.

Deficits can be run over the coming years and some resources will be available for measures such as those proposed here. At a macroeconomic level, central banks will at some stage withdraw the extraordinary financial support they are providing to governments. Domestically, Ireland also needs to ensure that some borrowing capacity is held in reserve so that when the next shock hits the Irish economy, we can respond to support businesses and households as was done during this crisis.

Introduction

Cork Chamber represents 1,200 members together employing 100,000 people throughout the city, metropolitan area and county. Our vision is to be a world-leading Chamber of Commerce, delivering on a progressive economic, social and sustainability agenda at the heart of a vibrant business community.

As such, we are determined to ensure that our 202-year-old Chamber continues to create a positive legacy. Our direction is guided by our formal pledge to uphold the United Nations Sustainable Development Goals, five of which have been identified by the Chambers Ireland network.



It must be noted that Budget 2022 takes place at a point of stark climate emergency warnings from the Intergovernmental Panel on Climate Change. The latest IPCC report, published in August, warned that unless there are immediate, rapid and large-scale reductions in greenhouse gas emissions, limiting warming to close to 1.5°C or even 2°C will be beyond reach with catastrophic effects.

We at Cork Chamber believe that in considering the effect on the Exchequer of budgetary policy changes in Budget 2022, a full analysis should take account of all of the changes to economic behaviour that may result from the policy change. The dynamic and broad effects of policy changes are obvious, provable and well known to those dealing with investors and businesses - but they are hard to measure precisely. However, that does not mean that they do not exist, that they are not real or that the costs / benefits of them are any less expensive or valuable than statically measured and narrow costs. If one ignores them, then one overestimates the costs, and underestimates the benefits, of sustainable policy measures then opportunity can be lost.

For example, in solving the viability of high-density brownfield development, the long-term environmental impact of urban sprawl must be considered a cost to be incurred by the State. The renewable energy sector, and its ability to not only generate economic value but also decarbonise our economy is another prime example. On the other side of the coin, we act conservatively, degrade our environment, and pay the ultimate long-term fiscal and societal price.

While there is a risk in estimating broad and dynamic effects (i.e. the estimates may be wrong), there is an even greater risk in not taking these effects into account or in taking them into account insufficiently (i.e. the risk of foregoing opportunities to benefit the wider economy). Additionally, the risk of action is often overestimated and the risk of inaction underestimated. This is partially because the costs of inaction are often opportunity costs (e.g. jobs, investment, cleaner environment, and competitiveness) which are largely invisible. As an open economy on the edge of Europe, these broad and dynamic effects are more pronounced.

In our recent Q2 Economic Trends survey our members identified the following priority areas for Budget 2022.

1 Infrastructural investment and Housing stimulus (jointly number 1)

2 Pandemic business recovery supports

3 Education and skills investment

Infrastructural Investment

If Cork is to remain globally competitive and fulfil its role nationally as set out in the National Planning Framework, significant Government investment in areas from the Cork Metropolitan Area Transport Strategy, to regional & international connectivity, housing, health, culture, education & innovation, energy, water, resilience, climate mitigation, URDF & RRDF will be required.

Living Standards Framework

Infrastructural investment is the mainstay of business confidence and sets the course for future competitiveness. As society evolves, so too does the nature of infrastructure required. The members of Cork Chamber fully endorse (91%) the need to incorporate wellbeing and quality of life into the decision making processes surrounding infrastructure.

In 2019, New Zealand Treasury introduced the Living Standards Framework (LSF) to capture what matters for New Zealanders' wellbeing, now and into the future. The framework integrates planning about policy impacts on wellbeing, taking a long term perspective on people, places and generations. The LSF complements rather than replaces traditional economic tools such as GDP and aims to enhance, support and underpin comprehensive and robust policy development.

Cork Metropolitan Area Transport Strategy

The Cork Metropolitan Area Transport Strategy will deliver multi modal connectivity that is fit for purpose for a contemporary metropolitan area. It is essential that all streams are progressed with urgency through design and planning, enabling timely final investment decisions as each project progresses successfully. Intensity of approach across all streams of CMATS is required to ensure adequate levels of delivery.

Regional connectivity still bears the scars of austerity. The M28, N22, Dunkettle Interchange, N25 and M20 route corridors must all be significantly improved in capacity, not soley for private vehicles but in terms of multimodal connectivity also.

International Connectivity

International connectivity from Cork Airport has been severely curtailed by the pandemic. Significant capital investment is required to ensure that the infrastructure, including the runway, is poised for the return of significant volume. Research tells us that full recovery will take up to five years in the sector and Cork Airport must be supported by multi-year operational and capitals supports under the Regional Airports Capex Programme.

International connectivity from the Port of Cork continues to grow with new routes to the US, Belgium and France proving market demand. Investment in Customs and Border infrastructure at the Port would deliver a major boost in operational potential as new patterns continue to be established post EU-UK TCA.

Energy

Cork is home to Ireland's Energy cluster, Energy Cork and has significant potential to develop further. National policy should support the deepening of ambition for this energy cluster and support the significant growth potential of renewables such as floating offshore wind, anaerobic digestion[1], green hydrogen, solar PV, onshore wind and microgeneration[2] which have potential to generate significant economic value and employment, and contribute immeasurably to the sustainable credentials of the region and nationally.

To achieve the target of 70% renewable electricity by 2030 set out in the 2019 Climate Action Plan, the RESS must be strengthened further to support floating offshore wind, and the Eirgrid capital programme must facilitate the huge 30GW potential of the Irish Sea[3]. Cork must be acknowledged as a strategic hub for offshore renewables and a review of port related supports must be undertaken given the direct competitive nature of UK ports.

Internet Connectivity

The rapid rollout of the National Broadband Plan is essential in the context of the pandemic and shift in remote working preferences. The delivery speed of the NBP in Cork should be increased to meet this demand. Certain sections of the central business district of Cork are not covered by high quality fibre connectivity and this must be addressed. Fine grain appraisal of this urban connectivity must be undertaken and addressed in the context of overall national broadband provision.

1 https://www.corkchamber.ie/wp-content/uploads/2020/12/10793-Anaerobic-Digestion-report_final.pdf
2 https://www.corkchamber.ie/wp-content/uploads/2021/03/Cork-Chamber-submission-on-Microgeneration-Support-Scheme-.pdf
3 https://www.corkchamber.ie/wp-content/uploads/2021/02/Cork-Harbour-2025-Ready-to-Float-Offshore-Wind.pdf

Infrastructural Investment Continued

Foreign Direct Investment & Indigenous Enterprise

Support the implementation of the IDA Ireland Strategic Plan alignment to Ireland 2040 by providing further strategic employment sites in Cork.

Continue to support and strengthen the Regional Enterprise Fund.

Utilities

In 2021, GNI, Irish Water and Eirgrid have each gone to consultation on their strategic capital planning.

In the case of Irish water, it is essential that investment is aligned with Ireland 2040 targets, and that the provider works closely with local stakeholders to ensure key employment and residential sites can be brought to market. It is essential also that works to continue enhancing the quality of water in our harbour and rivers continue apace[4].

In the case of GNI and Eirgrid[5], the criticality of both bodies plans to the delivery of clean renewable energy, supply and energy security cannot be overstated. If they are not fully enabled, then our climate targets will be missed. Eirgrid must be in a position to enable floating offshore in the Celtic Sea, and GNI must be in a position to deploy green hydrogen.

Health

With population growth and population aging, the necessity for significant health infrastructure is certain. Commitment to a new elective hospital and acute hospital in Cork must be strengthened and progressed with urgency.

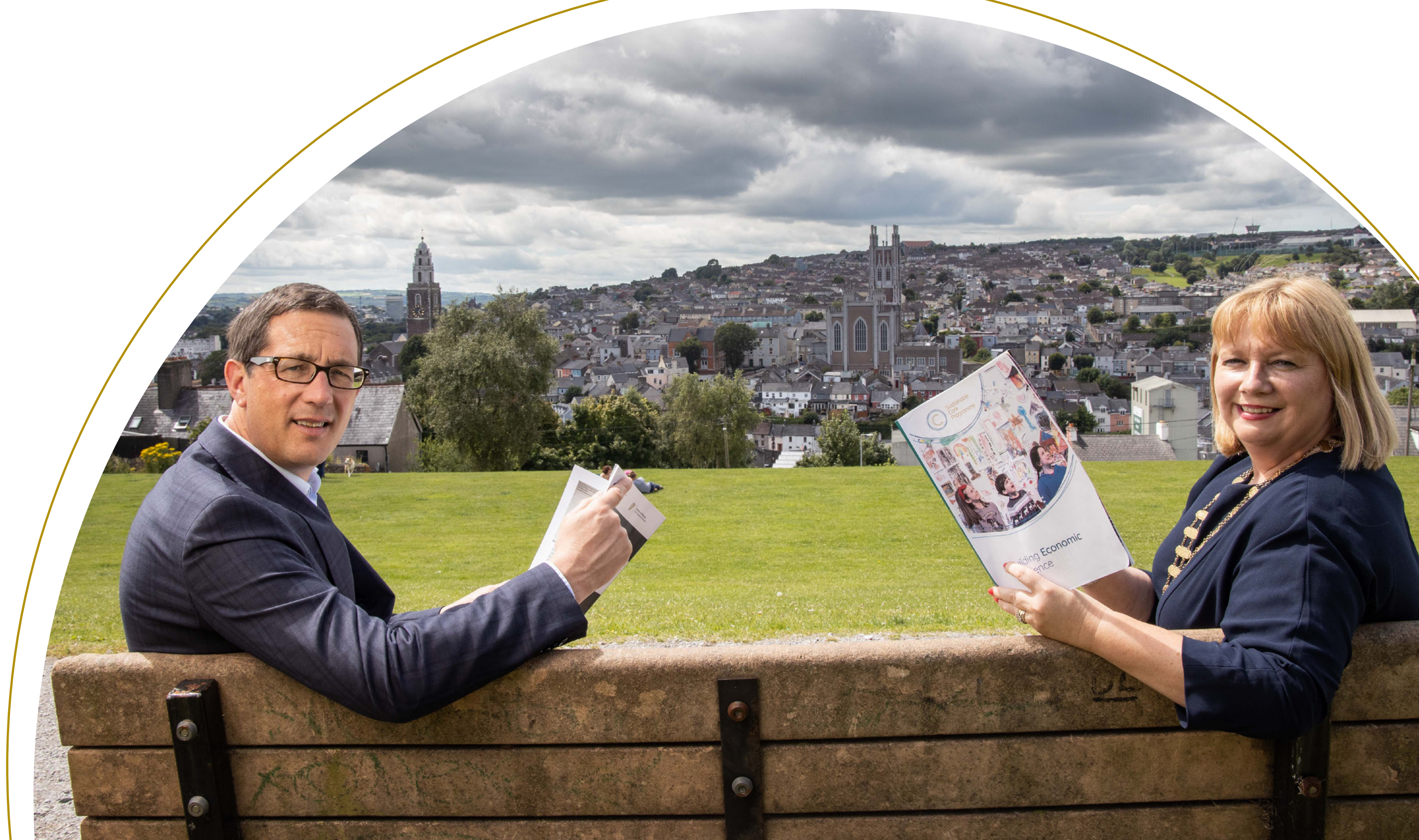
4 https://www.corkchamber.ie/wp-content/uploads/2021/03/Cork-Chamber-submission-to-IW-National-Water-Resources-Plan.pdf
5 https://www.corkchamber.ie/wp-content/uploads/2021/06/Shaping-our-Electricity-Future-Cork-Chamber-Submission-Cork-Chamber-of-Commerce.pdf

Culture

Culture and creativity remain deeply intertwined with innovation, quality of life, mental health and civic pride. The commitments to the Cork Event Centre, Crawford Art Gallery, and to creative funds and supports must be strengthened as the sector will play a significant role not only economically, but psychologically as we seek positivity and inspiration on the road to recovery.

Biodiversity

The climate emergency must be tackled from every available angle. Biodiversity should be formally recognised as state infrastructure with the multiple roles in carbon sequestration, air quality, noise pollution, mental health and countless others overtly acknowledged. A programme of similar ambition to that of the Civilian Conservation Corps in the US who planted 3.5 billion trees, and created and landscaped 711 state parks from 1933 to 1942 should be implemented. The CCC model is now outdated, but its legacy is beyond reproach. Funding should be provided for an appropriate contemporary delivery model.



Housing Stimulus

Ireland faces an acute housing crisis in which annual housing delivery is failing to meet national targets of 30,000 new units per annum with levels far in excess of this required to cover the shortfall experienced in recent years. It is essential that in the delivery of the volume required, we do not rely exclusively on urban sprawl, and that brownfield development that bolsters our towns and city is enabled.

The lack of viability of apartments continues to be a major challenge for the delivery of density targets set out in Ireland 2040, consigning the region exclusively to reliance on lower density models of development. In Cork, no private apartment development has been brought to construction since the last economic cycle over a decade ago. It is a significant economic inhibitor, damaging talent attraction, regeneration and the quality-of-life appeal of the region. The July 2020 Cork Chamber report, Building Economic Resilience, centres on economic recovery, and presents quality of life as the characteristic that will define the future of Cork.[6]

The lack of apartment viability is documented alongside a range of solutions in back-to-back reports commissioned by CIF Southern Region and Cork Chamber and completed by EY DKM in 2019 and KPMG Future Analytics in 2021[7].

The core recommendations set out in the most recent KPMG Future Analytics Report can help resolve the viability issue are:

- Reduce the rate of VAT on residential construction activity to 5% for the period up to 2030.
- Create an Urban Housing Investment Fund to invest in and secure the operation of new PRS and BTR developments.
- Utilise the Urban Regeneration and Development Fund (URDF) to subsidise site enabling costs.
- Provide a minimum tax depreciation of 4% per annum for apartment developments and explore accelerated capital allowances over 7 years for BTR and PRS that align to an environmental/social policy
- Private investment in BTR/PRS to be recognised as businesses for gift / inheritance tax purposes.

6 https://www.corkchamber.ie/wp-content/uploads/2020/07/Sustainable-Cork-Programme-Building-Economic-Resilience.pdf
7 https://www.corkchamber.ie/wp-content/uploads/2021/07/Apartment-Viability-Report-FINAL-13-July-2021.pdf

Regeneration & Development Funds

The Urban Regeneration and Development Fund and the Rural Regeneration and Development Fund must be strengthened further and align to the National Planning Framework, delivering proportionately for the vision set for Cork. The mechanism for funding must provide stronger multiannual commitment and certainty.

Business Support, Stability & Stimulus

The supports put in place over the course of the last 18 months have had an immense role in stabilising the economy and preserving business confidence, ultimately positioning the economy to evolve and become more competitive as we move beyond the pandemic. It is essential that they are now evolved in an appropriate manner, and matched with measures that not only protect sectors but mobilise entrepreneurialism and innovation.

Support

Extension of the EWSS and BRSS in a manner that continues to support only the worst effected businesses, with the establishment of a clear plan for a steady reduction and withdrawal at the point of pandemic and restriction related stability.

Extension to the waiver on commercial rates for impacted businesses with the shortfall in funding to be refunded to local authorities by central Government. This extension should be paired with more accessible criteria to enable the speedy processing of applications.

Reintroduction of a Redundancy Rebate Scheme for sole traders and SMEs for a defined period of time.

Extension of the Small Benefits Exemption to allow employers to give a voucher in 2021 up to the value of €1,000, which can be drawn down in two parts, on a tax-free basis, and will stimulate retail spend in local economies.

Extend the reduced VAT rate for hospitality & tourism businesses until the end of 2023.

Reform the "Stay and Spend" tax credit for the tourism and hospitality sector and immediately replace it with a form of local voucher that can be spent on tourism and hospitality for a defined period of time, targeted at the 'shoulder season'.

Resource state agencies to increase levels of investment in niche areas that distinguish Ireland as a destination, such as Ireland's growing potential as a place for unique and high-quality food and active sustainable tourism.

Stability

To retain certainty and stability in the Irish corporate tax rate regime by engaging in the established OECD process.

Develop an Action Plan for Trade, to increase SME engagement with international trade within and beyond the EU.

Introduce additional supports for businesses, including retail, who wish to expand their activities in e-commerce with a view to becoming more engaged in the Digital Single Market

Review and reform the existing e-working allowance to support workers and employers who are continuing to engage in remote working. Home working whether hybrid or full time will form part of our economic model, and is critical to staff retention and the reduction of commuting and associated emissions. The budget must acknowledge this new reality, which can no longer be considered a temporary pandemic related measure, and seek to simplify and reform all supportive measures.

Increase the individual tax rebate for working from home, which can currently be claimed against 10% of the costs of home working (e.g. electricity, broadband, heating).

Stimulus

Reform the Employment Investment Incentive Scheme (EIIS) via reduction of administration and simplification qualifying criteria to make it more attractive to investors, prioritise flexibility and improve investor participation.

Reduce the Capital Gains Tax rate of 33% for non-passive investment in order to promote more all-island alignment on this kind of tax policy. We recommend a rate of 25%.

Increase the lifetime limit of €1 million in qualifying capital gains under Entrepreneur Relief and provide for the same rate of tax (10%) on dividends paid to entrepreneurs from qualifying companies to encourage the growth of our indigenous enterprise base. In addition to the above proposal being an incentive to growing an indigenous business to scale. More indigenous enterprise helps to broaden the corporation tax base and mitigate the risk of over concentration and reliance on FDI.

Review and simplify the reliefs which are available, such as Retirement Relief, and integrate it within a more expansive Entrepreneurs' Relief.

Conduct further review and reform of the Key Employee Engagement Programme (KEEP) to ensure that it continues to be accessible and user-friendly.

Expand and simplify eligibility criteria for the R&D tax credit rate to medium sized enterprises.

Equality

Allocate funding to deliver equality, inclusion, diversity, and disability awareness training for organisations. A sample survey of Cork Chamber members this July has shown that while 90% agree or somewhat agree that their workplace is inclusive of all employees, 42% said their workplace has never provided DEI training.

This must be coupled with enhanced mental health services which are ever critical as people revert to a more normalised level of interaction from varied states of isolation and distancing.

Fund a workplace access programme to support labour participation for people with disabilities or disadvantage.

Reform the Reasonable Accommodation Fund so that the supports are fit for purpose in a modern workplace.

Ensure continued investment in the Early Childhood Care and Education (ECCE) to ensure it is fit for purpose to support diversity in the workforce, and functions throughout the entirety of the calendar year.

Increase investment in childcare services, early education infrastructure and schools that are reopening to facilitate breakfast clubs and after school childcare in all parts of the country to help working parents and mitigate against the reduction in supply of childcare places that has arisen from Covid-19.

Expand mentoring programmes like “Better Start” that aim to improve the quality of childcare and early childhood education.

Increased investment in services and infrastructure that enable childcare providers to expand places for children under the age of three.

The CSO reported that almost half (45%) of fathers entitled to paternity benefit did not take it in 2018.[8] Conduct a review of all state parental leave supports over the course of an individual childhood, to remove barriers to greater parenting equality.

8 https://www.cso.ie/en/releasesandpublications/er/eampb/employmentanalysisofmaternityandpaternitybenefits2016-2019/

Education & Skills Investment

A pathway must be set to increase research and development funding to 2.5% of GNP.

Support for capital projects critical to the long-term competitiveness of the MTU and UCC, including the UCC Business School, Tyndall, and the sports facilities at the MTU Bishopstown Campus must be strengthened in line with the planned growth and ambition of each institution.

Further Education and Training requires significant capital investment in the infrastructure for apprenticeships, which is currently at capacity, and expects a significant increase in areas such as construction related skills. Capital investment for online delivery is also required, to support individuals and communities where access (physical) to Further and Higher Education should be improved.

Capital funding to support the development of the FET College model as set out in the National Further Education and Training Strategy, through investment in existing and new FET facilities is required.

The current level of funding is not sufficient for additional accommodation at both primary and secondary level. The overall demographic peak is currently passing through the post primary system and will reach a peak in 2025. This combines with a major shift in the location of the population towards larger urban areas leading to acute demand.

As a result, it is the norm that new schools are opened in temporary accommodation. Government should commit additional funds to the building of schools. For example, Cork ETB is dealing with areas where the level of accommodation is significantly insufficient in East Cork, Ballincollig, Bandon and Buttevant.

Continued and enhanced support for the Regional Skills Forum.

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