SOCIETY OF CHARTERED SURVEYORS IRELAND

Public Capital Programme

Review of Priorities to 2020

May 2014

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DKM ECONOMIC CONSULTANTS

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EXECUTIVE SUMMARY

Renewed focus on construction is welcome

The Government is committed to restoring a vibrant construction sector that can contribute its full potential to sustainable economic growth and recovery and to job creation, including helping the significant number of those unemployed who previously worked in construction back into employment. The recent Construction Strategy to 2020[1] is the latest statement from Government which sets out how it intends to deliver on this commitment. Previous publications, notably the Forfás Construction Strategy and the more recent Action Plans for Jobs, have reiterated similar commitments.

This renewed focus on construction is very positive given where the industry has come from. Total output in the past six years has plummeted to an unsustainable level of just €8.7 billion in 2013 or 6% of GNP, compared with an equally unsustainable level of almost €40 billion or one-quarter of economic activity in 2006. A comparison with European norms would suggest a ratio of c12% of GNP is a more sustainable level for an economy the size of Ireland.

SCSI's own projections[2] for the volume growth in building and construction output comprise a modest increase of around 5% in 2014 and an annual average of 5.6% growth in output in the years to 2018 compared with an estimated volume growth of 4% for 2013.

Public capital investment responsible for c60% of construction output

With this in mind the role of the public sector is crucial in delivering and maintaining on this commitment. The delivery and maintenance of our national and regional infrastructure, including for example in the area of telecommunications, health, education and facilities to support enterprise and jobs, is predominantly achieved through the public capital programme (PCP). In 2013, the PCP provisions for infrastructure contributed c60% of total construction output. This reflects the contribution from both Exchequer and non-Exchequer funding sources.

This opportunity to contribute to the next review of the PCP for the period to 2020 by the Department of Public Expenditure and Reform is welcome. While knowledge of the annual PCP provisions in the multi-annual capital investment framework are important for the construction industry, the industry also needs to be confident in the knowledge that **the full Exchequer capital allocations to the individual departments are fully expended in the year in which they are allocated. Based on the Expenditure estimates to April 2014[3], the total gross capital expenditure in the first four months of 2014 was behind its planned expenditure profile by 10%.**

The prioritisation of public capital investments must be subject to strict economic criteria

Infrastructure investment leads to increased employment though cutting costs, increasing competitiveness and thus facilitating economic expansion. The full quantum of public capital investment will ultimately be determined by the infrastructure needs of the economy and the rate of economic growth in the medium-term. Critically important, however, will be the prioritisation of that infrastructure. The key criteria for the selection

1 http://www.merrionstreet.ie/wp-content/uploads/2014/05/Construction-Strategy-14-May-20141.pdf
2 http://www.scsi.ie/construction_sector_outlook_2014
3 per.gov.ie/wp.../Analysis-Gross-Voted-Expenditure-april-2014.pdf

of infrastructure projects must establish in advance that the infrastructure to be put in place will:

- Add to the productive potential of the economy;
- Address bottlenecks or cost inefficiencies in the economy;
- Provide value for money;
- Generate an economic rate of return above the cost of funding the infrastructure; and
- Will generate employment.

Moreover a robust analysis of any proposed capital investment should answer the following questions in advance, where appropriate:

- Does it tackle a substantial existing bottleneck in the economy?
- Does it provide for foreseeable future demand for increased infrastructure in the economy?
- Is it being provided at least cost to the taxpayer?
- How quickly can the infrastructure be delivered, and how controversial is it likely to be?
- Does delivery of the infrastructure utilise currently underused Irish resources, especially human capital?
- Does delivery of the infrastructure help to maintain/enhance key skills in the labour force?
- Can the project help to unwind NAMA's position in the market?
- Can the State provide regulatory certainty?

In terms of the employment impacts, research conducted for the Construction Industry Council (2009)[4] estimated that on average, every €1m spent on infrastructure projects generates approximately 10 direct and indirect man years on average. More labour intensive projects, such as house building, tend to generate a higher number of jobs.

Thus, for example, the target of 60,000 (direct and indirect) jobs set out in the Construction Strategy 2020 would require an investment in the region of €6 billion between now and 2020. This is equivalent to an average annual investment of €1 billion or 10,000 jobs each year.

There has been a substantial contraction in the Exchequer provision in the past six years

The total Exchequer capital funding has been significantly tightened in recent years compared to the c.€9bn that was invested in 2008. €3.4bn was provided in Exchequer capital funding in 2013, and this level is expected to fall slightly to €3.3bn per annum to 2016. The total Exchequer provision is €9.8bn over the three years 2014-2016, an average annual provision of €3.3 billion, down from c.€9bn annually at the peak. **This reduced level of Exchequer provision equated to 2.6% of GNP in 2013, considerably below the level of 6% of GNP witnessed near the peak**.

A review of the total public capital investment level to date show reductions in the following areas over the period 2008-2014:

- Social Housing down 26.3%
- Roads down 21.2%

[4] http://constructionindustry.ie/JobsandInfrastructure-June09-CIC-Presentation-Summary.pdf

- Public Transport down 17.6%
- 3rd level down 19.1%
- Hospitals down 7.2%
- Government construction down 13.8%

The provisions for *Housing*, for example, which peaked in 2008 (€2.21 billion) have fallen back sharply since, reflecting a much reduced allocation for local authority and social housing by 2014 (€271m.). Given the serious housing supply challenge which exists, predominantly in the Dublin area, the recent Construction Strategy 2020 must be implemented with regard to focusing on these immediate housing supply related issues and ensuring that any undue planning or other delays are addressed as quickly as possible. This will require public capital investment which may also have a role in kick starting the delivery of housing in the private sector.

The pressures for an increase in infrastructure come from a number of areas, not least of which is the growing population, which is expected to be 6.6% higher in 2021 compared with 2011. This will impact on the sustainability of infrastructure. But the over-arching requirement of public infrastructure investment must ensure that the economic impact is optimised.

The recommendations which follow also have the added impact that they support the protection and creation of jobs. Having lost almost 250,000 construction jobs throughout the economic crisis, the public capital investment framework is fundamental to Ireland's economic recovery as it can generate much needed employment opportunities while also contributing to the productive potential of the economy. The sectors which are prioritised have the capacity to deliver jobs, albeit a varying levels of employment intensity.

The sustainable level of public capital investment to 2020

Mindful of the fiscal retrenchment period which has been underway since 2008, the industry requires a consistent steady level of public capital investment over the next five years. While **6.5% of GDP** (8% of GNP) is recommended **as being the sustainable level for an economy the size of Ireland,** it is recognised that this level may not be achievable given that the fiscal situation is likely to remain a constraint into the medium-term. Accordingly the recommended projected ratio in 2020 is less than would be desirable in recognition of the fiscal situation. **This submission acknowledges the fiscal constraints which exist and projects a PCP level which corresponds to 5% of GDP (6.1% of GNP) in 2020. Moreover there is a need to front-end the investment as the industry needs the stimulus now.**

That said, with the process of fiscal consolidation well advanced and the economy on a recovery path, this may provide an opportunity to reassess previously postponed projects or pursue completely new projects which can add to the productive potential of the economy. There will also be additional funding available, of the order of €500 million per annum, as a result of the transfer of the responsibility for Water Services to Irish Water.

Recommendations

Five key priority areas of national strategic importance are selected in regard to where public capital investment should focus in the period to 2020. These are as follows:

1) Housing
2) Education
3) Health
4) Road Infrastructure and Transport Priorities

5) Commercial Office and Enterprise Facilities

From a regional perspective five separate areas are also prioritised under the following headings:

1) Broadband
2) Education (mainly Primary Schools)
3) Environment, Flood Defence and Remediation
4) Infrastructure Linkages
5) Tourism

National Infrastructure Priorities

The SCSI recommends that the delivery of **social housing** is prioritised as part of the Public Capital Programme over the next 5 years. Several mechanisms are considered to support this:

- Ring-fencing a portion of the Local Property Tax (LPT) for the provision of Social Housing or allocating a percentage of the LPT when the local authority assumes responsibility for varying the LPT rates by 2015.
- Local Authorities should be required to free up land banks or vacant sites they own for development of social housing schemes.
- Funding/incentive schemes for Repairs, Maintenance, Improvement and upgrading of derelict housing.
- PPP's with private developers to build Social Housing schemes on lands owned by the Local Authorities.
- Reduction of development contributions, local infrastructure costs and other Local Authority costs for developers of Social Housing schemes.
- Seek partnerships between Local Authorities, Housing Associations and Private Developers to build social housing as is happening in the UK.
- Separately the issue of regeneration in inner cities which was a very live issue before the property crash, in regard to Limerick, for example, should be revisited and funding mechanisms should be explored to address this critical housing requirement.

One of the main demographic challenges facing the country's infrastructure stock is in regard to our **educational building stock**. Between 2010 and 2020, approximately 104,000 additional students will enter primary schools with 37,000 of these coming in the period 2015-2020 and an additional 14,000 students at secondary level. The SCSI acknowledges the DES school building programme 2012-2017 and the progress made with the schools PPP bundles. It recommends

- Continued and sustained Exchequer and non-Exchequer investment to improve our educational infrastructure stock.
- All primary and post-primary schools are built to a modern high quality standard and are fit for purpose in line with national policy objectives regarding the importance of investment in education.
- Significantly increasing investment in 3rd level projects supporting the knowledge based economy and in particular investment in DIT Grangegorman to expedite the process as this has the potential to free up 50 additional sites which could be used for housing, health or commercial enterprise purposes. Where such investment takes places in the regions it can be a pull factor for FDI.
- Exploring alternative private finance sources to ensure a more rapid response to the provision of first class third level education and research facilities.

The **National Children's hospital** was repeatedly highlighted as a project in need of prioritisation as part of the Public Capital Programme. There is also a need for the development of **primary care facilities**. SCSI members surveyed repeatedly mentioned the need for more beds in hospitals and the upgrading of older hospital buildings. The SCSI recommends:

- An increased capital provision for the Department of Health & Children to fast-track the delivery of essential health care facilities.
- A zero rate of VAT should be applied to construction of health care facilities to encourage private financing.

The SCSI acknowledges the considerable PCP investment in the national **road** network especially in the period since 1999 and more recently in the main national routes: Dublin-Cork, Dublin- Galway and Dublin-Limerick. It further recommends:

- A prioritisation of the next stage in developing the road network, i.e. investment in infrastructure linkages between major and secondary network routes to improve the overall infrastructure including access as well as to support enterprise development and FDI.
- That the existing metropolitan area networks (MAN's) are extended to Cork and Waterford to meet existing enterprise needs of key IDA sites not currently connected.
- It is also recommended that connectivity between the major cities continues to be enhanced and that scheduled PPP projects are initiated and completed.

The SCSI recommends that development is undertaken by agencies such as IDA to begin measured speculative development of commercial space in key strategic regions. The SCSI acknowledges that IDA has announced its intention to resume building in regional locations including Athlone and Waterford and recommends the prioritisation of **more building in strategic areas**, particularly on a regional level with job creation potential.

The SCSI welcomes measures in Construction Strategy 2020 for the IDA to work with the Ireland Strategic Investment Fund (ISIF) and agrees that the solutions to the shortage of office space requires "public and private sector co-operation and initiatives."

While the SCSI acknowledges the considerable efforts made by Government in addressing the access to finance issue for SMEs in successive Action Plans for Jobs, it considers that there should be a capital provision for the development of more **incubator units for start-up companies**, especially in the regions, to support job creation.

Regional Priorities

The SCSI considers the lack of fast 3G/4G **broadband** to be a real threat to sustainability and economic growth. The timely delivery of broadband services across the country is a key priority in terms of enterprise development and is essential to realising future growth potential in existing and emerging sectors. It is also essential from an FDI perspective in supporting multinational firms considering Ireland as a location.

In regard to **primary schools**, the SCSI feels strongly that where temporary pre-fabricated accommodation exists in primary schools these should be replaced with proper structures. More generally the SCSI remains of the opinion that major improvements are still required to many schools around the country.

The existing **Summer Works programme** is of the order of €40 million this year. This programme is vital for construction SMEs providing them with the opportunity to undertake vital small and medium scale improvement works during the summer months. The SCSI recommends a further increase in this provision which is likely to be a very labour intensive initiative.

The recent floods have provided evidence that Ireland's **flood defences** are not adequate and this should be prioritised under the Public Capital Programme. The SCSI recommends:

- That the level of funding should be increased to ensure that adequate flooding defences in flood risk areas are rolled out around the country.
- The development of an effective flood management policy and operational programmes to manage existing risk.
- Remediation programmes should be fast tracked.
- The usage of strategic information monitoring and analysis programmes and 'early warning' technology such as those used in the UK to predict flooding.

In addition to national infrastructure road and transport linkages, there is a need to ensure that **local transport infrastructure** deficits are met through the Public Capital Programme 2015-2020. The SCSI recommends that

- Local transport infrastructure projects are prioritised to ensure that local enterprise facilities are supported by an integrated transport network to enhance the attractiveness of regions to FDI.
- Planning delays should be reduced for local transport infrastructure projects.
- The Environmental Impact Statement process should be streamlined.
- Local construction SME's should have a role in these projects and some weighting should be given to local job creation and sustainability in procurement decisions for local infrastructure.

The SCSI recommends that **tourism initiatives** to build on the success of the Gathering are prioritised, particularly at a regional level to support local economies and local employment.

The SME sector has a vital contribution to make to the delivery of capital projects and infrastructure and the social clauses on the Grangegorman and Water Metering projects that require managing contractors to include a percentage of employees of small companies (companies with fewer than 50 employees and an annual turnover not exceeding €25m) are fundamental to sustaining the SME construction sector and should apply to all major projects. There is also a need to reform and streamline public procurement procedures to assist SMEs and also ensure that SMEs can participate in larger projects.

The SCSI recommends that all potential alternative sources of finance should continue to be investigated with a view to supplementing the government expenditure provisions already provided for.

The SCSI also recommends a streamlining of the procurement processes to focus on delivery and also the use of BIM on projects where appropriate.

Figure A: Projected PCP as a Proportion of GDP and GNP in 2020

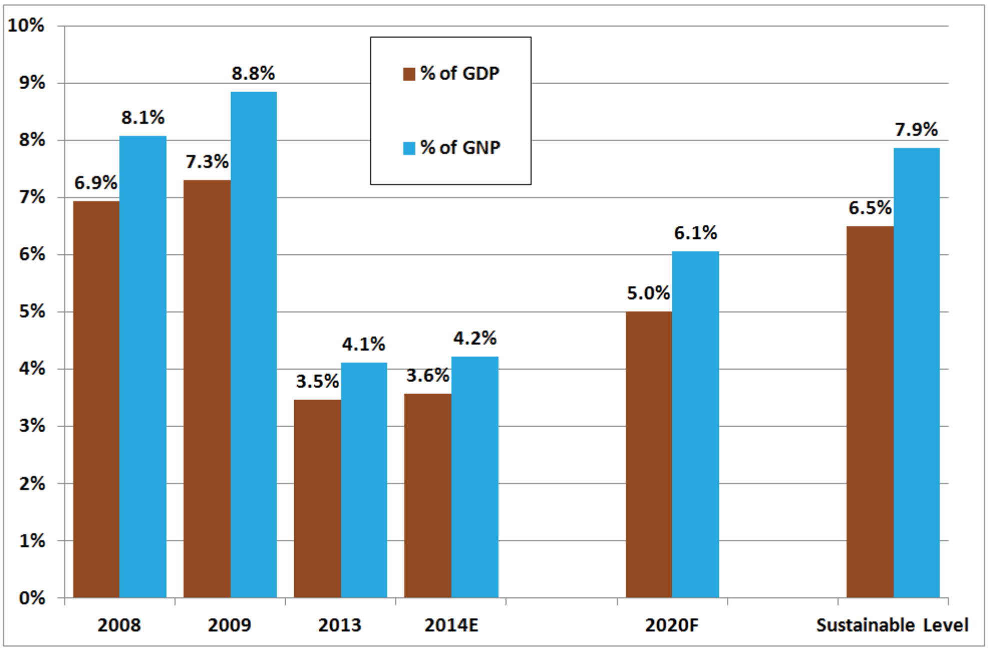

Table A: Projected PCP as a Proportion of GDP and GNP in 2020

€million	2008	2009	2013	2014E	2015F	2016F	2020F	PCP/GDP or GNP)
PCP	12,496	11,849	5,684	6,021	N/A	N/A	10,940	14,222
of which								
Exchequer	8,915	7,210	3,443	3,335	3,252	3,255	6,564	8,752
Non-Exchequer	3,581	4,639	2,241	2,686	N/A	N/A	4,376	5,470
GDP (Current Prices, €m.)	180,249	162,284	164,050	168,375	174,450	181,925	218,803	
% of GDP								
PCP	**6.9%**	**7.3%**	**3.5%**	**3.6%**	**N/A**	**N/A**	**5.0%**	**6.5%**
Exchequer	4.9%	4.4%	2.1%	2.0%	1.9%	1.8%	3.0%	4.0%
Non-Exchequer	2.0%	2.9%	1.4%	1.6%	N/A	N/A	2.0%	2.5%
GNP (current prices, €m.)	154,933	133,919	137,917	142,425	147,050	152,700	180,690	
% of GNP								
PCP	**8.1%**	**8.8%**	**4.1%**	**4.2%**	**N/A**	**N/A**	**6.1%**	**7.9%**
Exchequer	5.8%	5.4%	2.5%	2.3%	2.2%	2.1%	3.6%	4.8%
Non-Exchequer	2.3%	3.5%	1.6%	1.9%	N/A	N/A	2.4%	3.0%

Source: Revised Estimates for Public Services, 2009, 2010 and 2014.
GDP and GNP to 2018 from Stability Programme April 2014 Update
2020 GDP and GNP are DKM estimates.

1. INTRODUCTION

1.1 BACKGROUND

There has been a sustained improvement in sentiment in the construction industry since the middle of 2013. Following an extreme contraction in the volume of activity over the past six years, it would appear that this somewhat upbeat mood can be attributed to a number of factors, not least of which has been the number of positive announcements since July 2012 in regard to a number of additional measures to stimulate the construction industry.

The Government is committed to restoring a vibrant construction sector that can contribute its full potential to sustainable economic growth and recovery and to job creation, including helping the significant number of those unemployed who previously worked in construction back into employment. The recent Construction Strategy to 2020[5] is intended to deliver on this commitment. The Strategy contains 75 individual measures across a range of issues covering the housing and commercial property sectors, planning issues, access to finance, education and training for the sector, competitiveness, innovation and internationalisation.

The Strategy builds on previous measures set out in the 2013 Forfás Strategy[6] which acknowledged that:

> *"continued investment in productive infrastructure and appropriate reprioritisation of deferred projects not only deliver broad economy benefits, they also provide much needed employment in construction, retain and develop construction expertise and capacity…"*

Similarly the 2014 Budget and the 2014 Action Plan for Jobs[7] also contained a range of encouraging initiatives for the construction sector. The Minister for Public Expenditure and Reform has also stated that a further programme of capital investment is to be announced in 2014, following a review of the State assets sales programme. The reality is that the public sector has a key role to play in kick starting the construction recovery and restoring a vibrant construction sector. In this regard this invitation to the Society of Chartered Surveyors Ireland (SCSI) from the Department of Public Expenditure and Reform to garner views on the capital investment priorities for the next five years is welcome.

The public capital programme is a key component of the construction industry and in the period since the crash, given the absence of private sector investment, has accounted for c60% of total construction output. It has been the only component of the construction sector making a contribution to building and construction

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5 http://www.merrionstreet.ie/wp-content/uploads/2014/05/Construction-Strategy-14-May-20141.pdf
6 http://www.forfas.ie/media/19072013-Irelands_Construction_Sector-Publication.pdf
7 http://www.djei.ie/publications/2014APJ.pdf

investment in that time. The PCP provisions can also be responsible for kick starting much needed private sector investment and job creation, when the timing is right. Thus, notwithstanding the significantly reduced public capital provisions since 2008, it is essential that the full Exchequer capital allocations to the individual departments are fully expended in the year in which they are allocated. Based on the Expenditure estimates to April 2014[8], the total gross capital expenditure in the first four months of 2014 was behind its planned expenditure profile by 10%.

DKM Economic Consultants in conjunction with the SCSI have prepared this submission, which is structured as follows:

Section 2 provides the context for this submission and includes an analysis of the priorities in the PCP over the last decade 2004-2014. The current allocations in the multiannual programme to 2016 as per the Revised Estimates for Public Service 2014[9] are also included. The role of non-Exchequer expenditure in the past decade is highlighted.

Section 3 examines the key criteria, from an economic perspective, which should be taken into account in prioritising public sector projects. The issue of alternative sources of finance is also examined.

Section 4 considers the key priorities for the next five years in conjunction with the findings from a SCSI survey undertaken specifically for this purpose. Recent trends in tender prices are presented as is the sustainable PCP/GDP (and GNP) ratio.

The Executive Summary contains the conclusions and recommendations.

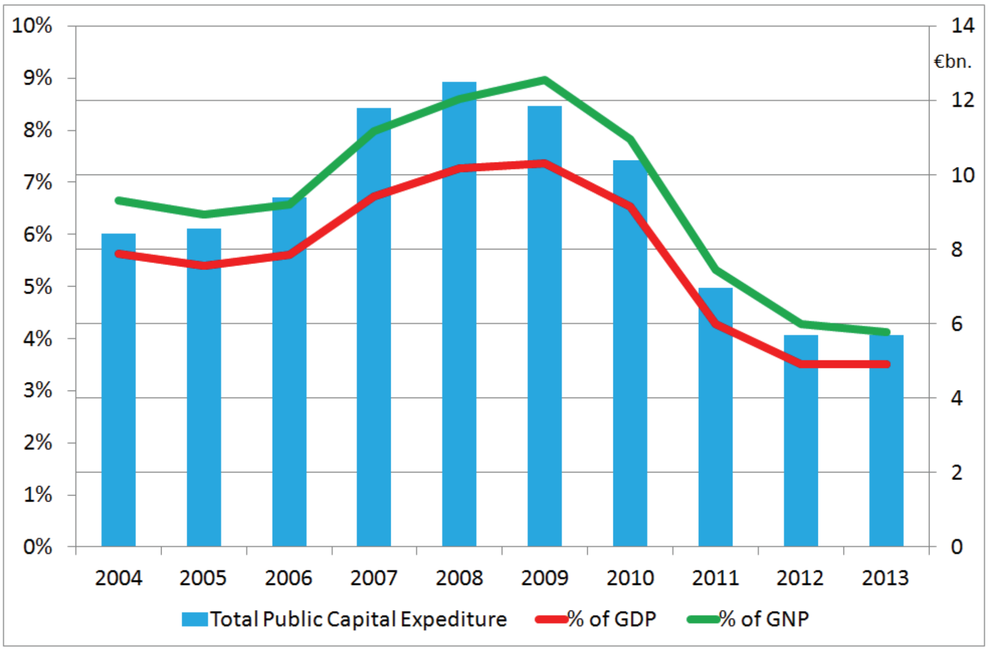
[8] per.gov.ie/wp.../Analysis-Gross-Voted-Expenditure-april-2014.pdf
[9] http://www.per.gov.ie/estpubexp2013/

2. PUBLIC CAPITAL EXPENDITURE REVIEW

2.1 TRENDS IN PUBLIC CAPITAL EXPENDITURE

Public Capital Expenditure, which consists of both Exchequer and non- Exchequer based investment, is the main driver of funding for infrastructure in Ireland. Over the period 2004-2014, the level of Irish capital investment experienced a strong increase before declining significantly with the onset of the financial and economic crises. As demonstrated by Figure 2.1, the level of Public Capital Expenditure relative to both GNP and GDP was quite steady between 2004 and 2006, but then expanded rapidly up to a peak in 2009. This expansion had very positive consequences for the construction sector in Ireland with total output in the sector accounting for 23.8% of total economic activity (GNP) in 2006. The corresponding exceptional demand for residential and non-residential buildings from the private sector meant the economy overheated with adverse consequences for construction capacity and inflation.

Figure 2.1: TOTAL IRISH PUBLIC CAPITAL EXPENDITURE IN NOMINAL TERMS, AND RELATIVE TO GDP & GNP, 2004-2013



Source: CSO and Multi- Annual Capital Investment Frameworks, 2013-2016 & 2014-2016

Although in absolute terms total public capital expenditure peaked in 2008, the peak in investment relative to national output was in 2009 (8.8% of GNP), due to downturns in GNP (-9.1% in 2009) and GDP (-6.4% in 2009). Capital expenditure levels remained at a relatively high level in 2009 and 2010 but fiscal consolidation led to a severe cut back in the level of capital expenditure from 2010 onwards which resulted in a reduction relative to both GNP and GDP between 2011 and 2013. As with the initial expansion in expenditure, this contraction also had substantial side-effects for the domestic construction sector.

When combined with the severe contraction in private sector investment over this period, both led to an unprecedented decline in the volume of construction output of 50% between 2009 and 2013[10]. Thus by 2013 total public capital expenditure relative to GNP (and GPD) had fallen to 4.1% (3.5% of GDP) compared with almost 9% (7.3% of GDP) at the peak. A more 'normal' equilibrium ratio of public capital investment relative to GNP (and GDP) is likely to be somewhere in between these two extremes. Taking the mid-point would suggest a ratio of public capital expenditure to GNP of 6.5% (5.4% of GDP).

The industry requires a consistent steady level of public capital investment over the next five years which is considered to be above these levels. Thus while a ratio above 6.6% of GNP is recommended (Section 4.9), it is recognised that a higher level may not be achievable given that the fiscal situation is likely to remain a constraint into the medium-term. Accordingly the projected ratio of PCP to GNP in 2020 is less than would be desirable at 6.1% of GNP (5% of GDP) in recognition of the fiscal situation (Section 4.9). Moreover there is a need to front-end the investment as the industry needs the stimulus now.

Substantial funds were allocated to the public capital programme during the Celtic Tiger years. The level of public capital expenditure had steadily increased in nominal terms from €8.4bn to €12.5bn in the four years between 2004 and 2008, albeit the economy expanded until 2007 but contracted by 2.2% (real GDP) in 2008. However, as demonstrated in Figure 2.1, this nominal figure has since fallen by 54.5% to €5.7bn in 2013 as the economy subsequently suffered a deep recession.

2.2 THE MAIN INFRASTRUCTURE SECTORS IN THE PCP

The Public Capital Programme (PCP) outlines the planned capital investments of the State, local authorities and semi-state bodies across various sectors of the economy. It encompasses investments by both Exchequer and non-Exchequer sources, including the European Union (EU), and includes spending on social and productive infrastructure.

The main areas of public capital investment in the PCP are broadly defined under three main headings:

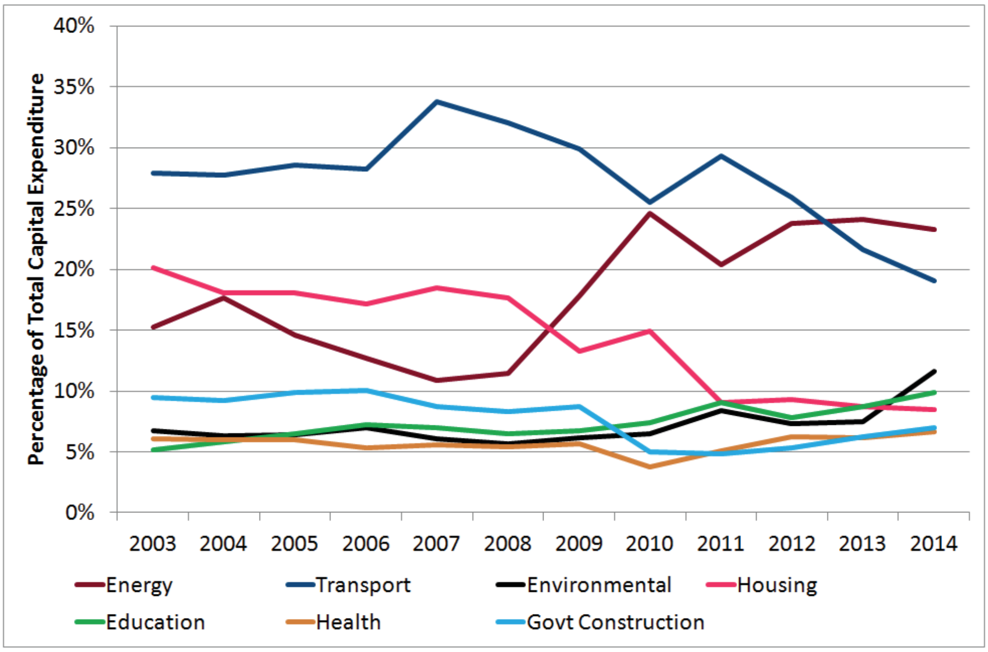
1) **Sectoral Economic Investment**: Agriculture, Food, Forestry, Fisheries, Industry and Tourism;
2) **Productive Infrastructure**: Energy, Transport, Environmental Services and Postal Services; and
3) **Social Infrastructure**: Housing, Education and Skills, Health and Children and Government Construction.

The main infrastructure sectors accounted for almost 90% of the total PCP....

[10] Notwithstanding the fact that the total PCP relative to economic output peaked in 2009, the volume of total output in the construction industry declined by 65.3% between 2007 and 2013 (DKM estimate).

The seven sectors highlighted in Figure 2.2 have accounted for an average of 87.8% of total public capital investment between 2003 and 2014. The total public capital expenditure fell by more than a half in nominal terms between 2008 and 2012. Based on a DKM analysis of the construction impact of this investment, it is estimated that approximately 75% goes into the construction sector.

Figure 2.2: Percentage of Total Provisions Designated to Specific Sectors under the Public Capital Programme (PCP), 2003-2014



Sources: Multi- Annual Capital Investment Frameworks, 2013-2016 & 2014-2016

....but declined to 81.2% of the total PCP in 2014

In relation to nominal funding for specific sectors, Table 2.1 outlines the components of investment in the main construction related sectors of the economy. The seven sectors included in the table currently account for c.73.5% of PCP spending in Ireland, and are forecasted to invest a combined €4.4bn in 2014. Such proportions of total PCP investment are slightly below the peak of 2008, while total nominal expenditure in the seven sectors has fallen more than 55% below the equivalent figure for that year.

The categories excluded from Table 2.1, representing €1.6bn in 2014, are mainly classified under Sectoral Economic Investment in the PCP and represent the provisions for Agricultural and Food, Industry, Tourism, Fisheries and Forestry. Much of the provisions under Sectoral Economic Investment are for programmes which do not impact on construction, such as agricultural development (e.g. grants for marketing and processing), the development of science and technology and capital grants to industry from IDA Ireland and Enterprise Ireland and the promotion of tourism and forestry.

Table 2.1: Public Capital Programme (PCP) Expenditure by Sector 2004, 2008 & 2012-2014

	2004	2008	2012	2013	2014	Average 2004-'14
Energy	**€m**	**€m**	**€m**	**€m**	**€m**	**€m**
ESB	1,447	960	765	864	1,086	1,024
EirGrid	-	148	264	90	40	136
Bord na Mona	24	36	43	114	104	64
Bord Gais	292	438	224	248	102	261
Energy Sub- Total	*1,763*	*1,582*	*1,295*	*1,316*	*1,333*	1,458
Transport						
Roads	1,766	2,488	886	594	597	1,266
Public Transport	628	1,079	296	321	338	532
State/ Reg. Airports	133	478	71	71	70	165
Transport Sub- Total	*2,527*	*4,045*	*1,253*	*985*	*1,005*	1,963
Environment						
Water Services	439	591	394	408	669	500
Waste Facilities	41	23	11	11	6	19
Environment Sub- Total	*481*	*615*	*405*	*419*	*675*	519
Housing						
Social Housing	1,204	1,694	387	273	271	766
Housing Loans	518	627	86	184	201	323
Housing Grants	73	78	53	35	39	56
Housing Sub- Total	*1,795*	*2,400*	*526*	*492*	*511*	1,145
Education						
Schools	389	586	347	357	475	431
Third Level	98	184	87	65	52	97
PPP Costs	36	44	13	72	66	46
Education Sub- Total	*522*	*814*	*447*	*494*	*593*	574
Health						
Hospitals	444	544	326	305	349	393
Health Sub- Total	*444*	*544*	*326*	*305*	*349*	393
Govt Construction						
Govt. Construction	773	1,033	302	356	423	577
Govt. Constr. Sub- Total	*773*	*1,033*	*302*	*356*	*423*	577
Grand Total	**8,305**	**11,034**	**4,555**	**4,367**	**4,888**	6,630
Total PCP	9,541	12,495	5,699	5,683	6,021	7,888
% of Total PCP	*87.0%*	*88.3%*	*79.9%*	*76.8%*	*81.2%*	*82.6%*

Sources: Public Capital Programmes 2004, 2008 and 2014.

Roads, Electricity, Housing and Water Services the priorities in the past decade although the provisions are down significantly since 2008

Based on the average levels of expenditure over the period 2004-2014, the key infrastructure priorities, determined by expenditure of €500m per annum on average, comprised investment in roads, the electricity distribution and transmission network, power stations and wind farms (ESB), social housing and water services. The average expenditure in the education sector as a whole (€574m) falls within this definition but the average investment in health and hospital infrastructure falls outside the per annum threshold at just €393m.

Table 2.2 provides the annual average rates of change in public capital expenditure across the main sub-sectors for the last decade (2004-2014), since the peak (2008-2014) and in 2014. Based on the figures presented:

- *Water Services* has consistently recorded an increase in its capital provision, with the substantial annual increase in 2014 Vs. 2013 reflecting the provisions for the establishment of Irish Water, the new State water utility company which took over the water investment maintenance programmes of the 34 existing local authorities on a phased basis, from January 2014.

- *Energy* now accounts for the largest proportion of public capital investment, and this is driven in the most part by increasing expenditure by the ESB (€1.1bn in 2014), despite vast reductions in investment by Eirgrid.

- The levels of expenditure in *roads* and *public transport* peaked in 2008 and have fallen back each year until 2014 when the provisions were increased again, especially for public transport. The total expenditure on roads and public transport is below €1bn in both 2013 and 2014, compared with €2.2bn at the peak.

- The provisions for *Housing*, which peaked in 2008 (€2.21 billion) have fallen back sharply since, reflecting a much reduced allocation for local authority and social housing by 2014 (€271m.). The other two main components, housing loans and grants are up by 9.1% and 10.3% respectively this year. Housing loans comprise loan finance provided by the Housing Finance Agency to local authorities and voluntary bodies for housing and related purposes. The local authorities are responsible for the housing grants programme which are paid under the Disabled Persons and Essential Repairs Grants Schemes and are required to meet one-third of the maximum grant available from their own resources.

- Both *Education* and *Health*, notably the primary and second level school building programme and hospitals have received a capital injection in 2014, possibly a reflection of the additional funds allocated in the July 2012, while schools also received additional funding in the subsequent stimulus plan announced in June 2013. The reduction in the provision for third level facilities in 2014 is 21% or €51.5 million and compares with close to €185 million at the peak in 2008.

- Although not shown in the Table, investment in *Regional Broadband and Technology* and related infrastructure which has long been identified as important to the promotion of regional development, has seen a reduction in the total capital provision since 2008 until 2013 when the provision was increased by 70%.

Table 2.2: Public Capital Programme (PCP) Expenditure by Sector: Average Annual Rates of Change 2004-2014

	2004-2014	2008-2014	2013-2014
	Average annual % change in capital provisions		
Energy			
ESB	-2.8%	**+2.1%**	**+25.7%**
EirGrid	-	-19.5%	-55.4%
Bord na Mona	+15.8%	**+19.4%**	-8.4%
Bord Gais	-10.0%	-21.6%	-58.9%
Energy Sub- Total	-2.8%	-2.8%	**+1.2%**
Transport			
Roads	-10.3%	-21.2%	**+0.6%**
Public Transport	-6.0%	-17.6%	**+5.3%**
State/ Regional Airports	-6.2%	-27.4%	-1.4%
Transport Sub- Total	-8.8%	-20.7%	**+2.0%**
Environment			
Water Services	+4.3%	**+2.1%**	**+63.9%**
Waste Facilities	-17.2%	-19.7%	-40.6%
Environment Sub- Total	+3.5%	**+1.6%**	**+61.3%**
Housing			
Social Housing	-13.9%	-26.3%	-0.8%
Housing Loans	-9.0%	-17.3%	**+9.1%**
Housing Grants	-6.2%	-11.1%	**+10.3%**
Housing Sub- Total	-11.8%	-22.7%	**+3.7%**
Education			
Schools	+2.0%	-3.4%	**+33.1%**
Third Level	-6.2%	-19.1%	-21.0%
PPP Costs	+6.3%	**+7.0%**	-8.7%
Education Sub- Total	+1.3%	-5.2%	**+19.8%**
Health			
Hospitals	-2.4%	-7.2%	**+14.5%**
Health Sub- Total	-2.4%	-7.2%	**+14.5%**
Govt Construction			
Govt. Construction	-5.9%	-13.8%	**+18.8%**
Govt. Construction Sub- Total	-5.9%	-13.8%	**+18.8%**
Grand Total	**-5.2%**	**-12.7%**	**+11.9%**
Total PCP	*-4.5%*	*-11.5%*	*+5.9%*

Sources: Public Capital Programmes 2004, 2008 and 2014.

The turnaround in public capital expenditure in 2014, albeit from an exceptionally low and unsustainable level, is a welcome development. With the process of fiscal consolidation well advanced and the economy on a recovery path, this may provide an opportunity to reassess previously postponed projects or pursue completely new projects which can add to the productive potential of the economy. However the point is reiterated here in regard to ensuring that the full capital allocations are spent in the year in which they are provided to ensure that capital projects have their maximum impact on the construction sector and are delivered as efficiently as possible.

2.3 EXCHEQUER CAPITAL EXPENDITURE TO 2016

Information on the Exchequer capital provisions for the main Government departments is published in the Multi-annual Capital Investment Framework (MACIF), the latest of which provides projections out to 2016. However there is no detail available on the breakdown of the expenditure within each department. Moreover, the projections are normally made on a 'no policy change' basis.

The total Exchequer capital funding has been significantly tightened compared to the c.€9bn that was invested in 2008. €3.4bn was provided in Exchequer capital funding in 2013, and this level is expected to fall slightly to €3.3bn per annum to 2016. The total Exchequer provision is €9.85bn over the three years 2014-2016, an average annual provision of €3.3bn. In previous MACIFs the average annual Exchequer provision was €4bn in 2011 which was down from c.€9bn at the peak. This reduced level of Exchequer provision equated to 2.5% of GNP in 2013, considerably below the levels in excess of 5% of GNP witnessed near the peak.

Table 2.3: MULTI-ANNUAL CAPITAL INVESTMENT FRAMEWORK: EXCHEQUER PROVISION 2011-2014

€million	2011	2012	2013	2014	2015	2016
2011 EPS	4,654	4,300	3,900	3,500		
2011 (Nov)*		3,935	3,373	3,253	3,253	3,253
2012 REPS		3,962	3,407	3,236	3,250	3,253
2013 REPS			3,431	3,230	3,252	3,255
2014 REPS				3,339	3,252	3,255
€million	2011-2014	2012-2016	2013-2016	2014-2016		Average Annual
2011 EPS	16,354					4,089
2011 (Nov)*		17,067				3,413
2012 REPS		17,108				3,422
2013 REPS			13,168			3,292
2014 REPS				9,846		3,282

Source: EPS = Estimates for Public Services
REPS = Revised Estimates for Public Services
* Infrastructure and Capital Investment 2012-2016, November 2011.
Department of Public Expenditure and Reform

The analysis of the PCP over the last decade showed that specific departments have traditionally dominated the government's capital expenditure, and will continue to do so in the medium-term. Of the €4bn Exchequer investment in 2012, a combined 53.1% was accounted for by the Department of Transport, Tourism & Sport and the Department of the Environment, Community & Local Government.

Table 2.4: Top Five Government Departments by Proportions of Total Exchequer Capital Expenditure, 2012-2016

	2012	2013	2014	2015	2016
Education & Skills	10.9%	12.1%	16.4%	14.6%	12.7%
Environment, Community & Local Govt	21.7%	21.2%	10.8%	10.2%	10.3%
Health	10.0%	11.6%	11.7%	12.0%	12.0%
Jobs, Enterprise & Innovation	13.0%	13.3%	13.2%	14.0%	13.9%
Transport, Tourism & Sport	31.4%	26.2%	29.4%	25.2%	25.1%
Total	**87.0%**	**84.3%**	**81.5%**	**75.9%**	**74.0%**
Total Exchequer Funding (€bn)	**4.0**	**3.4**	**3.3**	**3.3**	**3.3**

Source: Multi- Annual Capital Investment Framework 2014-2016

This dominance is a reflection of past trends but, as illustrated by Table 2.4, will decline as these departments incur large reductions in their allocations from the government's capital budget up to 2016[11]. A total of 87.0% of the capital budget was assigned to the five highlighted departments in 2012, but this figure is projected to reduce to 74.0% by 2016 as funding is diverted to other departments.

2.4 Non- Exchequer Capital Expenditure

With regards to expenditure outside of the multi-annual capital investment framework, known as non- Exchequer based capital investment, this area comprises of capital funding from the resources of semi- state agencies, local authorities and external creditors (EU receipts). Non- Exchequer investment has also experienced a severe contraction since the onset of the recession. The total non-Exchequer capital provision declined to €2.11bn in 2013 from €8.9bn at the peak (2008). The first increase (+22.6%) in non-Exchequer capital expenditure is expected this year with a provision of €2.59bn.

In the area of productive infrastructure, Bord Gáis Éireann (-€336.0m) and Eirgrid (-€107.7m) accounted for the greatest reductions in the *energy* sector in 2014 relative to 2009, but this was partly offset by increased investment by the ESB (+€126.0m) and Bord na Mona (+68.3m) over the same period. In *transport,* capital provisions fell across the board; state airports' funding fell by the largest amount in nominal terms (-€562.0m), while CIE (-€20.4m), the Railway Procurement Agency (-€40.0m) and the Irish Aviation Authority (-€16.0m) accounted for sizeable declines in capital expenditure. *Water services*—which will be governed by the newly established, non- Exchequer entity of Irish Water—*have* provided a stimulus to

[11] The reduction in the capital expenditure provision for DECLG is partly due to the transfer of the responsibility for Water Services to Irish Water on a phased basis, from January 2014.

productive infrastructure as an extra €75.0m will be spent in this area in 2014 compared to 2009.

In relation to social infrastructure, this category has also experienced reductions in non- Exchequer capital provisions following a highpoint in 2008. The capital provision available for *social/ local authority housing* is down by €350m over the period, with house purchase/ improvement loans down by €417m. Such marked contractions in capital allocation will have acted to further restrict the opportunities for recovery in the housing and construction markets in Ireland. Given the large capital expenditures on such areas during the economic boom, these reductions will have added to the severity and nature of the crash in the construction sector.

3. PRIORITISING PUBLIC SECTOR PROJECTS

This section examines the rationale for undertaking public infrastructure investments and sets out a number of criteria for evaluating public sector projects. But firstly it briefly sets out the macroeconomic context which should inform the review of investment priorities. Alternative sources of funding are also reviewed.

3.1 MACROECONOMIC CONTEXT

It has been shown how the challenging fiscal situation since 2008 necessitated a sharp cutback in the public capital provisions for infrastructure with the PCP shrinking to just 4.3% of GNP in 2013 from almost 9% at the peak. As a result of the lower level of economic activity which prevailed from 2008 onwards compared with the boom period, the demand for infrastructure was reduced. A number of projects were either postponed or deferred on the understanding that when the economy recovered, such projects might be re-evaluated. Clearly the next phase of public investment will need to reflect the improving economic prospects which can be expected to generate the opportunity to accelerate the provision of public capital investment in the next five years.

GDP, GNP and Investment

The preliminary outturn figures for 2013 show that GDP decreased by 0.3% in real terms when compared to 2012. GNP increased by 3.4% over the same period. It is worth noting these figures are based on preliminary estimates only and that they may be revised either up or down when the final figures are released in June 2014.

Despite the disappointing results for 2013 GDP, recent forecasts show that both GDP and GNP are expected to record positive growth over the medium term. Table 3.1 sets out the most recent GDP and GNP forecasts from the Central Bank, the Department of Finance and the ESRI. The Central Bank and the Department of Finance are expecting GNP growth of 2.7% and GDP growth of around 2% in 2014. The ESRI is more optimistic, predicting an increase of 3.5% for GNP and 2.6% for GDP.

Table 3.1: GNP AND GDP FORECASTS

Annual % changes	2014		2015		2016		2017		2018	
	GNP	GDP	GNP	GDP	GNP	GDP	GNP	GDP	GNP	GDP
Central Bank	2.7	2.0	2.6	3.2	n/a	n/a	n/a	n/a	n/a	n/a
Dept. of Finance	2.7	2.1	2.3	2.7	2.5	3.0	2.7	3.5	2.7	3.5
ESRI	3.5	2.6	3.7	3.5	n/a	n/a	n/a	n/a	n/a	n/a

Domestic demand is expected to make a positive contribution to this growth in 2014 for the first time since 2007. While improving employment figures are expected to result in increased consumer expenditure, the bulk of the growth in domestic demand is expected to come from gross capital formation. As displayed in Table 3.2, the Central Bank, Department of Finance and the ESRI all project double digit growth rates in 2014 and 2015. It is worth noting that these increases are from a low base and that the growth rate is likely to moderate over time. This is reflected in the Department of Finance's medium term projections as they see investment recording real growth of 7.5% in 2016 and 2017 before falling back to 6% in 2018.

Table 3.2: Gross Fixed Capital Formation Projections

Annual % changes	2014	2015	2016	2017	2018
Central Bank	11.1	10.2	n/a	n/a	n/a
Department of Finance	15.4	12.4	7.5	7.5	6.0
ESRI	9.6	10.4	n/a	n/a	n/a

Building and construction is an important aspect of the overall capital formation figures. As Table 3.3 show, the Central Bank projects investment in this area to increase by 12% in 2014 and 10.3% in 2015. The ESRI is more optimistic, projecting growth of 15.2% in 2014 and 15.8% in 2015. As is the case with the overall capital formation figures, these growth rates are from a very low base and can be expected to moderate over time. Much of the growth may reflect the anticipated recovery in private residential construction, although the public sector is likely to also play a role in the recovery of non-residential construction.

Table 3.3: Building and Construction Projections

Annual % changes	2014	2015
Central Bank	12.0	10.3
Department of Finance	n/a	n/a
ESRI	15.2	15.8

The above figures compare with the SCSI's own projections[12] for the volume growth in building and construction output comprising a modest increase of around 5% in 2014, and an annual average of 5.6% growth in output in the years to 2018 compared with an estimated volume growth of 4% for 2013.

Demographics

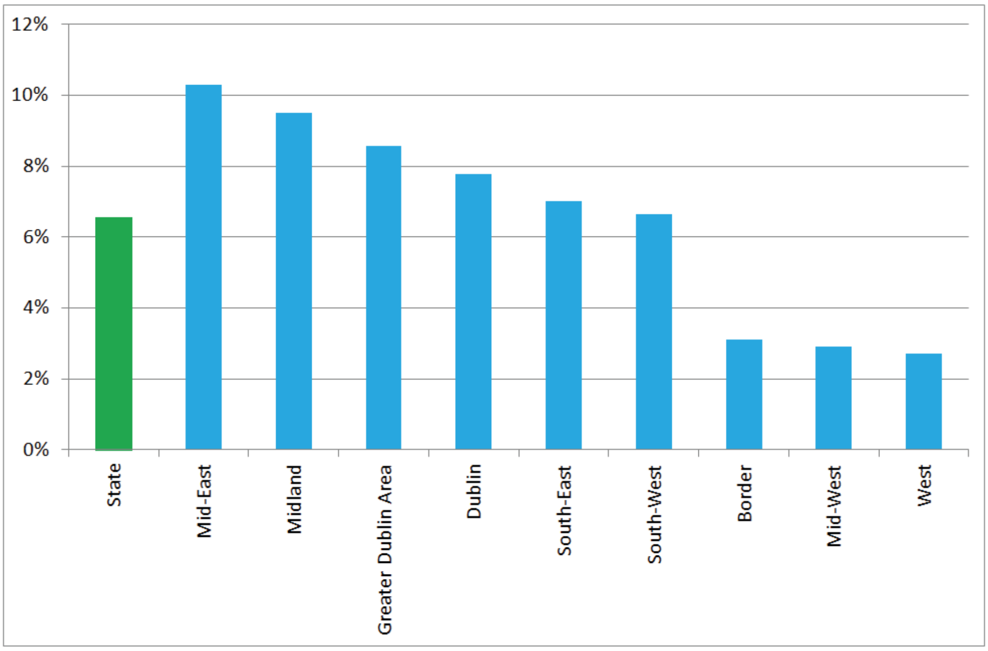
Ireland's total population numbered 4.575 million at the time of the last census in 2011. According to the CSO's population projections, this is expected to increase to 4.69 million by 2016 and to 4.89 million by 2021. Therefore, the population in 2021 is expected to be 6.6% greater in 2021 than it was in 2011 and this will have an impact on the sustainability of our infrastructure.

Increases are expected across all regions, with the Mid-East expected to experience the greatest increase. Here, a 10.3% increase from 534,000 people to 589,000 people is expected over the 2011 – 2021 period. This is followed by the Midlands

[12] http://www.scsi.ie/construction_sector_outlook_2014

(+9.5%) and the Greater Dublin Area (+8.6%). Dublin, the largest region in terms of population is expected to experience an increase of 7.8% over the same time period, taking the population here from 1.26 million in 2011 to 1.36 million in 2021.

Figure 3.1: PROJECTED REGIONAL POPULATION GROWTH 2011-2021



Source: CSO Regional Population Projections to 2031

This growth in population will drive demand across a range of public sector areas, notably housing, education, schools, health, transport and the environment.

Investment in infrastructure during the boom years

In determining priorities for the next five years it is important to also acknowledge the unprecedented level of investment in infrastructure during the boom period. This investment can give rise to necessary renovation and refurbishment works which can create opportunities for SMEs in the construction sector.

While the projected level of public capital expenditure over the next five years is generally set as a proportion of GNP, the quantum of expenditure should be determined with reference to a number of criteria which are set out below.

3.2 PUBLIC INFRASTRUCTURE INVESTMENTS - MAXIMISING ECONOMIC IMPACTS

The over-arching requirement of public infrastructure investment is that the economic impact is optimised. This is particularly relevant when public finances are constrained. Economic impact is generally optimised by increasing capacity, and in doing so reducing costs, in the economy. **A key focus should normally be on**

infrastructure bottlenecks, where economic output is being actively constrained at the present time by infrastructural inadequacy.

A forward-looking approach should also be incorporated into policy, in terms of putting infrastructure in place in advance of requirements, though this is complicated by the need to forecast future demand, and entails the risk that infrastructure will be over-provided (includes providing the wrong type of infrastructure or providing it in the wrong place).

The delivery of infrastructure can be a slow process, particularly where new (as opposed to upgraded) infrastructure is being proposed. The former has complex interactions with the existing environment, and is invariably controversial: whether wind farms, motorways, water and waste treatment plants or electricity pylons, concerns regarding localised negative impacts are common, and steps to address these can cause delays and increase costs considerably.

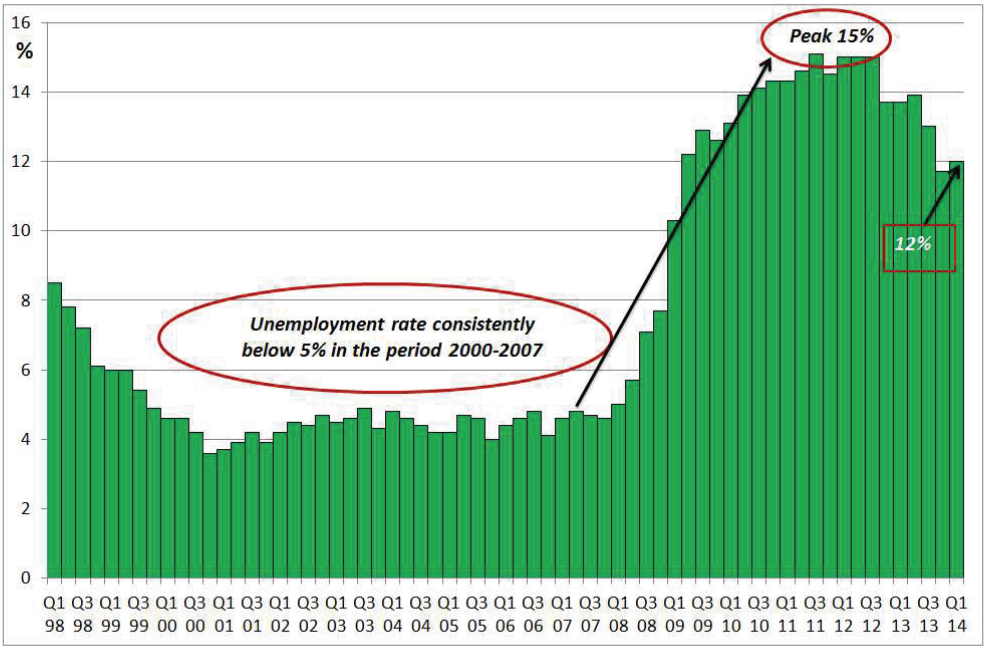
Employment Generation

Employment generation is a central focus of all public policy at the moment, given the still crisis levels of unemployment. Having lost 326,000 jobs over a four and a half year period[13], it is clear that employment generation is fundamental to Ireland's economic recovery.

The recession had a substantial negative impact on unemployment which reached 15% in Q1 2012. Despite some moderation since to 12% in Q1 2014, the focus of Government has been on examining innovative ways to generate new employment opportunities and restore the pathway to sustainable job creation in successive Action Plans for Jobs over the period 2012-2014.

[13] The total numbers employed declined from 2.16 million in 2008 Q1 to 1.83 in 2012 Q2 (seasonally adjusted data), according to the CSO's Quarterly National Household Survey.

Figure 3.2: UNEMPLOYMENT RATE



Source: CSO QNHS (seasonally unadjusted)

The relentless drive for job creation is continuing in 2014 with the *2014 Action Plan for Jobs* targeting an increase in the number of people at work of 100,000 by 2016.

Specifically in regard to construction, the central aim of the recently published Construction Strategy 2020[14] is to add 60,000 jobs to the construction sector by 2020.

Ultimately, and most importantly, infrastructure investment leads to increased employment though cutting costs, increasing competitiveness and thus facilitating economic expansion.

Employment generation from infrastructure investment can also be more immediate – and visible - through delivering and then operating/maintaining the infrastructure itself. This employment falls into the following categories:

- **direct** – in the firms that build, operate and maintain infrastructure;
- **indirect** – in the Irish firms that supply these firms and so on back through the supply chain; and
- **Induced** – in the wider economy as the wages from the direct and indirect employment are spent on Irish goods and services in the wider economy.

Research conducted for the Construction Industry Council (2009)[15] estimated that on average, every €1m spent on infrastructure projects generates approximately

[14] http://www.merrionstreet.ie/wp-content/uploads/2014/05/Construction-Strategy-14-May-20141.pdf

[15] http://constructionindustry.ie/JobsandInfrastructure-June09-CIC-Presentation-Summary.pdf

10 direct and indirect man years on average. More labour intensive projects, such as house building, tend to generate higher number of jobs.

Thus, for example, the target of 60,000 (direct and indirect) jobs set out in the Construction Strategy 2020 would require an investment in the region of €6 billion between now and 2020. This is equivalent to an average annual investment of €1 billion or 10,000 jobs each year.

This aspect of infrastructure investment can also contribute to Government aims as it forms part of countercyclical economic policy. In other words, in times of weak demand and lower employment in the wider economy, the State can intervene to generate demand in its own right, and in doing so "mop up" some of the underutilised resources (human and other forms of capital) in the economy. This has the added advantage that the taxpayer can get good value for money compared to undertaking the investment when the economy is stronger. There is of course a constraint in the form of the size of the national debt, which severely limits the capacity of the Government to adopt a countercyclical approach in its policy.

Although this should not be its primary focus (infrastructure investment is not an end in itself), it is of course relevant. All else equal, an investment that entails more Irish employment should be favoured.

Maintaining and Enhancing Skills

It also helps to maintain and enhance important skills in the workforce, in areas such as design, engineering, management, and so on, which can have important positive overspill effects into the private sector. For example, local capacity to design, build and operate a complex public wastewater treatment plant can be an important competitive prerequisite for sectors such as food processing or pharmaceuticals. Much technological advance is embodied in new plant and machinery, and thus a continuous process of renewing and expanding infrastructure has a positive impact on the labour force's skills base[16].

Another factor is that the State – through NAMA – is currently the largest property owner in the economy. Notwithstanding the circumstances which led to this, it is less than ideal on many levels. Unwinding the position has positives for the State/taxpayer and the wider economy, in terms of liquidating NAMA's assets and thus enabling the State to pay down national debt. Furthermore, the current overhang of NAMA's assets effectively gives it an 'option' on much of the property market, against which private sector developers cannot compete.

Another important consideration is the delivery of social as well as economic infrastructure. While less obvious than in the case of (say) a road, energy or telecoms infrastructure, social infrastructure such as housing or schools have an important impact on the economy because they affect the cost of living, and through that the supply and cost of labour. As the economy starts to emerge from

[16] There is of course a balance to be maintained between adopting leading edge technologies and controlling risk – sometimes there is a 'second mover advantage'.

the 'great recession', housing supply is becoming problematic in a number of the major urban centres, and in the medium term this may start to impact on wage demands, and thus negatively impacts on competiveness.

The full quantum of capital investment should ultimately be determined by the infrastructure needs of the economy and by ensuring that the infrastructure put in place:

- Adds to the productive potential of the economy;
- Addresses bottlenecks or cost inefficiencies in the economy;
- Provides value for money;
- Generates an economic rate of return above the cost of funding the infrastructure; and
- Generates employment.

A number of these and others are elaborated on below.

3.3 EVALUATING INFRASTRUCTURE INVESTMENT PROJECTS

With respect to the criteria to be used to evaluate proposed infrastructure investment, we would recommend that the following be included. There are potential tensions between some of the criteria, most obviously between providing cost-effectively for future demand while at the same time avoiding oversupply.

- **Does the economic benefit exceed the economic cost?**

  - Robust analysis should be undertaken to determine this covering the construction, operational and (where appropriate) decommissioning phases.
  - Candidate projects should be compared on a consistent basis so that the ones with the strongest returns are prioritised.
  - Risk of cost overruns, demand over-estimates and operational problems (often related to technological complexity) must be fully considered.

- **Does it tackle a substantial existing bottleneck in the economy?**

  - Such bottlenecks are actively constraining the economic output of the economy, and thus holding back the recovery and employment growth.
  - This includes housing and other social infrastructure. Bottlenecks here increase living costs and thus wages, and make areas less desirable as places to do business.

- **Alternatively, does it provide for foreseeable future demand for increased infrastructure in the economy?**

- This should be based on robust economic analysis, including catering for the risk that expected demand does not materialise.
- Pace of capacity delivery should be matched as closely as possible to the pace of foreseeable demand growth, subject to economies in delivery of blocks of capacity.

- **Is it being provided at least cost to the taxpayer?**
  - Innovative funding/financing models should be explored, but they must genuinely transfer risk away from the taxpayer in a cost-effective way.
  - Overprovision or gold-plating should be avoided. Robust cost control mechanisms, and where appropriate a commercial focus and economic regulation can achieve this.

- **How quickly can the infrastructure be delivered, and how controversial is it likely to be?**
  - All else being equal, the ability to deliver infrastructure enhancement quickly and with minimum controversy is a positive characteristic, involving less risk across a range of dimensions.
  - This should not override the need to deliver essential infrastructure where required.

- **Does delivery of the infrastructure utilise currently underused Irish resources, especially human capital?**
  - Given the particular difficult conditions in the construction sector, projects that employ significant numbers of construction and related workers across a range of skills are desirable at the moment.

- **Does delivery of the infrastructure help to maintain/enhance key skills in the labour force?**
  - These skills are increasingly a requirement for a competitive leading-edge economy. While they can be imported, keeping the skills "on-shore" reduces costs and retains a higher proportion of the value-added in the local economy, as well as building human capital capacity.
  - Maintaining a steady flow of projects, especially during economic downturns, is an important means by which the State can enhance human capital in this regard.

- **Can the project help to unwind NAMA's position in the market?**
  - It is essential for the "normalisation" of the Irish economy, that NAMA's position is unwound as quickly as possible (subject to the requirements to protect the taxpayer). Uncertainty with regard to its intentions puts a damper on development activity, which itself places a cost on the taxpayer. Projects that involve bringing NAMA-controlled assets back into the normal economy therefore have a positive impact in themselves.
- **Can the State provide regulatory certainty?**

  The State inevitably has significant inputs to the regulatory environment surrounding investment, even where the private (or commercial Semi-State) sector is the primary provider. Given the high risk commercial environment currently, regulatory certainty is a prerequisite for delivering infrastructure projects at minimum cost. There are several examples of cases where lack of regulatory certainty has delayed infrastructure delivery and added significantly to its cost (most notably perhaps the Poolbeg waste-to-energy facility).

3.4 Sectoral Priorities

Given the foregoing prioritisation criteria, there are certain sectors where we can identify priorities for infrastructural investment. Some have already been identified by the State, and are being acted upon. Others may be capable of delivery by the private sector.

- **Water/wastewater**

There are clear deficits in this sector on both the supply and wastewater sides, most apparently in Dublin, but also in a number of areas around the country where water supply and/or wastewater treatment do not meet capacity or environmental requirements. The commercialisation of the water industry in Ireland is a welcome and long overdue development which will help tackle these deficits, though time and resources are issues, and there remains the scope for politicisation.

- **Waste Management**

The waste management sector is more-or-less privatised at this stage, particularly on the collection side. However, the State's withdrawal from the processing side has been and continues to be poorly managed and the regulatory structure is highly uncertain. As a result, Ireland lacks the capacity to manage its waste across the range of technologies in accordance with accepted international principles, and currently depends on export markets which are available largely because of the international economic downturn. Recovery or regulatory change may close these markets to Ireland, or impose significantly higher costs.

The number of operating landfills in Ireland has reduced drastically, in line with policy direction, but the range of alternative treatment technologies – particularly waste-to-energy and particularly in the Dublin and Cork regions – is lacking.

These deficits need urgent addressing. Unfortunately, the private sector, having been held back (sometimes explicitly) from stepping into the space left by the withdrawing public sector over the past decade or so, is not well-placed to make the needed investments. Some action on the part of the public sector will be required to meet the requirements of this sector.

- **Housing**

The supply issue is perhaps the single most important challenge facing the property market in 2014. It will undoubtedly remain so in 2015, given the long lead in time to delivering completed housebuilding units to the market. The shortage of housing supply is having an impact on property prices and rental levels. Rising rents are also crowding out renters at the lower end of the market, with adverse consequences for social housing and rent supplement tenants.

Following six years during which residential property prices tumbled by up to 60% on average, there are signs emerging that the housing market has bottomed out in selected locations. This is a reflection of the bottoming out of average property prices in late 2012 in Dublin and in early 2013 across the country as a whole. By March 2014, average residential property prices had recovered by 7.8% nationally and by 14.3% in Dublin, albeit both are still almost 50% below levels reached at the peak (2007). However, many locations across the country are not yet in the recovery phase while a further group, notably located in the Border and Midland regions, are considered to be furthest away from recovery.

The volume of residential construction fell to an all time low in 2012 with just 4,042 units commenced of which almost three-quarters were single units as opposed to units in estates. The typical measure of housing supply quoted, however, is the level of completions, based on electricity connections, which bottomed out in 2013 at 8,301 units compared with 93,000 constructed at the peak.

While the PCP predominantly funds local authority and social housing, and its provision has been reduced significantly in the past six years, the provision of social housing is now a major priority. Although the supply of private housing is a private sector issue, an increase in the public capital investment provision for public housing may have a role in kick starting the delivery of housing in the private sector. The ESRI has suggested that there is a requirement for at least 25,000 units per annum while the Housing Agency has projected a demand for 37,700 dwellings in the Dublin Region in the next five years. In this regard the recent Construction Strategy 2020 must be implemented with regard to addressing these immediate housing supply related issues and ensuring that any undue planning or other delays are addressed as quickly as possible.

Moreover, the lack of housing supply is a key constraint, driving up costs and risking the development of another bubble. It needs urgent addressing, and must involve NAMA, given the latter's position in this market.

- **Broadband**

No other infrastructure indicator captures the aspiration to be a leading player in the global technology sectors like broadband. Broadband speeds, coverage, robustness and connectedness are used as a marketing tool by countries and regions internationally, and standards are rising constantly.

Despite recent improvements, Ireland does not measure up well on this indicator. There are still regions of the country where speed and coverage are inadequate, and even in the main urban areas they are unremarkable.

This sector is largely privatised, but there is a case for the State to take action in particular areas and sectors in order to ensure that world-class broadband infrastructure is in place.

- **Transport**

There has been significant investment in Ireland's transport infrastructure over the last two decades, and the various networks have been transformed in that time. Indeed, in some areas there has been over-investment, and this is having consequences for ongoing operations and maintenance. Future investment needs to be selective and designed to meet clearly identifiable needs. Temptations to over-deliver or gold-plate need to be resisted.

3.5 Alternative Sources of Funding

Non-Exchequer Funding Options

Given the strain that has been on the Exchequer in recent years, the focus has been on supplementing the limited Exchequer capital investment with private funds. Funding channels have been secured from both private and European institutions such as the European Investment Bank (EIB) and the Council of Europe Bank (CEB). Pursuing additional funding from these sources is advisable given recent commitments to support Ireland as it emerges from its economic crisis. The recently published NTMA (Amendment) Bill 2014 also sets out how the Ireland Strategic Investment Fund (ISIF) is to be used in commercial investment opportunities in Ireland.

PPPs

The banking crisis has undermined the financing of many previously viable PPP schemes and has led to a marked increase in the cost of debt for PPPs. In Ireland and elsewhere, banks have largely withdrawn from the PPP market and Government should intervene to promote private lending for PPPs.

Other, more mature PPP markets, including Canada and the UK have established State bodies to support PPPs, reassure the private sector about the strength of PPPs and help re-activate lending for PPP schemes. In Australia, the same agency oversees all capital investment programmes, planning policy and PPP investment schemes to support best practice development, stimulate project activity and improve transparency in the market.

The Government should consider establishing a PPP agency to coordinate PPPs and traditional exchequer funded capital works policy and oversee the rollout of all departmental PPPs, using international best practice standards.

The tendering process for PPPs should be reduced as disproportionally high bid costs discourages private sector participation, thus reducing further levels of competition.

Around the world, substantial volumes of capital have been generated from institutional investors such as insurance companies and pension funds in recent years. Infrastructure should be recognised by these bodies as an asset class, and PPPs as an appropriate procurement tool. Transparent data and clear government-led commitment for further PPP investment should be a priority in educating these (potentially international) investors into the Irish infrastructure market.

The State must take a lead in focussing an increasing understanding of the investment potential in Ireland, the risk return characteristics and diversification benefits of Irish infrastructure.

The NTMA (Amendment) Bill 2014 and the ISIF

The National Treasury Management Agency (Amendment) Bill 2014 [17] was published on the 15th May 2014. The legislation has four functions:

1. It provides for the establishment of the €6.8 billion ISIF. This fund is intended to make commercial investments that deliver a return for the fund and generates an economic impact.
2. It establishes NewERA on a statutory footing. NewERA has a centralised shareholder advisory role from a financial and commercial perspective in respect of corporate governance matters for five commercial semi-state companies: ESB, Bord Gais Eireann (including Irish Water), EirGrid, Bord na Mona and Coillte. NewERA is also charged with assisting the development and implementation of Government plans for investment in energy, water and next-generation telecommunications with the long-term objective of employment creation.
3. It restructures the corporate governance entities making up the NTMA group.
4. It establishes a Legal Costs Unit within State Claims Agency to deal with third-party costs arising from certain Tribunals of Inquiry.

Along with the publication of the Bill it was announced that the:

- €6.8 billion Ireland Strategic Investment Fund (ISIF) is open for business and actively seeking commercial investment opportunities in Ireland.
- €6.8 billion ISIF will make commercial investments that support economic activity and job creation in Ireland.
- The Government is committed to investing in economic growth and job creation and enactment of this priority piece of legislation is expected before the government's summer recess.

The ISIF has a mandate to invest on a commercial basis to support economic activity and employment in Ireland with the aim of making both an investment return and a positive economic impact.

[17] http://www.oireachtas.ie/viewdoc.asp?fn=/documents/bills28/bills/2014/4414/b4414d-memo.pdf

The National Pension Reserve Fund (NPRF), which is being absorbed by the ISIF, has already committed to a number of investments in Ireland in anticipation of the establishment of the ISIF. Those of importance to infrastructure are as follows:

- Stand-by credit facilities that facilitated the delivery of two Public-Private Partnership projects, the N11 and Schools Bundles 3, with a combined project size of €286 million.
- A commitment of €250 million to the **Irish Infrastructure Fund**, a three way partnership between NPRF, AMP Capital and Irish Life Investment Managers. The Fund is seeking up to €1 billion from institutional investors in Ireland and overseas to invest in infrastructure assets in Ireland, including assets designated for disposal by the Government and commercial State enterprises and new infrastructure projects.

European Investment Bank (EIB) and the Council for Europe Bank (CEB)

In 2013, the EIB increased its investment in Ireland by over a third to €680 million from a 2012 total of €505 million. This investment was in the form of long-term low-cost loans to support key infrastructure and private sector investment across the country. The EIB stated that it expects to reinforce investment in crucial projects and diversify lending into new sectors essential to sustainable economic growth and job creation for Ireland[18].

The CEB grants loans to finance projects with a social purpose and it plays a key role in the financing of social infrastructure. In its 2013 annual report[19] it states that it has in the past provided assistance to the Irish Government to construct Cork Prison and Oberstown National Children Detention Facility to improve the Irish Justice sector's public infrastructure. Similar projects may benefit from further funding from this institution.

Construction 2020 states that engagement with the European Investment Banks (EIB) and European Investment Fund (EIF) will take place in regard to developing and implementing mechanisms designed to maximise the provision of financing to SMEs, including in the construction sector.

There were almost €1.2 billion worth of EIB project signatures and loan approvals in Ireland in 2013, including signature of the N11/N7 motorway PPP for €72m and approval of the Dublin Cross City Luas Project for €150m. This represents an increase of just over one-fifth on 2012 levels, which were, in turn, up significantly on the previous year.

The numbers of projects also increased compared to 2012, and covered a wider range of projects in numerous sectors - energy, education, infrastructure, PPPs, SME Financing, Corporate and EIF Development Capital Fund.

[18] http://www.eib.org/attachments/country/factsheet_ireland_2013_en.pdf
[19] http://www.oireachtas.ie/viewdoc.asp?fn=/documents/bills28/bills/2014/4414/b4414d-memo.pdf

The statement regarding scope for **stronger EIB support, for example, in the areas of SME access to finance and flood works is important in the context of the policy on flood defences, which is highlighted as a regional priority amongst SCSI members.**

The Investment Plan agreed by the European Council in June 2013 was designed to mobilise the €10 billion increase in the EIB's capital base. This will support a 40% increase in its lending capacity for 2013-2015, bringing annual EIB lending volumes to between €65 and €70 billion.

Pension Funds

The SCSI endorses the Construction Industry Council's recommendations for non-exchequer financing of infrastructure and investigating the possibility of pension funds participating in large-scale infrastructure investment[20]. Such projects can represent an attractive proposition for pension funds as they yield a consistent return over a long time period. In this regard it is recommended that

- Innovative mechanisms are utilised to finance the delivery of infrastructure including off balance sheet funding
- Infrastructure bonds are considered as alternative sources of finance for public infrastructure.

[20] Construction Industry Council Report 'Building a Better Ireland'

4. INFRASTRUCTURE PRIORITIES TO 2020

This opportunity to contribute to the determination of the capital investment priorities for period to 2020 is very welcome. Indeed the expectation for the medium-term would be that, having had some projects either postponed or cancelled through the recession years, the prospects for capital investment in the next five years should be 'brighter' now that the economy has begun to recover.

This section sets out the current project priorities which are as stated in the current PCP. Clearly many of these projects will have capital committed to them beyond 2014 and will thus remain a priority in the short-term at least by virtue of the fact that they have already commenced.

The capital investment priorities for the period to 2020 are separately informed by a survey of the construction members of the SCSI. A survey was conducted to ascertain the members' opinions on their priorities for public capital projects and their rationale for same. A total of 240 responses were received. The main priority sectors and projects priorities, where mentioned, are set out below.

4.1 Current Project Priorities

As part of the review of the public capital programme, it is understood that the Government has already identified a list of the twenty largest projects to be delivered over the next four years, with a total indicative value of €3.27bn[21]. About half of these are PPP projects and are targeted for delivery from the second half of this year through to 2018. While a list of these projects has not been published, the following commentary sets out information on projects for which information is in the public domain. Undoubtedly some of the projects listed below will be on the Government's list.

July 2012 Stimulus of €2.25bn

In July 2012, the Government announced details of an additional €2.25 billion in capital investment over the period 2014-2018 which is expected to provide 13,000 jobs. An initial €1.5 billion will come from the European Investment Bank, the National Pensions Reserve Fund, domestic bank loans and potential private investment sources. This amount is to fund projects in the following sectors: Education, Health, Justice and Transport. Funds from the National Lottery and from the sale of State assets will provide a further €850 million over a longer timeframe but projects have not yet been allocated to this funding. It is understood that the €1.5bn represents a total of nine PPP projects, seven of which to date have been issued to the capital markets.

[21] Opening speech by Minister Brendan Howlin, Government Construction Capital Spend Conference, 5th March 2014.

The following are the main projects to be funded under the stimulus:

- ✓ **School Bundle 4** which consists of 6 schools, including 4 replacement schools and 2 new schools.
- ✓ **School Bundle 5** which is likely to consist of 6 schools mostly at post-primary level.
- ✓ **Grangegorman, Dublin Institute of Technology** (DIT), which comprises the consolidation of the various schools of DIT into a single educational facility at Grangegorman. The first part of this consolidation will be included in Phase 1 of the PPP Programme.
- ✓ **Primary Care Centres** - a list of 35 potential locations for Primary Care Centres has been identified by the Department, with 20 to be commissioned subject to agreement between the local GPs and the Health Services Executive (HSE) on active local GP involvement in the centres.
- ✓ Bundles for new and refurbishment of existing **Courthouse, Garda Divisional HQ** and a new **State Pathology Laboratory**.
- ✓ A number of PPP **roads** programmes (see below).

Roads – PPP Projects

A number of major national primary ***road*** and motorway projects were prioritised in the July 2012 stimulus, involving a total investment of €850m. Among the projects included were the following:

- The M17/M18 Gort to Tuam scheme,
- The M11 Gorey to Enniscorthy project and
- The N25 New Ross Bypass.

A key sign of the positive prospects for construction is evident from the fact that PPP schemes are commencing again after being absent since 2008. The contract to construct the M17/M18 Gort to Tuam PPP Scheme was recently signed at an estimated cost of €550m. This is the second major transport Public Private Partnership project and the first and largest project in the stimulus programme. The contract for the first PPP project was signed in April 2013 and is currently under construction. It is for the N7 Newlands Cross, which involves construction of a new grade separated interchange, and the N11 Arklow to Rathnew, a 50km section of the N11 road network in Wicklow and Wexford. The main elements involved and their expected completion dates are as follows:

- ✓ N11 Arklow / Rathnew dual carriageway - Autumn 2015
- ✓ Upgrade works to existing N11 - Summer 2014
- ✓ Gorey Service Area and Interchange - Winter 2014
- ✓ N7 Newlands Cross - Spring 2015

Funding of more than €150 million has been provided for the Newlands Cross and N11 Arklow to Rathnew projects under a Public Private Partnership scheme including an input from the European Investment Bank and Bank of Ireland, and a credit facility from the National Pension Reserve Fund.

Separately there is funding for the **maintenance of regional and local roads**, estimated at in the region of €332 million in 2014.

June 2013 €150m Stimulus

A further modest stimulus of €150 million was announced in June 2013 and included €50 million each for the **repair of local roads, new school projects** and **energy efficiency initiatives** for 25,000 local authority homes.

Water Services

Irish Water has recently published its capital investment plan for investment in ***water*** services over the period 2014-2016. The plan shows a total projected expenditure of €1.77 billion on 386 infrastructure projects over the next 2½ years, more than 40% of which will be used to fix national sewage problems. These funds would previously have come from the Exchequer via the Department of the Environment, Community and Local Government.

This investment will go towards a programme of works to improve drinking water quality, address deficiencies in urban waste water capacity and standards, and improve asset management systems. Irish Water is targeting almost €200 million of the total capital spending for leakage reduction and water conservation measures over the next three years.

The company's plans include investment in the completion of the work to existing treatment plants at Ballymore Eustace and Leixlip in County Kildare. Critical water quality projects in Letterkenny in County Donegal, Kerry central and Burncourt/Fethard in Tipperary will also go ahead. Irish Water said it has reprioritised the infrastructure programmes of the 34 city and county councils and will be focusing funding on areas where there are major compliance issues which must be addressed to ensure public health and to bring Ireland into line with EU law.

Projects which had been designed for significant population growth will be deferred and the company will only be building capacity for the next seven to 10 years. The capital programme is to focus on urgent schemes where pollution impacts are most evident. Just over €746 million will be spent on sewage schemes, in building new facilities and expanding and upgrading existing works. At the time of the handover to Irish Water 54 wastewater compliance schemes were under construction around the State, which will now be completed by Irish Water.

Public Transport

Public Transport has historically been a high priority for Government and it is one of the few areas where allocations have increased in recent years. The total provision for public transport investments, according to the 2014 PCP, is €338 million, up from €321m in 2013. The main areas of expenditure comprise investment by CIE (mainline rail and bus services) and the Railway Procurement Agency (RPA) as well as investment in sustainable transport measures (cycling/walking, bus, safety and traffic management project) by the National Transport Authority.

The National Transport Authority's *Integrated Implementation Plan 2013-2018,* launched in April 2014, sets out the Authority's programme of investment and development in the Greater Dublin Area (Dublin, Meath, Kildare, and Wicklow) for the next five years. It provides the framework for a capital and operational investment amounting to almost €900 million. Funding up to 2016 is included as part of the Government's overall multi-annual capital plan and funding for the remaining years of 2017 and 2018 is to be addressed in the next national capital investment plan.

Table 4.1: PUBLIC TRANSPORT INVESTMENT PROGRAMME GREATER DUBLIN AREA

€million	2013	2014	2015	2016	2017	2018	TOTAL
Bus	33.9	41.0	35.0	35.8	35.0	35.0	**215.7**
Light Rail	25.5	29.5	36.0	64.5	65.0	65.0	**285.5**
Heavy Rail	33.4	30.4	32.5	10.5	15.0	15.0	**136.8**
Integration & Sustainable Transport	47.8	48.3	41.5	39.2	35.0	35.0	**246.8**
Total	**140.6**	**149.2**	**145.0**	**150.0**	**150.0**	**150.0**	**884.8**

Source: Integrated Implementation Plan 2013-2018, National Transport Authority

The key public transport priorities in the *Plan* include:

- ✓ The re-opening of the **Phoenix Park Tunnel** link to improve rail access for people travelling between Kildare and the city centre.
- ✓ The annual purchase of **new buses** to improve the experience of bus passengers.
- ✓ Delivery of the **Luas Cross City project**, which will join up the two existing Luas lines, construction of which has already started and is expected to be completed in 2017.
- ✓ The proposed **Bus Rapid Transit Network**, which will be designed in detail and brought through the requisite statutory processes. Construction of Bus Rapid Transport is contingent on funding being made available in the next national capital investment plan.
- ✓ **Train station** improvements.
- ✓ Significant investment across the Dublin Region in the **cycle network**.

There is a separate capital provision of €70 million in 2014 for investment in State (primarily) and regional ***airports.***

Telecommunications

In the telecommunications sector, the Government recently approved an investment of up to €500 million in high speed broadband infrastructure in rural Ireland which is expected to rollout over the next three years. This investment is the result of a new partnership between Vodafone and ESB, the electricity supply company, ESB, to rollout a fibre broadband network to 450,000 Irish homes and businesses in towns and villages across the country.

Education

A total investment of €541 million is provided for investment in education facilities in 2014, comprising €500 million for primary and post primary schools and equipment, €35 million for higher education and €6 million for other providers. A further breakdown of the €500 million shows the vast majority is for large scale school building projects.

Breakdown of Capital Allocation for Schools	€m.
Large scale school building projects	300
Additional accommodation	80
Summer Works scheme*	40
PPP projects	35
Sites	20
Emergency works	15
Furniture and equipment/other	10
Total for Schools	**500**

* Vital small and medium scale improvement works during the summer months.

Under the large scale school building programme, a total of 70 school projects are scheduled to commence construction this year. These projects are part of a five year plan which involves a total investment of €2 billion announced in March 2012, for 275 new major school buildings and major extensions projects to begin over the period 2012-2016.

In regard to the Dublin Institute of Technology's (DIT) ***Grangegorman campus development,*** the planning scheme for most of the €500 million development in Dublin's north-west inner city has been approved by An Bord Pleanála. This is a major project comprising a 73-acre development of an education and health campus, a primary school, a public library, and sports and recreation facilities. The development will combine approximately 39 separate DIT sites across the city and bring over 20,000 students and staff together at one campus. This major project will take place in phases over the next six years. In the last quarter of 2013, the Grangegorman Development Agency awarded four contracts with a combined value of €40m.

The DIT Implementation Programme envisages the first phase involving renovation of existing structures and the provision of student research facilities. This phase is currently under construction and 1,000 students are expected to arrive on site in September 2014 with the research and business incubation building opening in September 2015. Construction of the second phase, the PPP scheme to provide buildings to accommodate 15 existing teaching schools in DIT, is expected to commence in 2015 with a further 10,000 students expected to be accommodated on campus by September 2017. There is a third phase which involves the provision of additional facilities which is likely to be delivered over the period to 2020. Approximately half of the total funding is expected to come from private sources, including the European Investment Bank, with the balances for Exchequer sources.

Hospital and Health Facilities

Investment in hospital and health facilities is currently estimated at around €320 million in 2014, over one half of which is for existing contractual commitments. The medium-term projection includes

- ✓ The €115 million allocation for **20 Primary Care Centres** in the period 2014-2016;
- ✓ Commencement of the **National Children's Hospital** in 2016 which is expected to take three to five years to completion at a total estimated cost of €600 million; and
- ✓ Commencement of a number of **relocation/refurbishment projects at maternity hospitals**, including the move of the National Maternity Hospital at Holles Street in Dublin to St Vincent's hospital.

The National Children's Hospital has benefited from an allocation of €200 million from the proceeds from the sale of the National Lottery.

Public Buildings

Investment in public buildings includes the €190 million provision for **courthouses, Garda Stations** and the **State Pathology Laboratory** in the July 2012 stimulus, all of which are the responsibility of the Department of Justice and Equality. There will be other public buildings such as libraries, museums and other cultural buildings as well as the remainder of the State's property portfolio, comprising Government offices and heritage properties, all of which are the responsibility of the Office for Public Works (OPW).

Other public sector construction

As promised in Budget 2014, half of the €405 million achieved for sale of the National Lottery licence have been are earmarked for a number of public sector projects. A number of the more significant projects are listed below:

- **Road maintenance and repair**
- **Wild Atlantic Way Driving Route** (€10m) - the provision of discovery points and related infrastructure along a 2,500km driving route from Donegal to Cork intended to attract high spending tourists along the West coast.
- **Sport Capital Grants** - to help boost participation in sport by enhancing local facilities.
- **National Sports Campus** - funding to allow works to commence on a National Indoor Training Arena at the National Sport Campus.
- **Better Energy Programme** - additional funding to deliver increased energy efficiency and support energy upgrades to low income homeowners experiencing extreme energy poverty across the housing sector.
- **Private House Grants for Older People and People with a Disability** - funding to support the grant scheme for minor works by older people and people with disabilities.
- **Cork Events Centre** - funding for development of a large scale multifunctional events centre in Cork in conjunction with private sector partners.

- **Social Housing** - investment in a well-targeted but limited social housing construction programme to address urgent housing need in specific locations.
- **1916 Commemoration Projects** - funding for a number of Commemoration projects including the GPO inner courtyard exhibition and interpretative facility, the Military Archives and some smaller projects falling under the remit of the Department of Arts, Heritage and the Gaeltacht.
- **The Traditional Skills and Buildings at Risk Jobs Leverage Scheme** - will leverage private capital for investment in a significant number of labour intensive, small scale renovation projects directed at structures protected under Planning Law. At least €10 million direct investment will be provided in the construction sector for approximately 500 projects nationwide, on the basis of State funding up to €10,000 per project with minimum matching contribution of 50% from the private sector.
- **Unfinished Housing Estate Resolution Pilot Project** - funding is being provided for pilot resolution strategies for unfinished housing estates in a number of local authority areas.

All of the above projects are likely to be at the planning stage or under construction, implying they will remain to be funded by the PCP over the next few years.

4.2 CAPITAL INVESTMENT PRIORITIES TO 2020

The approach adopted by SCSI members in regard to outlining what they consider should be the key capital investment priorities in the period to 2020 was to

- ✓ Firstly, identify the strategic projects at a national level which should be prioritised on the basis that they are likely to contribute to economic recovery, productivity and social cohesion as well as support economic competitiveness and environmental sustainability; and
- ✓ Secondly, identify the regional and local infrastructure projects at a more targeted level which will help meet local infrastructure deficits, support job creation and generate work for SMEs in the construction sector.

The SCSI also recommends that an open, transparent and value for money approach is taken to the assessment of priorities for the Public Capital Programme 2015-20.

4.3 NATIONAL STRATEGIC PRIORITIES

There are a number of areas of infrastructural investment which the SCSI believes need to be prioritised in the interests of economic recovery, social cohesion and environmental sustainability.

The recommendations which follow also have the added impact that they support the protection and creation of jobs. Having lost almost 250,000 construction jobs throughout the economic crisis, the public capital investment framework is fundamental to Ireland's economic recovery as it can generate much needed employment opportunities while also contributing to the productive potential of the economy. The sectors which are prioritised have the capacity to deliver jobs, albeit a varying levels of employment intensity.

Table 4.1 set out five key priorities areas for the country as a whole:

(i) Housing
(ii) Education
(iii) Health
(iv) Road Infrastructure and Transport Priorities
(v) Commercial Office and Enterprise Facilities

Further comments are included under each heading, a number of which mention specific projects. In the absence of cost data or more specifically a full cost-benefit analysis, it is not possible to rank these projects.

Figure 4.1: National Infrastructure Priorities

PRIORITY AREA	SECTOR	SOME SUGGESTED PROJECTS	MEMBER COMMENTS
1	HOUSING	• Construction of new Social Housing in Dublin, Cork City, Galway, Limerick • City Council Regeneration Programmes – Limerick, Sligo, Dublin, Cork • Renovation/Refurbishment of Local Authority Houses in disrepair in cities • Increase financial support for Housing Associations	• Urgent need to reduce crisis in social housing / alleviation of homelessness • Completion of Ghost Estates in certain locations where social housing is required • Release NAMA partially completed sites for completion and construction of social housing • Free up Local Authority land for social housing construction • Social and Private Housing have to be the priority • Failure to maintain investment in social housing over last 8 years – must be addressed and not repeated • Develop social schemes on vacant sites owned by Councils
2	EDUCATION	• Grangegorman • IT Tralee • 3rd Level in Cork - UCC, CIT • Third level and Fourth Level Facilities for research & development	• Significant drop in Government investment in recent years and needed to maintain high standards of knowledge economy • Investment in Third and Fourth level as well as facilities to attract foreign students are needed • Need for additional third-level non-university education facility for the cities • Prioritisation of 3rd level projects including DIT Grangegorman • Refurbishment of existing colleges and education/training facilities
3	HEALTH	• National Children's Hospital • Regional hospitals for towns outside of main cities and towns • Construction of Navan Hospital • Portiuncula Hospital Ballinasloe Maternity Upgrade • Bantry Hospital, Upgrade of Sligo General Hospital, Kerry General	• Develop Primary Care Centres locally to remove pressure on acute services • Some of the hospitals do not currently meet modern standards • Hospitals are old and in need of upgrade, prevent conditions that add to health problems • Consideration could be given to relocating some services as UHG overcrowded and Merlin Park has capacity to expand • More A & E departments required in south • Continued development of Primary Care Units

		• New health centre Lifford • Ballinasloe Hospital • Second major hospital in Cork	• National Children's Hospital delayed excessively and needed • We appear to be aiming to provide "super hospitals" however small towns i.e. West Cork have limited facilities and this means there can be a two a half hour commute in an emergency • Mental health facility needed for young people • Hospital Services are diminishing in the Midlands
4	**ROAD INFRASTRUCTURE AND TRANSPORT**	• Extension of LUAS lines to pick up West Dublin • Airport link to Dublin Centre • Dart Interconnector - Heuston to St. Stephens Green • Expand Luas line to west Dublin- Lucan /Blanchardstown • Main artery transport routes from M50 in to city • Limerick (eastern link) • N71 upgrade & Cork orbital route. • Roadway Gort to Galway • Roads to North West Regions – Motorways • Newlands Cross, Galway to Mayo and finish off road to Sligo	• Develop Dublin Outer Orbital Road and Improve National Road Network • Public transport network needs to be continuously upgraded in order to attract inward investment into Ireland which in turn will help with securing existing and new jobs • Public Transport more funding needed from the European Investment Bank • Cork to Kerry road needs two by passes • A linkage needs to be set up between the various public transportation systems • Fast frequent airport to city centre rail link encourages all sorts of trade & enterprise/tourism • Maintenance has not been carried out for many years at previous levels • Roads are becoming congested and we need to move people off the road but in order to do this, a better public transport system needs to be provided.
5	**COMMERCIAL OFFICE AND ENTERPRISE FACILITIES**	• Finish out North Quays of Docklands • Revitalise Shannon Industrial Estate • Advance office and enterprise space in selected regional locations • North Cork to be prioritised for Enterprise parks	• Develop more Commercial space for FDI firms in conjunction with IDA • Develop more SME facilities - development of more incubator units with support to allow for start-up companies to have a better chance to succeed. • IDA Advance Units and offices required • Small business innovation centres needed • Underutilised industrial infrastructure, adjacent to an international airport and motorways, should be used for facilities for start-up companies • Vast area of IDA lands left idle for 10 years should be brought up to standard • With current restrictions on finance IDA Ireland will need to be given more

4.4 NATIONAL STRATEGIC PRIORITIES - JUSTIFICATION

1) Housing (Department of Environment, Community & Local Government - DECLG)

The DECLG is due to spend €311m in 2014, €331m in 2015 and €334m in 2016.

The SCSI recommends that the delivery of social housing is prioritised as part of the Public Capital Programme over the next 5 years. Several mechanisms are considered to support this:

- Ring-fencing a portion of the Local Property Tax (LPT) for the provision of Social Housing or allocating a percentage of the LPT when the local authority assumes responsibility for varying the LPT in 2015.
- Local Authorities should be required to free up land banks or vacant sites they own for development of social housing schemes.
- Funding/incentive schemes for Repairs, Maintenance, Improvement and upgrading of derelict housing.
- PPP's with private developers to build Social Housing schemes on lands owned by the Local Authorities.
- Reduction of development contributions, local infrastructure costs and other Local Authority costs for developers of Social Housing schemes.
- Seek partnerships between Local Authorities, Housing Associations and Private Developers to build social housing as is happening in the UK.
- Separately the issue of regeneration in inner cities which was a very live issue before the property crash, in regard to Limerick, for example, should be revisited and funding mechanism should be explored to address this critical housing requirement.

2) Schools and Colleges (Department of Education & Skills - DES)

The Exchequer capital provision for the DES is €540m in 2014, €475m in 2015 and €415m in 2016 which represents a 23% decline in annual budget between 2014 and 2016.

One of the main demographic challenges facing the country's infrastructure stock is in regard to our educational building stock. Education has been a core feature of Ireland's economic competitiveness and the SCSI recommends continued investment in primary, second level and crucially 3rd and 4th level R&D facilities.

According to the 2011 Census of Population, Ireland's population grew by 341,000 since 2006, an average annual growth rate of approximately 1.6%. Ireland also has the highest birth rate in the EU at over 17 births per 1,000 population.

Between 2010 and 2020, approximately 104,000 additional students will enter primary schools with 37,000 of these coming in the period 2015-2020 and an additional 14,000 students at secondary level.

The SCSI acknowledges the DES school building programme 2012-17 and the progress made with the schools PPP bundles. It recommends

- Continued and sustained Exchequer and non-Exchequer investment to improve our educational infrastructure stock.
- All primary and post-primary schools are built to a modern high quality standard and are fit for purpose in line with national policy objectives regarding the importance of investment in education.
- Significantly increasing investment in 3rd level projects supporting the knowledge based economy and in particular investment in DIT Grangegorman to expedite the process as this has the potential to free up 50 additional sites which could be used for housing, health or commercial enterprise purposes. Where such investment takes places in the regions it can be a pull factor for FDI.
- Exploring alternative private finance sources to ensure a more rapid response to the provision of first class third level education and research facilities.

3) Hospitals & Care Facilities (Department of Healthcare & Children - DHC)

The capital provision for the DHC is €397m in 2014 and €390m each year in 2015 and 2016.

Economic rates of return for health infrastructure projects can vary depending on the nature of the project. Based on a number of separate cost benefit analyses carried out by DKM over the past decade, the rate of return for hospital projects can be any figure in excess of 13%, with those projects returning the highest net present value being the most worthwhile. The need for new hospital and care facilities was highlighted in the SCSI member survey as well as the need to upgrade older buildings which are increasingly becoming unfit for purpose.

Hospitals

The National Children's hospital was repeatedly highlighted as a project in need of prioritisation as part of the Public Capital Programme. There is also a need for the development of primary care facilities. SCSI members surveyed repeatedly mentioned the need for more beds in hospitals and the upgrading of older hospital buildings.

Long term care facilities

According to BDO report 'Health's Ageing Crisis: Time for Action'[22] there will be shortfall of 4,200 nursing home beds by 2016 and 8,000 by 2021. The report pointed to population projections which indicate that the number of over-

22 http://www.bdo.ie/sites/default/files/Exec%20Summary%20BDO%20Report%20Health's%20Ageing%20Crisis%20-%20Time%20for%20Action%20February%20201

85s is due to grow by 352% by 2046 and more than a fifth of people in this age category will require long-term residential care.

The SCSI recommends:

- An increased capital provision for the Department of Health & Children to fast-track the delivery of essential health care facilities.
- A zero rate of VAT should be applied to construction of health care facilities to encourage private financing.

4) Road Infrastructure (Department of Transport, Tourism and Sport - DTTS)

The DTTS is due to spend €899m in 2014, €818m in 2015 and €818m in 2016.

The SCSI acknowledges the considerable PCP investment in the national road network especially in the period since 1999 and more recently in the main national routes: Dublin-Cork, Dublin- Galway and Dublin-Limerick. It further recommends:

- A prioritisation of the next stage in developing the road network, i.e. investment in infrastructure linkages between major and secondary network routes to improve the overall infrastructure including access as well as to support enterprise development and FDI.
- That the existing metropolitan area networks (MAN's) are extended to Cork and Waterford to meeting existing enterprise needs of key IDA sites not currently connected.
- It is also recommended that connectivity between the major cities continues to be enhanced and that scheduled PPP projects are initiated and completed.

5) Commercial Office and Enterprise Facilities (Department of Jobs, Enterprise and Innovation - DJEI)

The DJEI is due to spend €442 in 2014, €454 in 2015 and €451m in 2016.

While over 50% of this Exchequer capital provision is for the Science and Technology Programme, the remainder is allocated to the Enterprise Development Agencies, including Enterprise Ireland and IDA Ireland to deliver a competitive business environment for industry and support new and expansion FDI investment projects.

The Government's Construction 2020 Strategy notes that

'*the availability of a good supply of commercial premises is a key requirement for economic progress. Lack of sufficient supply has the potential to damage our competitiveness, drive up rents and could persuade internationally mobile companies to locate to other countries*" (Page 28)

The SCSI Annual Commercial Property Review & Outlook highlights the vacancy rate for prime office space in Dublin at around 9% and emerging shortages in Cork City and Galway City for large floorplate modern office space. It also highlights the urgent need for further investment in office space suitable for FDI requirements in these cities and in other regional cities to support FDI. As the construction of a new commercial building can take between 18-24 months from planning to completion, there is a serious concern the lack of available space is a threat to our economic competitiveness from an FDI perspective.

The SCSI recommends that development is undertaken by the agencies such as IDA to begin measured speculative development of commercial space in key strategic regions. The SCSI acknowledges that IDA has announced its intention to resume building in regional locations including Athlone and Waterford and recommends the prioritisation of more building in strategic areas, particularly on a regional level with job creation potential.

The SCSI welcomes measures in Construction Strategy 2020 for IDA to work with the Ireland Strategic Investment Fund (ISIF) and agrees that the solutions to the shortage of office space require “public and private sector co-operation and initiatives.”

While the SCSI acknowledges the considerable efforts made by Government in addressing the access to finance issue for SMEs in successive Action Plans for Jobs, it considers that there should be a capital provision for the development of more incubator units for start-up companies, especially in the regions, to support job creation.

4.5 REGIONAL PRIORITIES

From a regional perspective five separate areas were also prioritised under the following headings:

(i) Broadband
(ii) Education (mainly Primary Schools)
(iii) Environment, Flood Defence and Remediation
(iv) Infrastructure Linkages
(v) Tourism

These are summarised in Table 4.2.

Figure 4.2: Regional Infrastructure Priorities

PRIORITY	SECTOR	SOME SUGGSTED PROJECTS	MEMBER COMMENTS
1	**COMMUNICATIONS/ BROADBAND**	• Regional Broadband programme • Mobile phone signalling • Broadband speeds & roll-out in BMW region	• Develop increased broadband speeds in all urban locations • Lack of adequate broadband in certain parts of the country is impeding economic progress in those areas • No broadband and poor signalling in rural areas • Currently the availability of high speed broadband is poor and will inhibit attracting FDI investment to certain parts of the region • Mobile phone reception to all area – must become a standard • Broadband outside of main populations is poor and costly • High speed broad band in place. Required in rural areas • Provision of high speed broadband to towns • Better connectivity/broadband for all areas - more effort should be made to improve this in rural areas
2	**EDUCATION (PRIMARY SCHOOLS)**	• Upgrading of primary and secondary schools • Integration of secondary schools in Skibbereen, Co. Cork • Scoil Mhuire, Tullamore	• The continuous renting of prefab's is a "waste" of tax when an initial capital outlaw can provide a better return • Too many school projects are ready for tender but are held back due to funding issues • Significant drop in Government investment in recent years and needed to maintain high standards of knowledge economy • Major improvements still required to our existing schools

		• Secondary School, Ballinasloe	• Accelerate the time taken to approve schools to commence construction • Too many school projects are ready for tender but are held back due to funding issues • Schools are being built, but continually investment is needed
3	**ENVIRONMENT/ FLOOD DEFENCE AND REMEDIATION**	• OPW's Catchment Flood Risk Assessment and Management (CFRAM)	• flood defences urgently needed in flood risk areas • urgent remediation needed for areas still affected from January 2014 flooding
4	**TRANSPORT INFRASTRUCTURE LINKAGES**	• Secondary roads in the Midlands require attention • Better infrastructure around Cork and linking Cork to Limerick is vital • Significant bottleneck on the northern route from Galway to Donegal • Ballincollig to Ballyvourney • Main travel routes upgraded to Northwest & West of Ireland • Tubbercurry to Sligo road improvements • Cork to Limerick motorway • Bohola to Westport N5 Project • M3 to Derry	• All cities are now linked to Dublin. We now need to link our other cities in the same way • Heavy traffic at peak times on local roads - road infrastructure plans have been made but funding to complete is on the back-burner • It is vital for balanced regional development that there is a competitive second option for larger companies. Price pressures in Dublin are again unsustainable and economic activity needs to be more balanced across the economy. • Secondary roads neglected; further neglect will increase extent of intervention and repair
5	**TOURISM/SPORT**	• Consolidation of existing facilities across sport to make better use of (improved) infrastructure • 50m swimming pools throughout Ireland required • New Walking routes - coastal paths • Páirc Ui Chaoimh • Local Community Based Sports Centres	• Sport facilities need further investment • Further Tourism projects to capitalise on Gathering • Investment in cycle ways, walking and sports related holidays

4.6 REGIONAL PRIORITIES - JUSTIFICATION

1) **Provision of Broadband (Department of Communications, Energy and Natural Resourced - DENR)**

   The DCENR is due to spend €80m in 2014, €79m in 2015 and €77m in 2016.
   The SCSI considers the lack of fast 3G/4G broadband to be a real threat to sustainability and economic growth. The timely delivery of broadband services across the country is a key priority in terms of enterprise development and is essential to realising future growth potential in existing and emerging sectors. It is also essential from an FDI perspective in supporting multinational firms considering Ireland as a location.

   The EU digital agenda target specify that by 2020 all EU citizens should have access to broadband speeds of 30 Mbps and that 50% of households should be subscribed to services of 100 Mbps or higher. Therefore SCSI recommends that ensuring Ireland can meet the targets set out in the EU Digital Agenda should be a key priority in terms of Public Capital investment.

   There is a role, however, for private players to support the roll out of broadband services nationwide and there should be a supportive policy to ensure Ireland can provide advanced broadband networks and services on a par with competitor countries.

2) **Primary Schools (Department of Education and Science)**
   Between 2010 and 2020, approximately 104,000 additional students will enter primary schools with 37,000 of these coming in the period 2015-2020 and the importance of continuing to build adequate primary education facilities cannot be underestimated.

   In this regard, the SCSI feels strongly that where temporary pre-fabricated accommodation exists in primary schools these should be replaced with proper structures. More generally the SCSI remains of the opinion that major improvements are still required to many schools around the country.

   It has been pointed out that the existing Summer Works programme is of the order of €40 million this year. This programme is vital for construction SMEs providing as it does the opportunity for undertaking vital small and medium scale improvement works during the summer months. The SCSI recommends a further increase in this provision which is likely to be a very labour intensive initiative.

3) **Flood Defences & Remediation (Dept. of Environment, Community & Local Government)**
   It is estimated that between 40,000 and 50,000 properties are currently at risk of flooding in Ireland. The recent floods have provided evidence that Ireland's flood

defences are not adequate and this should be prioritised under the Public Capital Programme.

SCSI acknowledges the €250m provision that Government has made over the next 5 years towards the OPW's Catchment Flood Risk Assessment and Management (CFRAM) programme and recommends the prioritisation of the detailed flood mapping of Ireland's main flooding systems. The SCSI also notes the €70m that was made available for repair and remediation works following the severe flooding that occurred between 13 December 2013 and 6 January 2014.

Furthermore, the SCSI recommends:

- That the level of funding should increase to ensure that adequate flooding defences in flood risk areas are rolled out around the country.
- The development of an effective flood management policy and operational programmes to manage existing risks.
- Remediation programmes should be fast tracked.
- The usage of strategic information monitoring and analysis programmes and 'early warning' technology such as that used in the UK to predict flooding.

4) Infrastructure linkages (Department of Transport)

In addition to national infrastructure road and transport linkages, there is a need to ensure that local transport infrastructure deficits are met through the Public Capital Programme 2015-2020.

The SCSI recommends that local transport infrastructure projects are prioritised to ensure that local enterprise facilities are supported by an integrated transport network to enhance the attractiveness of regions to FDI.

The SCSI also recommends:

- Planning delays should be reduced for local transport infrastructure projects.
- The Environmental Impact Statement process should be streamlined.
- Local construction SME's should have a role in these projects and some weighting should be given to local job creation and sustainability in procurement decisions for local infrastructure.

5) Tourism

Tourism Ireland reported a 7 per cent rise in visitor numbers during the year of the Gathering which was the highest since the global economic crisis began. Some eight million visitors came to Ireland in 2013 generating €3.64 billion in revenue. Some 6.8 million people visited the Republic, while 1.7 million visitors visited the North. Some 500,000 people visited both parts of the country.

- The SCSI recommends that initiatives to build on the success of the Gathering are prioritised, particularly at a regional level to support local economies and local employment.

4.7 Other Related Issues

Role of SME's in Capital Projects

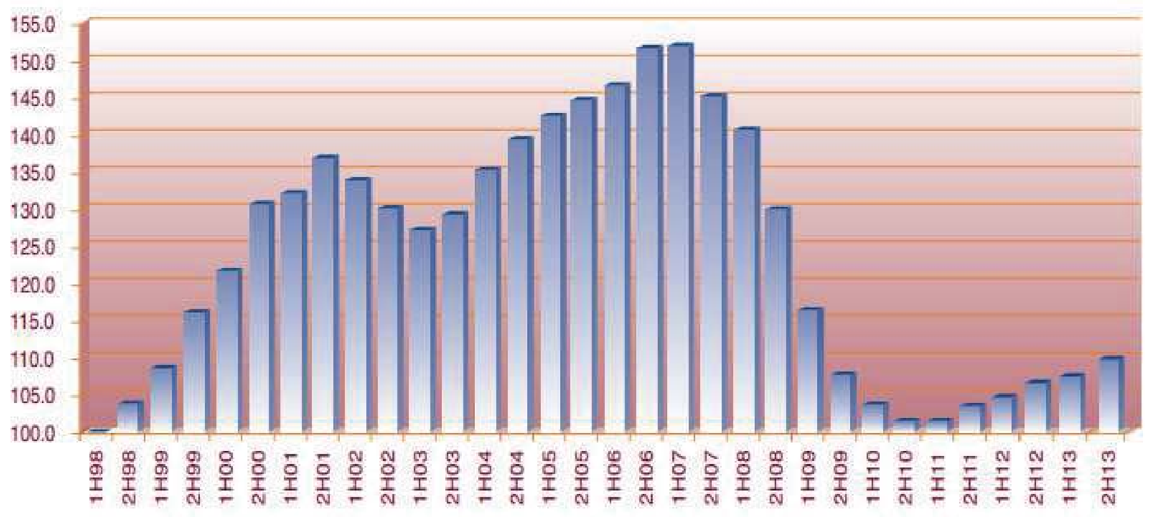
The SME sector has a vital contribution to make to the delivery of capital projects and infrastructure and the SCSI notes the social clauses on the Grangegorman and Water Metering projects that require managing contractors to include a percentage of employees of small companies (companies with fewer than 50 employees and an annual turnover not exceeding €25m). This policy is fundamental to sustaining the SME construction sector and should apply to all major projects. There is also a need to reform and streamline public procurement procedures to assist SMEs and also ensure that SMEs can participate in larger projects.

4.8 Tender Prices

Tender Prices - 30% below peak

According to the latest SCSI / Tender Price Index, tender prices are approximately 30% below peak and the SCSI recommends that in this context, it is likely that undertaking major infrastructural projects now will ensure value for money for the tax payer.

Figure 4.3: Tender Price Index



4.9 Indicative PCP to 2020

It will be important to sustain the level of public capital investment over the period to avoid a start/stop approach which can result in stalled projects and longer delivery schedules. While it is not possible to cost individual projects in order to ascertain the full impact of the PCP, the purpose here is to set out what an indicative but sustainable PCP to GDP (and GNP) ratio might be in the period to 2020.

In determining priorities for the next five years it is important to acknowledge the unprecedented level of investment in infrastructure put in place during the boom period. Separately this investment is likely to give rise to necessary renovation and refurbishment works in the medium-term which can create opportunities for SMEs in the construction sector.

The SCSI recognises that the fiscal environment remains a challenge and has therefore taken a conservative approach in setting these ratios out to 2020. The hope would be that the return to a more 'normal' budgetary situation would return these ratios to more sustainable levels, which would recognise the important role of public capital investment in the delivery of infrastructure to serve a growing economy and population.

The next Table sets out the historic PCP to GDP (and GNP) ratios from 2008-2014, based on the published PCP to date. The period 2015 and 2016 includes the Exchequer element only, based on the current multi-annual capital investment framework to 2016. There is no data in regard to the level of non-Exchequer in 2015 and 2016 (and hence these years are not in the accompanying chart).

The PCP is determined in 2020 based on an assumption that it represents 5% of GDP (6.1% of GNP), using the GDP and GNP nominal values up to 2018 contained in the April 2014 update of Ireland's Stability Programme (page 6). The corresponding values in 2019 and 2020 are DKM estimates. These assumed proportions and GDP (and GNP) are below what is considered to be a more normal sustainable level. The latter is set at 6.5% of GDP (8% of GDP).

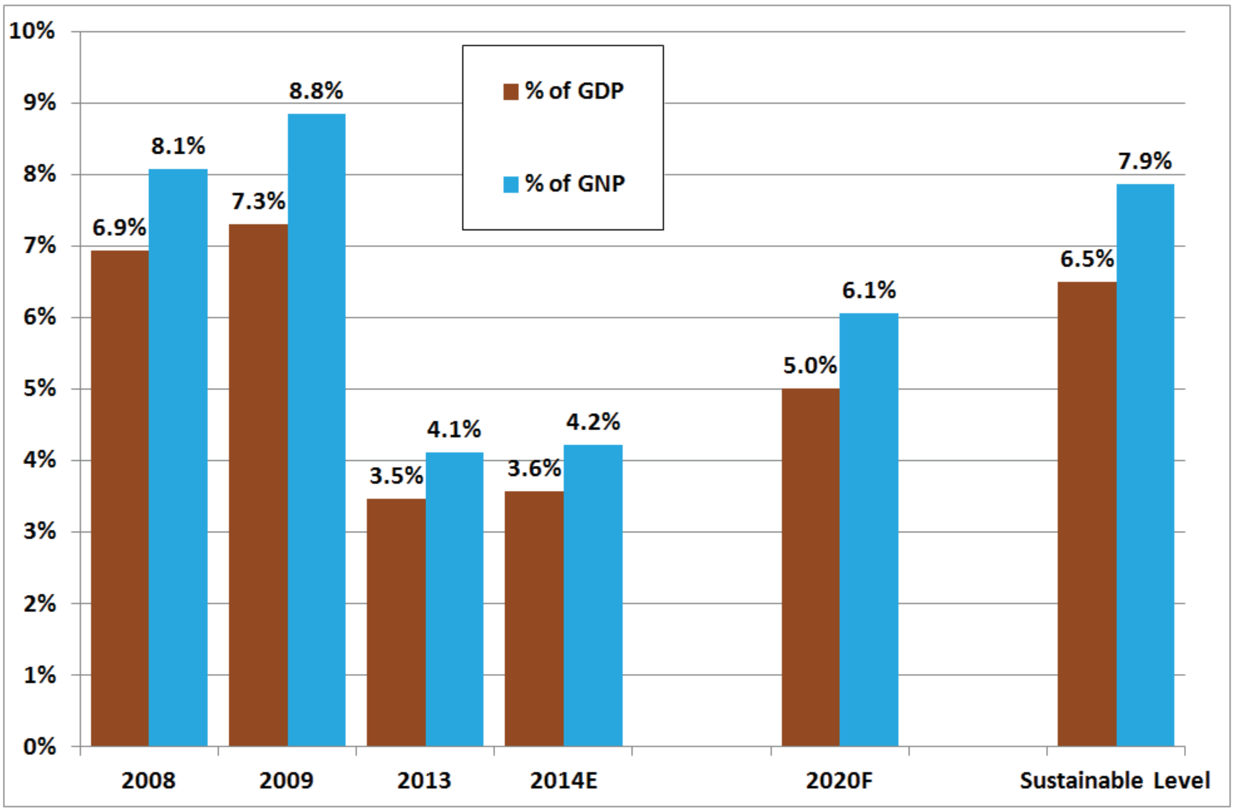
Based on the figures in the Table the total PCP in 2020 is estimated at €10,940 million of which €6,564 million is Exchequer. The latter corresponds to 3% of GDP (3.6% of GNP) compared with 2% of GDP (2.3% of GNP) in 2014. The total PCP is projected at close to €11 billion, which is still below the level which prevailed in 2009, when the economy had contracted in real terms by 9.1%. The more sustainable PCP level is set at 6.5% of GDP (almost 8% of GNP).

Table 4.2: PROJECTED PCP AS A PROPORTION OF GDP (AND GNP) TO 2020

€million	2008	2009	2013	2014E	2015F	2016F	2020F	PCP/GDP or GNP)
PCP	12,496	11,849	5,684	6,021	N/A	N/A	10,940	14,222
of which								
Exchequer	8,915	7,210	3,443	3,335	3,252	3,255	6,564	8,752
Non-Exchequer	3,581	4,639	2,241	2,686	N/A	N/A	4,376	5,470
GDP (Current Prices, €m.)	180,249	162,284	164,050	168,375	174,450	181,925	218,803	
% of GDP								
PCP	**6.9%**	**7.3%**	**3.5%**	**3.6%**	**N/A**	**N/A**	**5.0%**	**6.5%**
Exchequer	4.9%	4.4%	2.1%	2.0%	1.9%	1.8%	3.0%	4.0%
Non-Exchequer	2.0%	2.9%	1.4%	1.6%	N/A	N/A	2.0%	2.5%
GNP (current prices, €m.)	154,933	133,919	137,917	142,425	147,050	152,700	180,690	
% of GNP								
PCP	**8.1%**	**8.8%**	**4.1%**	**4.2%**	**N/A**	**N/A**	**6.1%**	**7.9%**
Exchequer	5.8%	5.4%	2.5%	2.3%	2.2%	2.1%	3.6%	4.8%
Non-Exchequer	2.3%	3.5%	1.6%	1.9%	N/A	N/A	2.4%	3.0%

Source: Revised Estimates for Public Services, 2009, 2010 and 2014.
GDP and GNP to 2018 from Stability Programme April 2014 Update
2020 GDP and GNP are DKM estimates.

Table 4.3: Projected PCP as a Proportion of GDP (and GNP) to 2020



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