



Rialtas na hÉireann  
Government of Ireland

# National Economic Dialogue 2018

Chair's Report



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# National Economic Dialogue 2018 Chair's Report

Professor Alan Barrett

## Introduction

The fourth National Economic Dialogue (NED) was held on the 27th and 28th of June 2018. Like previous years, I have prepared this report on the event. I should state at the outset that I have not written with a view to providing a comprehensive overview of all that was said. Instead, I will provide some reflections on the event and in so doing will discuss some of the main themes that emerged. I will structure my remarks into seven brief sections before concluding.

## Fiscal stance

As with previous years I was struck by the general consensus that the fiscal rules, at a minimum, should be adhered to and that a case exists to restrict the overall budgetary package to an amount lower than that allowed by the fiscal rules. It seems that most participants accepted the arguments on the need for caution in framing the Budget. These arguments are based on the following factors: (a) the current strong performance of the economy, (b) the possibility of overheating and (c) the existence of threats to our economic performance such as Brexit. Such a consensus is to be welcomed and should not be taken for granted. Ireland's economic and political history has many examples of pro-cyclical fiscal policy but this NED provides hope that this mistake will not be repeated in the immediate future at least.

## Capital expenditure

At all previous NEDs there was a strong emphasis on the need for increased public infrastructural investments in areas such as health, housing, education and transport. There had also been calls for such spending to be undertaken in a strategic context to ensure maximum complementarity between the various strands of any investment programme. Against that background, there was a broad welcome for much of the content and approach in Project Ireland 2040, the plan which incorporates the National Planning Framework 2040 and the National Development Plan 2018 to 2027. At this NED, the discussion moved onto implementation and the desire to see the plan delivered upon with a particular focus on housing.

## Equality

While the event is titled the National Economic Dialogue, there is typically a strong focus on equality and social justice issues and this was the case again in 2018. Obviously, it would be expected that the representatives of certain groups would emphasise different dimensions of

equality such as gender, disability and age. However, it is always striking that almost all groups accept the importance of ensuring that the benefits of economic growth are distributed and that there are important inter-linkages between a strong economy and a strong society. One specific issue which arose this year was the concept of the “feminisation” of poverty. This was a reference in part to the challenges facing lone parents, the vast majority of whom are women.

## Threats

The existence of threats to Ireland’s economic performance were implicit in the discussions around the fiscal stance, as mentioned above. However, there was little explicit discussion of these threats. This relative lack of discussion may reflect the fact that most representative bodies use the NED to highlight areas where additional spending is, in their views, required. In that context, there might be a reluctance to dwell on threats. However, in my concluding remarks at the event, I thought it was important to list the following issues: (a) Brexit, (b) trade wars and (c) the Italian debt situation.

## FDI/Corporation tax

The growth in corporation tax revenues in recent years featured in the discussions with the emphasis typically being on the potentially volatile nature of this revenue stream. This in turn fed into discussions about the so-called Rainy Day Fund. Mirroring the point made above on threats, there was less discussion about some unfavourable international commentary on Ireland’s approach to corporation tax or on proposals at EU level and elsewhere on possible reforms which could impact upon Ireland corporation tax system. Given the current level of corporate tax and, more importantly, the role of CT in attracting FDI to Ireland, the lack of discussion could be viewed as surprising.

## Productivity

There were seven breakout sessions on the afternoon of 27 June with rapporteurs providing feedback to the plenary on 28 June. In one of these sessions the topic under discussion was “reforms for sustainable productivity growth”. The issue of productivity was also mentioned in the plenary discussions, including by the Taoiseach in his opening speech. This level of engagement with the topic was a noteworthy feature of the 2018 NED and may have arisen for a number of reasons. First, the slowdown of rates of productivity growth internationally has led to increased attention on the issue. Second, work by the Department of Finance and the OECD has shown how productivity in Irish-owned firms is diverging from levels and growth rates in the foreign-owned sector. Third, as we approach full employment, economic growth can only come from increased participation, increased immigration or increased productivity.

A number of areas were covered in the breakout session through which productivity improvements could be achieved. One area was management capacity and the possibility of enhancing this capacity through training. Another area was access to finance. A third area was

the need to achieve greater spillovers from the foreign-owned sector to the domestic sector through supply chains and employee movement. In this context, a challenge was noted where foreign firms were recruiting talent from domestic firms, thereby reversing the direction of the desired spillover.

### Climate change

Another breakout group looked at climate change but this issue also featured in the plenary sessions. The issue has gained more attention with each NED and a very focussed and useful discussion was held in the breakout session. However, in my concluding remarks I questioned whether the individuals and groups outside of those representing environmental concerns fully understood the scale of the challenge facing Ireland as it seeks to meet targets on greenhouse gas emissions for 2020, 2030 and beyond.

The report from the breakout session provided some interesting points. Echoing calls from economists, it pointed out that correct price signals were needed through, for example, appropriate carbon taxes. However, it also noted that price changes alone were unlikely to lead to change on the scale required to meet internationally agreed targets. Other policy interventions in areas such as energy efficiency in buildings and renewables production are also required.

### Overall conclusion

Just prior to the NED on the morning of 27 June, Minister Paschal Donohoe T.D. gave an interview to RTE Radio in which he referred to the value of respectful public dialogue in a context in which the nature and tone of such dialogue was becoming harsher in some parts of the world. This is an important point. Throughout the day and a half of discussion, many views were expressed and from many different perspectives. This occurred in an engaged and respectful atmosphere. While each contribution is brief, the sum total of the contributions provides a rich insight into the concerns and hopes of the many groups represented at the NED. As Chair, my hope is that this rich insight provides an important input into the budgetary process where the competing demands of the various groups must be balanced.



# Appendix- Rapporteur Reports from the Breakout Sessions



# Breakout Session 1

## “Fiscal Policy in the Approach to Full Employment”

**Chair:** Minister for Finance and Public Expenditure and Reform, Paschal Donohoe T.D.

**Rapporteur:** Dr Donal de Buitléir

*The following summary of discussion at the breakout session has been prepared under the authority of the rapporteur and should not be perceived or understood as an agreed document.*

### Introduction

The first issue discussed was how can we build the required consensus around an appropriate economic and social model for the country that is likely to help foster political ownership and a commitment to its implementation over time?

How do we maintain supports for markets in a democracy where capital is increasingly in intangibles and not as many people feel that they can own capital – with particular reference to pensions and housing?

In addition how do we maintain support for a system where all issues are presented as a problem? What if people don't have a sense that things are getting better.

It was suggested to start with an appeal to common values and guiding vision for policy. The need to have:

1. A vibrant economy
2. Good public services and infrastructure
3. Fair taxation
4. Good Governance
5. Sustainability – Environmental, Economic and Social.

There was broad agreement on the value of more frequent dialogue and engagement on specific issues. The citizens' assemblies were cited as an example in this respect. Public

participation networks in local authorities are being developed to allow communities to have discussions on issues and reach agreement.

Such approaches assist in achieving support for the policies eventually adopted.

Agreement on the facts and parameters of issues – if not on the solutions – would represent a good starting point.

Public discourse often focuses understandably on problems and does not reflect the positive aspects.

We then addressed:

- How to achieve improvements in living standards while ensuring economic and fiscal stability.
- How do we reconcile competing pressures for spending and tax measures while maintaining a competitive tax system.

The lack of real wage growth was cited as an important issue facing some democracies. However, it was pointed out that Ireland has the highest real wage growth in the Eurozone.

The question was raised as to whether our expectations for fiscal policy in raising living standards were too high. However, it was pointed out that budgetary policy was very important for some groups. It also has an important role in setting the overall tone.

The need for balanced regional development was highlighted – not allowing Dublin and the other cities to get too big. A related point is the fact that, notwithstanding low unemployment, there are areas and regions in the country where unemployment remains high.

A focus on apprenticeships, particularly in these areas, could deliver some of the required skills in sectors such as construction.

Addressing the issue of very low work intensity households has the potential to add capacity to the economy in the approach to full employment.

Education has supported the migration of jobs from the traditional to the higher value added sectors – in contrast to a number of other developed countries.

The policy environment should allow indigenous companies to grow in scale. The importance of the existing FDI regime was recognised.

There was broad support for the concept of a broader tax base, but less agreement on the specifics of how to achieve this. In this context, in response to a direct question, there was minority support for raising carbon tax, unless accompanied by mitigation measures which would have limited its intended impact on changing behaviour.

Some specific changes suggested included widening the standard rate band for income tax, restricting some tax expenditures and increasing environmental taxes.

### Conclusion:

There was a greater recognition of the constraints on budgetary policy – in terms of the international environment, and the complexity of the trade-offs faced by the Minister in preparing a Budget.



# Breakout Session 2

## “Building a Sustainable and Resilient Agri-Food Sector”

**Chair:** Minister for Agriculture, Food and the Marine, Michael Creed T.D.

**Rapporteur:** Jane Williams

*The following summary of discussion at the breakout session has been prepared under the authority of the rapporteur and should not be perceived or understood as an agreed document.*

### Introduction

The breakout session centred on addressing the five questions set out in the background breakout session paper. The discussion focused on a number of key themes including; Brexit and market diversification, environmental issues, cost competitiveness, productivity and innovation, income volatility, attraction and retention of labour, Ireland’s rural economy and developing Ireland’s bioeconomy. This report gives an overview of the discussions, with all suggestions captured for future consideration.

### Brexit and Market Diversification

The potential challenges that Brexit is likely to pose for the Irish agri-food sector, regardless of whether the outcome of the EU-UK negotiations leads to a ‘soft’ or ‘hard’ type trade arrangement were articulated by all stakeholders. Discussants mentioned the potential implications that may arise for transport, processes and retail as a result of Brexit. A range of risk mitigating options were explored including seeking to reduce cost bases, improve innovation and productivity. Stakeholders welcomed the progress that had been achieved in increasing exports to some external markets, in particular, the group wished to acknowledge the work of Minister Creed in recent trade missions, such as to China.

### Environmental Issues

Stakeholders were keen to highlight some of the progress that has been achieved in addressing environmental issues. However, there was also widespread acknowledgement of the need to continue to do more. Some of the environmental challenges that need to be addressed further were mentioned including; improving water quality, reducing GHG emissions and investing in environmentally friendly infrastructure such as anaerobic digesters. Some contributors suggested that greater investment in renewable energy, for

example, through the installation of solar panels on farm buildings, could enable environmental progress to be achieved. Positive sentiments were expressed by the group in relation to some schemes and incentives that have been put in place, including the 'Beef Data Genomics Scheme' which allowed for increased productivity alongside GHG emission reductions and the 'Origin Green' Initiative. Some concern was raised about afforestation schemes and their impacts in certain cases on wildlife.

The group explored some of the opportunities that may arise as Ireland develops its bioeconomy. It was noted that a bioeconomy implementation group, chaired by the DCCAE and DAFM, has been established to formulate future policy in this area, build networks and encourage knowledge transfer practices.

Some points discussed during the session included:

- Leveraging the potential of Ireland's onshore seafood value-added sector;
- Enhanced research and development focused on developing Ireland's bioeconomy;
- Exploring the possibility of increased utilisation of anaerobic digesters, on-farm solar and wind energy production;
- Importance of the bioeconomy from a marketing perspective, to build value streams and address climate change concerns and;
- Improved resource management and a focus on waste reduction.

### Cost Competitiveness, Productivity and Innovation

Contributors emphasised the need to ensure cost competitiveness remains a key priority for the agri-food sector, especially amidst global externally driven challenges. There was wide agreement of the important role of innovation, in terms of product and process, as a way of improving this. It was noted that flexibility in State Aid rules, access to finance and investment supports would also help in this regard. Once again, stakeholders emphasised the need to ensure the Irish agri-food sector remains competitive in light of the continuing presence of Brexit-related uncertainty and the unique exposure of certain sectors that have significant trade links with the UK market.

### Income Volatility

There were calls from industry representatives during the discussion for the EU to retain current levels of funding under the next CAP 2021 – 2027. The divergence of incomes across primary agricultural sectors in Ireland was mentioned. This led to a brief discussion about the role of risk management tools and financial instruments in managing income volatility. Some representatives noted that there was a need to ensure that farmers have access to low cost finance, including young farm entrants. In contrast, although another contributor was supportive of greater access to finance, they stressed the need to ensure that farmers do not become too heavily indebted, especially given a number of downside challenges facing the sector.

## Attraction and Retention of Talent

There were differing views on the cost of labour within the Irish agri-food sector. While the question of a living wage was raised by one representative, another contributor highlighted the costs associated with employee liability insurance for employers.

The attraction and retention of talent within the sector, in line with the Food Wise 2025 strategy, was flagged as a key challenge. In particular, attracting farming as a viable career path for young entrants remains a challenge, especially in light of a number of other barriers faced by this cohort such as access to finance and difficulties around the issue of generational renewal. The need to retain skilled labour within the sector was also mentioned as an area of focus. A number of contributors suggested that older farmers should be incentivised to exit the sector, e.g. through the re-introduction of a retirement scheme.

It was noted during the discussion that, as Ireland approaches what could reasonably be considered as an economic environment characterised by full employment, labour shortages are likely to continue to increase in the agri-food industry. Work permits that have been introduced were welcomed, however, there was agreement that more needs to be done to address this issue.

## Ireland's Rural Economy

It was recognised by stakeholders that Ireland's agri-food sector plays an integral role in stimulating activity and growth in regional areas of the economy. Representatives argued that there was a need to improve the social offering in local communities in order to incentivise farmers to remain within the sector. One representative compared hours worked by primary producers to workers in other sectors of the economy and noted the divergence. Access to broadband, at higher speeds could help both the quality of life and the productivity of on farm working. The important role of part-time farmers in sustaining rural communities and positively contributing to the multiplier effect associated with the agri-food sector in regional areas of the economy was emphasised on a number of occasions. Some challenges associated with the ageing demographic of Ireland's primary agricultural sector, particularly outside of the dairy industry, were recognised. Farm safety risks and productivity limitations, often associated with the older cohort of farmers in Ireland, were described.

## Sector-Specific Concerns

A representative from the fisheries sector highlighted the importance of the sector in rural parts of the Irish economy. The threats arising from Brexit, in particular, uncertainty in relation to access to UK waters post-Brexit and infrastructural deficits within the sector were flagged. The landing obligations from January 2019 are causing concern. Contributors emphasised the need to ensure cost competitiveness is a key priority for the agri-food sector, especially in light of increased protectionist sentiments present within the global economy.

There was wide agreement of the role of innovation, improvements in productivity and technological advancements as ways of improving competitiveness.

# Breakout Session 3

## “Reforms for Sustainable Productivity Growth”

**Chair:** Minister for Business, Enterprise and Innovation, Heather Humphreys T.D.

**Rapporteur:** Dr Adele Bergin

*The following summary of discussion at the breakout session has been prepared under the authority of the rapporteur and should not be perceived or understood as an agreed document.*

### Introduction

There was a very rich discussion covering a wide-range of issues related to productivity, and possible reforms to boost productivity growth, and I would like to thank all the participants in the breakout session for their input.

There was a broad consensus from the breakout session that ensuring sustainable productivity growth was essential both for future output growth and to achieve improvements in living standards. To protect competitiveness in a tightening labour market, productivity growth is needed to match wage growth. The group also felt that measures to enhance both productivity growth and competitiveness are crucial in helping to improve the resilience of the economy to future shocks.

The group noted that Ireland has experienced robust overall productivity levels and growth rates in recent years. However, this masks important differences at a sectoral and firm level. Ireland’s productivity performance, in terms of both levels and growth rates, is influenced to a very high degree by certain high-tech sectors (particularly Pharma and ICT) and, within these sectors, by a small number of highly productive, and mostly foreign owned, firms. Most Irish firms have experienced declining productivity over the past decade.

There were a number of recurring themes throughout the discussion. Below is a summary of the main issues and constraints arising under each of the key themes along with policy options proposed by the group for addressing them. The main themes were as follows:

- Skills and talent
- Access to finance

- Spillovers
- R&D and innovation
- Regulatory burden for SMES and indigenous companies

## Skills and Talent

The unemployment rate is fast approaching historical lows and, consequently, firms risk facing rising labour costs as the labour market continues to tighten. Costs may potentially increase as a consequence of both labour and skill shortages. The group recognised the importance of proactive action in this area as a means of preventing a dis-improvement in competitiveness and productivity.

The group identified a link between poor management training and practices and lower productivity levels for indigenous companies, especially SMEs, as a key issue for policy. The group felt that poor management skills weaken the potential for productivity spillovers to local firms. The group noted the low proportion of workers participating in lifelong learning activities and felt that lifelong learning has a key role to play in education and training policy. In this regard, the group felt that expenditure from the National Training Fund should be further rebalanced towards in-company or in-employment training.

There was a recognition that all aspects of the education system need to work to support skills needs. The group felt that both the higher education and further education and training sectors (especially apprenticeships and traineeships) were important in this regard. The group noted that, early childhood interventions can be seen as ‘future proofing’ productivity growth in the economy. The group also felt that policies that improve human capital are not just beneficial for productivity growth but also for inclusivity more generally.

In terms of future labour supply, there was some discussion on migration. The group welcomed the review of the list of eligible work permits and suggested a review of the list of ineligible work permits.

## Access to Finance

The group felt that access to competitively priced finance for SMES and indigenous firms needs to improve. They also identified particular challenges in getting finance for various forms of investment such as knowledge-based investment, innovation investment and finance for market diversification. There was a consensus view that we need diversification outside of bank finance into equity finance (including angel investment which brings the bonus of knowledge sharing as well as equity). They also felt that some existing equity schemes could be improved. One example given was the Employment and Investment Incentive Scheme, where the group noted that the rules are overly restrictive. The group also felt that capital gains tax is high in an international context and, as such, constitutes a barrier to equity financing. (Reforms to CGT could provide the financing needed to increase entry

rates for start-ups and assist firms to achieve scale, both of which are important components in aggregate productivity growth).

## Spillovers

There was a general view that local firms are not reaping the productivity benefits and potential spillovers offered by highly productive multinationals located in Ireland. This was identified as a key barrier to improving the productivity performance of indigenous firms, and in turn aggregate productivity. These spillover benefits can only be fully realised if Irish firms have the capacity to absorb the new ideas and technologies utilised by high productivity firms, which requires investment in knowledge-based capital and human capital by domestic firms. The group also noted that foreign companies in Ireland only bought in around 10 per cent of their inputs from Irish firms and expressed the view that there was scope for these supply chain linkages to be increased. There was also a concern raised about a negative spillover effect whereby foreign companies in Ireland were hiring talent from local companies and generally we would expect this to work in the other direction whereby you have knowledge diffusion from multinational sector to local firms.

## R&D and Innovation

The group expressed the view that Ireland is an R&D follower not a leader and that rates of innovation in SMEs and indigenous firms are low. They noted existing data and research on the gap that exists between ‘the best’ firms in terms of productivity performance and ‘the rest’ and bridging this gap was identified as a major challenge. The low capacity to absorb knowledge and technology at a company level was recognised as being a key barrier to unlocking the productivity potential of indigenous firms. The group felt that more could be done (in terms of reducing the administrative burden) to help SMEs access existing R&D supports such as R&D tax credit (including the rules on outsourcing thresholds). The group also noted that Enterprise Ireland had good programmes in this space for export orientated companies and perhaps something similar could be introduced for other firms.

## Regulatory Burden for SMES and Indigenous Companies

The group felt that a lot of management time is taken up with ensuring regulatory compliance and other administrative burdens and this has resulted in their being less time to focus on key strategic issues. The group would welcome reductions in ‘red tape’ and regulatory burden, which disproportionately affect SMEs. There was a suggestion to ‘SME proof’ any new regulations. Another suggestion was to reduce the administrative burden associated with the R&D tax credit for SMEs. It was also noted that the public procurement criteria were challenging for SMEs because of the requirement on previous experience and the size criteria. The group also felt that existing bankruptcy regulations make it expensive to fail and therefore expensive to take risks and so they discourage entrepreneurship.

Other consideration was given to:

- the recommendations from the recent OECD survey on how to encourage sustainable productivity growth. The group were largely supportive of the suggested measures.
- capital investment by the government and in this regard, factors such as project management, monitoring and ex ante and ex-post evaluation were stressed. The fact that Ireland currently does not have a capital stock register was also highlighted.

Finally, the group highlighted the importance of effectively communicating the benefits of productivity growth to everyone, and how there may be a need for a central government approach/plan in this regard.

# Breakout Session 4

## “Sustainable Urban Development to Address Housing Supply”

**Chair:** Minister for Housing, Planning and Local Government,  
Eoghan Murphy T.D.

**Rapporteur:** Dr Larry O’Connell

*The following summary of discussion at the breakout session has been prepared under the authority of the rapporteur and should not be perceived or understood as an agreed document.*

### Introduction

There was very constructive, wide ranging and interactive discussion of sustainable urban development and its role in addressing housing supply. The discussion can be grouped under four themes:

- Getting behind project 2040
- New solutions and areas for further consideration
- Capacity and skills
- Thinking about renting.

### Getting Behind Project 2040

Project 2040, the NPF and the NDP provide a clear roadmap and direction of travel. The challenge as perceived by participants is now about ‘getting behind Project 2040’. There are four aspects to what it means to get behind Project 2040.

First, it means communicating and explaining the plan. Greater effort is needed to explain to people what sustainable urban development means – that first and foremost it is about affordable housing: if housing is not affordable to 40 or 50% of a community then it is not sustainable. That it is about social sustainability and quality of life—people living closer to each other and with access to better services; it is about choice, creating living urban centres and vibrant communities, where people can and want to live and work locally. It is about environmental sustainability and the costs in terms of GHGs and biodiversity loss associated with dispersed sprawling patterns of development. These and other messages need to be

communicated to ensure that people understand why Project 2040 is good for them and their children.

Second, getting behind Project 2040 means following through on the commitments to investment in infrastructure spending over the period of the Plan.

Third, getting behind Project 2040 means defending the plan. One challenge the Plan faces is how to bring forward more land for development in key urban areas. The Plan has the potential to confer enormous windfall gains on land and property owners, which in many cases will be amplified with the passing of time. There is an urgent need to ensure that CPO can be deployed as a credible threat, so that the owners of land or property in areas of high demand cannot choose to ignore Government efforts to enhance supply. This may require a test case or an examination of the constitutional implications of specific CPO proposals. Project 2040 may also need to be defended in the face of pressure from those who continue to champion alternative more dispersed patterns of development.

Fourth, getting behind Project 2040 means setting up and making the new National Development and Regeneration Agency (NDRA) operational as soon as possible. One of the most striking features of the discussion was the support for more active state involvement in land and housing. The most concrete illustration was the support among all participants for NDRA. It was stated that it needs to have the power to identify and assemble land, public land in the first instance to lead by example, but it also needs to engage and collaborate with private land and property owners. It can be a real force in enhancing the role of the state not just in increasing affordable supply but also in working to develop places where people want to live – what is referred to as place making. It can be a driver in helping to ‘crack the nut of regeneration’ which can sometimes take longer (than new Greenfield development) but the benefits of which are often more lasting and sustainable. It may also be able to take a broader community perspective on the higher costs associated with brownfield sites when they are looked at in isolation. It could also have an active role in finding ways to transfer stock from LAs to AHBs.

### New solutions and areas for further consideration

The participants identified a range of new ideas and areas for further consideration.

First, the need to continue to enhance data, in particular in relation to future housing needs, which would allow more tailored plans from Government and Local Authorities. Modelling techniques were discussed and further details will be provided to the Minister. It was argued that better data and evidence could help ensure a greater diversification of home types being built.

Second, density and height was discussed including that there is a degree of over-sensitivity in public discourse around height and indeed a tendency to oversimplify the impact of height on the economics of building. A key issue identified was the need to focus on better design rather than height per se.

Third, various issues arose in relation to the planning process. These included the hidden costs associated with delays, including long delays at pre-planning stages; some continuing burdens associated with the four stage plans, which are exacerbated for AHBs; the lack of weight given to supporting applications compared to dissenting views; ability to provide clarifications; the need to deal with spurious objections; the need for an objection to have locus standi; distinguishing between an observation and an objection (and charging more for the latter); the potential to spread development levies over the lifecycle of a project; and the question of why development levies are still levied when LPT has now been introduced.

Fourth, the issue of a site value tax was raised and discussed and further documentation will be provided to the Minister outlining the case for such a tax.

Fifth, the issue of finance for builders was raised and it was noted the new House Building Finance Initiative is targeting this constraint. It is seen as critical that the HBFI Bill will pass through the Oireachtas as soon as possible. It was also noted that the Help-to-Buy scheme has been positive and has helped builders to secure finance.

Finally, the possibility of allowing lands held privately being incorporated into the affordable purchase scheme was raised.

## Capacity and skills

The third issue to arise was capacity, resources and skills in both the public and private sector.

In the private sector there is a real shortage of skilled labour. Discussion focused on two aspects of this: apprenticeships and international workers. In relation to apprenticeships it is not seen as a career of choice, and there is a need to re-examine how it is portrayed in general, to parents and in schools and to examine the system of further education and the level of supports provided. For international workers there are a range of obstacles including taxation and housing issues, skills or qualifications no longer or not recognised and smaller though often significant issues like high car insurance costs for returning immigrants as their Irish no claims may have lapsed.

In the public sector the skills and resources available are increasing but there are still gaps. Participants recounted long delays around pre-planning and issuing of certificates; this can often mean completed homes are delayed coming onto the market. Staff shortages were also

noted in Local Authorities and key agencies and service providers. A key shortage identified was in relation to staff carrying out Local Area Plans.

In AHBs there are also skill shortages, in particular in relation to technical skills, for example project managers and QS. The question was asked if some temporary solution could be created to allow AHBs access to shared or temporary expertise.

The issue of low or no growth in productivity in the construction sector was identified. This is not just an Irish problem and in part reflects unique aspects of the sector and in particular its cyclical nature. The industry, it was argued, doesn't lend itself to high levels of investment and in this context it was suggested the role of research grants and procurement as means of supporting investment and innovation could be examined and used in the sector.

Finally, in terms of capacity the discussion also focused on the role of innovative design, e.g. models that can be changed from being 2 beds to 4 beds, then can be turned into retirement villages. It was noted that it will be important to identify and harness those kind of innovations.

### Thinking about Renting

An interesting theme to emerge during the discussion was rent. Rent looks increasingly likely it will be a long-term tenure –by choice or otherwise- for a large proportion of the population.

The participants noted that Build to Rent is an important development in this regard. It has delivered new supply and that is very welcome. It is in most cases high cost and it based on a model which requires long-term high rents and tends to lead to rent and price inflation in the areas where major BTR developments take place. It also is not likely to be viable in areas other than major urban centres. The other success is student housing provision. This is also delivering new supply at scale and there is also possibility to extend similar models to other groups, such as recent graduates, who may also be interesting in living in places with shared facilities etc.

However, these developments give rise to a number of important considerations. It is important to think carefully on the combined impact of these types of developments on the liveability of our major cities: will families be pushed out to the suburbs. This also brought into focus the question of further diversification of stock and the opportunity for stock to be provided at every stage of the life cycle which in turn the need for inclusivity and community aspect of apartment dwelling and other housing types.

In addition, what will be the competitor to the current BTR? What types of rental models will compete with current profit based build to rent? The obvious candidate is cost rental. It was noted that there are a number of models proposed –individual AHBs, Social Justice Ireland

and NERI have outlined working models– alongside the Government’s work with EIB. A suggestion was given the scale of the long-term challenge that more than one cost rental model should be supported.

Finally, the discussion on rental brought to the surface the need to be mindful of the long-term consequences and implication for pensions and peoples security after retirement.

## Conclusion

It is clear that Project Ireland 2040, the NDP and the NPF have provided an inspiring vision and ambition. There is an openness to and indeed a demand for more pro-active Government involvement in land and housing. There is also huge energy and commitment amongst stakeholders to work with Government, to deal with challenges and to realise this vision.



# Breakout Session 5

## “Transitioning to a Low Carbon and Climate-Resilient Society”

**Chair:** Minister for Communications, Climate Action and Environment, Denis Naughten T.D.

**Rapporteur:** Professor Edgar Morgenroth

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### Introduction

The session started with a brief introduction by the Minister, which was followed by a discussion of the broader issues. Participants stressed the scale of the tasks ahead to achieve the climate change targets. In order to achieve the targets the correct price signals need to be set, but it was noted that this alone would be insufficient as the transition would require significant investment in infrastructures. There also needs to be a change in mind-sets, which can only be accomplished through increased education, dissemination of information and community engagement. In this respect it was noted that Leader funding on biodiversity has not been drawn down.

It was noted that grid reinforcement is required due to the variability of renewables supply but that this may only be required over a transition period until distributed production increases. There needs to be greater community involvement and community ownership of electricity generation including windfarms, solar and micro generation.

In relation to electricity production the difference between grant supports and price supports was noted, and it was highlighted that there is a danger that poorer households subsidise richer ones. In this context it was pointed out that supports for roof top solar in UK etc. are paid disproportionately by those who can't afford solar and that the cost is not just of the solar panels but also for the required grid reinforcement. It was noted that the transition needs to be a just transition that ensures poorer households are not disadvantaged further.

There was agreement that a detailed roadmap to 2050 is needed that sets intermediate targets, which need to be matched with specific policies/measures. This would reduce the uncertainty about the policy landscape and let people plan ahead. The question as to whether

policies should be enacted incrementally or brought in with a 'bang' was left open as politicians are better able to assess what can be delivered. Overall, people need to see positive action rather than just fear of needing to make the transition.

Following the discussion on these more broad issues the focus moved to the measures needed to reduce emissions from the three largest sources of non-ETS emissions, residential transport and agriculture.

## Residential Emissions

In relation to emissions from buildings a number of points were made:

Firstly, it was stressed that the state needs to play a leading role and improve the energy efficiency of public buildings including schools through deep retrofits.

Secondly, it was highlighted that where communities are involved in conducting deep retrofits there tends to be greater buy in as this is perceived to be less risky by individual householders. This points to the role of trusted intermediaries in reducing the perceived risk for householders. By taking a community approach or by focusing on public buildings and local authority housing projects, sufficient scale of projects is achieved that is more attractive to larger contractors, and helps overcome the problem of finding a suitable contractor for individual projects. Focusing on local authority housing could bring additional benefits by reducing fuel poverty and also reduce the need for fuel allowance.

Thirdly, it was pointed out that it is vital that the required investments be appropriately assessed and designed which requires skilled experts, which may be in short supply. With the increase in construction activity, including commercial projects, capacity issues are emerging in the construction industry. In order to increase the number of construction workers it is necessary to upskill those that have been out of the labour force for some time, and it is necessary to address issues around attracting labour whether returning emigrants or retaining and attracting immigrants. While offering attractive wages will attract labour this will also lead to increased costs and a loss of competitiveness.

## Transport Emissions

In relation to transport emissions the discussion focused largely on fiscal measures, but the need to roll out charging points for electric vehicles was also noted. In relation to taxation it was pointed out that a tax revenue from transport makes up a greater share in Ireland than in other countries and designing tax reforms that incentivise more efficient transport are likely to reduce tax revenues. The 2008 reforms achieved significant behavioural response, in part because they also implied a reduction in the overall tax burden, and people might react badly if they feel that they are being punished for their behavioural change, through a change in tax regime. However it was accepted that the current system, which is more heavily focused

on ownership taxes, needs to change, and that change should focus taxation on actual mileage. In so far as changes raise tax revenue from transport, this might be done in an overall revenue neutral manner. It was accepted that due to the multiple objectives and different potential behavioural responses changes need a very well worked out long term plan.

## Agriculture Emissions

In relation to emissions from agriculture two dimensions were discussed namely the role of on-farm renewable energy production and the reduction of emissions from agricultural production.

In relation to the former it is accepted that renewables production can play a big role on farms, but that take up will require appropriate incentives. In the case of anaerobic digesters, scale can be an issue.

In relation to emissions from production it was noted that demand for food is increasing internationally and that this food will be produced somewhere. Ireland is more efficient at production of certain foods and shifting production out of Ireland would increase emissions globally. While animal numbers in Ireland have been increasing, this increase will not continue indefinitely and recent market developments are already leading some farmers to stop expansion plans.

While commercial farmers need to stay commercial, there is scope for smaller non-commercial farmers in particular to make a contribution to reduce emissions if appropriately incentivised and informed. The GLAS scheme, which is currently closed to new applicants, was mentioned as a good example and there was a call to open this scheme up again. It was pointed out that farmers prefer price certainty as they already face a lot of uncertainties.

More generally it was noted that the upcoming CAP reform is likely to encompass measures to deal with climate change, water conservation, biodiversity and land-use. It was pointed out that the half-life of methane is considerably shorter than that of CO<sub>2</sub> but the climate change is more severe and the way methane and other substances is treated is subject to change.

It was noted that land-use in general including that of bogs, forests and mountains plays a role in emissions from land, but that emissions reductions must be allowed to be counted. The regime around recycling of construction waste was raised in the context of land-use given that the recycling of materials reduces the need for aggregates abstraction. In this respect there was a call for additional resources for the EPA in relation to waste licensing and inspection.

Overall it was agreed that there is a need for a diverse rural economy.



# Breakout Session 6

## “Challenges For State Pension Funding Into The Future”

**Chair:** Minister for Employment Affairs and Social Protection, Regina Doherty T.D.

**Rapporteur:** Dr Tom Arnold

*The following summary of discussion at the breakout session has been prepared under the authority of the rapporteur and should not be perceived or understood as an agreed document.*

### Background & Context

The increase in life expectancy and the profound changes in the nature of work in recent decades provide the background for the discussion on pensions. The traditional conception of the pension life-cycle involves commencing full-time work at an early age, making contributions throughout working life, often with a single employer, and then retiring at a given age to receive a defined income in retirement until death.

All aspects of this model are now challenged. Full time or permanent employment begins at a later age. Individuals are more likely to have multiple employers and/or change career more frequently and a one-size-fits-all retirement age may not be appropriate as some individuals choose to work later in life. Moreover, the increase in life expectancy means many people can expect to live for a longer period in retirement.

This evolution of the pensions landscape demands reform and fresh thinking to ensure income adequacy in retirement for all.

### State Reform Initiatives

In recognition of these challenges the Government published earlier this year a comprehensive reform plan for pension provision – the *Roadmap for Pensions Reform 2018-2023*. The Roadmap takes a holistic view of pension issues, and details specific measures presented under six strands that, taken together, will modernise the pension system. These strands include:

1. Reform of the State Pension, including the ‘Total Contributions Approach’

2. A new Automatic Enrolment System
3. Improving Governance and Regulation
4. Measures to support the Operation of Defined Benefit Schemes
5. Public Service Pension Reform
6. Supporting Fuller Working Lives

The Roadmap has been generally welcomed by stakeholders and this was reflected in the breakout session discussion.

The Roadmap provides for two specific consultation processes:

1. 'Total Contributions Approach' to the Calculation of the State Pension
2. Automatic Enrolment 'Strawman' Consultation Process.

A large portion of the discussion was taken up with the above topics and they are addressed in more detail below.

### State Pension system

Under Ireland's State Pension system, a person reaching the age of eligibility (currently 66, and rising to 67 in 2021 and then 68 in 2028) is entitled to one of three pensions; the contributory, paid from the Social Insurance Fund and based on a "yearly average" PRSI contributions made; the non-contributory, which is means tested and payable at 95% of the contributory; or to a widow's pension where appropriate. In addition, where a spouse has a State Pension, a person may qualify for an Increase for a Qualified Adult. Pensioners can also qualify for a variety of other payments, such as fuel allowance and other household benefits, depending on their means.

The key aim of the State Pension is to ensure a minimum standard of living and an adequate income for those in retirement. This has been successfully achieved over a number of decades, to the extent that older people in Ireland are less at risk of poverty than those of working age. The maximum rate of the contributory payment has increased from £83 in 1999 to its current rate of €243.

### Sustainability

Over recent years the cost of the State Pension has increased substantially, in particular as increasing numbers of people become eligible for the payment but also as people are living longer. In 2018 about €7.6 billion, or one eighth of current expenditure, will go on State Pension payments. In this context, the Government has begun to examine the long term sustainability of pension payments. A first step in addressing this was the decision to raise the age of eligibility from 65 to 68 over the period 2014 to 2028. However, a serious question remains over the long term sustainability of the State Pension payments, particularly as the

Social Insurance Fund, from which most of the payments are funded, is set to go into deficit in the coming years, and this deficit will be exacerbated by the demographic factors outlined above.

## Total Contributions Approach

As far back as 2010, in the National Pensions Framework, the then Government announced the intention to introduce a new method for calculating State Pension Contributory entitlements, whereby the current “yearly average” system, would be replaced by a Total Contributions Approach (TCA). The TCA is a central component of the Roadmap for Pensions Reform. This would make the level of pension paid “directly proportionate to the social insurance contributions made by a person over his/her working life”. This is seen as a fairer and more transparent system, as it will eliminate the anomaly under the current system whereby someone could end up with a lower pension than another person who actually made fewer contributions because of the entitlement being calculated based on a yearly average instead of on actual contributions made. This approach will also take account of time spent in a caring capacity, so that, for example, a person who spent a number of years outside the workforce in order to care for a sick relative, could avail of a homemaker credit and so have this period of time counted towards their contributions.

The TCA is scheduled to take effect in 2020. It is intended to provide for adequacy, equity and sustainability. The Department of Employment Affairs and Social Protection is currently engaged in a widespread consultation process with stakeholders, which is designed to examine the general approach, priorities, and sustainability of the TCA.

At the breakout session there was a broad welcome for the introduction of TCA. There was a general view that it would be more fair and sustainable. There was concern expressed at the possible proposal to require 40 years of contributions to receive the full payment; however, it was also pointed out that the homemaker credit would mitigate this issue for many people. This would also help prevent a gender imbalance in terms of entitlements as more women have tended to take time away from work in order to perform a caring role. Concern was also expressed that 2020 was too early to introduce the approach in terms of giving people sufficient time to build up contributions.

Three issues were discussed in the context of the proposed introduction of the TCA: Benchmarking: the Sustainability of the Social Insurance Fund (SIF): and Solidarity.

### *Benchmarking*

There was general agreement that the proposal to benchmark the State Pension against the average industrial wage was a welcome move and would guard against the value of the payment being eroded.

### *Sustainability of the SIF*

A view was expressed that contributions would have to increase in order to address the long term funding of the SIF. There was also a discussion on the need for people to work longer given the marked increase in life expectancy and the amount of time spent in retirement. It was noted that some employers have already begun to facilitate this by extending contracts. While there was agreement on the need to facilitate older workers, the view was also expressed that workers should also be allowed to retire earlier if they wanted to, particularly where they were doing physically demanding jobs.

In this context there was a discussion of the Government's proposal to amalgamate PRSI with the USC. An Interdepartmental Group is currently examining this and a report on the options surrounding this proposal is due to go to Government later in the summer. The question was raised as to whether an amalgamation would lead to the extension of benefits available from the SIF.

### *Solidarity*

There was also a discussion on how to explain to younger generations what they would get from their SIF contributions. The point was made that this can only really be imparted through experience as, for example, when people experience periods out of work as a result of sickness or unemployment and perhaps receive illness or jobseeker benefit. However, it was also pointed out that everyone receives the same entitlements from the SIF, regardless of the size of their contributions; the SIF is very redistributive and there is an element of solidarity to payments into it.

## **Proposals to Introduce an Automatic Enrolment System**

Though not directly related to the sustainability of the State pension system, participants actively engaged on the Government's proposal to introduce an automatic enrolment system (AE). AE is intended to target income adequacy in retirement and build on the commitment to the State pension as a base level of income. AE would involve imposing an obligation on employers to enrol employees in a supplementary pension scheme subject to various conditions and requirements.

Participants were broadly in favour of AE and welcomed its introduction. The need to introduce AE is reflective of lower supplementary pension coverage rates in the private sector despite the existence of significant incentives. A number of views were expressed in relation to the design of AE in order to maximise its effectiveness:

- There was a general consensus that simplicity of design would support the successful implementation of AE;
- Participants expressed general support for designing an easily communicable incentive structure and allowing savers to identify the growth of their funds over time;

- Participants expressed a range of views on the potential level of State involvement and the level of trust that exists in private sector financial service providers;
- Early and meaningful engagement is required with employers to facilitate the effective rollout of AE;
- Specific issues arise in relation to the involvement of the self-employed.

The Department of Employment Affairs & Social Protection plan to issue a consultation document in the form of a 'Strawman' proposal by end July. The Strawman will be framed not as 'the' answer but one possible answer and participants were encouraged to engage constructively as part of the process.

## Conclusion

Participants engaged constructively on the issue of State pension funding and related policy matters. The importance of certainty in relation to the State pension was echoed by all and ensuring sustainability over the medium term was emphasised.

The *Roadmap for Pensions Reform 2018-2023* sets out a vision of a new pensions landscape and required actions to achieve this objective. The Roadmap envisages frequent dialogue with stakeholders and encourages constructive and balanced input into the development of policy.



# Breakout Session 7

## “TOWARDS INCLUSIVE GROWTH: CHILDCARE AND STRENGTHENING FAMILIES”

**Chair:** Minister for Children and Youth Affairs, Dr Katherine Zappone T.D.

**Rapporteur:** Niamh O’Donoghue

*The following summary of discussion at the breakout session has been prepared under the authority of the rapporteur and should not be perceived or understood as an agreed document.*

The Minister introduced the discussion by referencing the fiscal challenges for Budget 2019: emphasizing that whilst there is some scope for expenditure increases, the best options are for strategic measures to boost the productive capacity of the economy to deliver inclusive growth. Without putting further pressure on housing, there is potential to increase labour supply through increasing female participation but this would require wrap around quality childcare and education supports.

### General Issues

The passing of the Childcare Support Act, 2018 was welcomed and was considered very timely for this discussion. Concerns were expressed, however, that the Act in itself would not solve all problems in relation to childcare. The group felt it important that a number of dimensions were given careful consideration in implementation including

- any linkage of the supports to the receipt of other income supports and secondary benefits so that there are no unintended disincentives to engagement in the workforce;
- the scope of the regulatory system provided in the Act;
- the funding model for State support.

It was also suggested that the supports available under the Act should form part of ‘Return to Work’ discussions held in Intreo offices for people moving from welfare to work.

Quality childcare is considered to be an important dimension of tackling child poverty and children should be at the centre of the childcare discussion. It was recognised that improving

childcare will assist in the delivery of a range of other policy objectives including increasing labour force participation, gender equality and pay equality. However, caution needs to be exercised in order to ensure that the childcare structures put in place to support economic growth are sustainable and not based themselves on precarious employment.

## Quality

It was pointed out that there is considerable international evidence to support investment in high quality childcare to equip children to learn, adapt and fulfil their potential. The return on this investment has been shown to have considerable benefits for the economy and for society as a whole. However, it is recognised that quality comes at a cost which has implications for affordability for parents, profitability for providers and the retention of qualified and experienced staff.

## Affordability

Affordability is a key issue in terms of labour force participation by women and there was a consensus that investment in improving service provision would be preferable to income tax cuts or increasing income supports, while taking care to maintain the value of current income supports during any transition to increased service provision. Concern was expressed that, in some instances, the current system of subvention was leading to increases in fees. If this was to continue under the new system, the State might have to consider the introduction of caps on fees in the sector.

## Tensions

The tension between quality and affordability was a key theme of the overall discussion. A number of suggestions to address this were advanced. One suggestion was that the State should take over the pay element for the early years sector. However, it was recognised that this could cause some difficulties in relation to both employee and employer status and would have serious budget implications. It was also suggested that the use of higher child to staff ratios where staff were more highly qualified could be considered as a means of increasing affordability. A Q mark for regulated providers with tax redemption schemes was also proposed. The better targeting of child benefit as a means of improving affordability was raised as well.

## Pay and Conditions in the sector

The current model of private sector provision was considered to incentivise childcare providers to maximise profits by keeping salary levels as low as possible. This militates against the professionalization of the service and the retention of experienced staff. Given that the majority of childcare workers are also women, this contributes to the gender pay gap. The issue of promoting collective bargaining in the sector to address low pay was raised as well as the possible use of sectoral employment orders

## Regulation

The view was strongly expressed that there should be some regulatory overview of child-minding services especially in view of the high use of these services by lone parents and workers in precarious employment. It was considered that there was scope for greater streamlining of inspection services and it was suggested that a multidisciplinary approach might be considered across Government Departments. Supports for smaller providers to come together for a shared services approach on administrative issues was also suggested.

## Parental Leave

There was strong support for the introduction of paid parental leave as part of overall childcare policy. The commitment in the Programme for Government was cited.

## Early Years Strategy

The Minister confirmed that she will be publishing an Early Years Strategy in September. This takes a Whole of Government approach to dealing with challenges and policies relating to babies and young children up to the age of 6. There will be a process in place to monitor progress to ensure positive outcomes for children. It was pointed out that there was a need for the Strategy to consider the alignment of the imbalances in childcare provision between children under 3 and over 3.

The discussion concluded with the Minister thanking all contributors for their engagement in this discussion which she found very helpful.



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