

Swift action needed to improve Ireland's international competitiveness in the face of global economic uncertainty

National Competitiveness Council publishes Annual Competitiveness Report

The National Competitiveness Council (NCC), today (12 January 2012) published its annual policy report, *Ireland's Competitiveness Challenge 2011* which outlines policies to address weaknesses in Ireland's competitiveness performance.

The Council stresses the importance of maximising Ireland's competitiveness and that swift action is needed - particularly in light of ongoing international economic uncertainty and the growing risk of further downturns in some of Ireland's main markets. Dr Don Thornhill, Chairman, NCC commented, "Competitiveness is improving and action has been taken on recommendations previously made by the Council, such as the Government's commitment to the introduction of a property tax and domestic water charges, as well as some improvements in competition. However, competitiveness is not improving quickly enough to improve the prospects of people who need jobs. Decisive and calculated actions are required to create an environment where business can prosper, job creation can become a reality and exports continue to grow."

Dr Thornhill emphasised the need to relentlessly pursue policies to improve competitiveness particularly those to reduce the cost base for enterprise, to enhance the performance of the entire education system, and to deliver meaningful public sector reform.

The need for positive thinking

In his Preface to the report Dr Thornhill said, "The depth of Ireland's economic challenges has meant that policy actions that were previously considered to be unpalatable to implement are now increasingly required to support recovery."

He also commented, "As a people we have shown considerable resolve in facing up to the economic difficulties of the past few years and that while anger, frustration and, for some a sense of hopelessness are understandable it will not help to surrender to these feelings. It is vital that we exercise confidence, judgement and discernment and that Government policies and actions do not damage incentives to work, to invest and to engage in public service."

Burdens of adjustment should be shared equitably

Dr Thornhill also commented, "At a time of profound economic and social adjustment when very many people have suffered economically and financially it is important that the burdens of adjustment are borne equitably and that this is seen to be the case. This puts a particular responsibility on the better off in our society and, particularly from a competitiveness perspective, on those who have the potential to contribute more to national welfare by abandoning restrictive practices, by increasing flexibility in the work place, and by facilitating the opening up areas of the economy and public service to the provision of greater choice and contestability".

Martin D. Shanahan, Chief Executive, Forfás said, “The National Competitiveness Council, together with Forfás, have consistently provided strategic advice on the policy reforms necessary to enhance competitiveness, encourage economic growth and support employment creation. This year’s Challenge report clearly articulates the importance of seizing every opportunity to maximise the performance of those competitive drivers that are within domestic policy control. There is a list of difficult actions which need to be taken and we must move decisively to ensure that there is more and sustained action, and that it happens quickly to improve our competitiveness position. The imperative to create jobs has to be at the centre of everything that we do”.

Summary of Key Recommendations

Reducing the Costs of Doing Business

Commercial Property Cost

- Further information is required on the loans that NAMA has acquired, and on how it will dispose of the assets associated with these loans.

Commercial Rates

- The revaluation process needs to be expedited. The process could be accelerated through the introduction of self-assessment or the outsourcing of valuations.
- Implement the recommendations from the Report of the Local Government Efficiency Review Group. As efficiency savings are achieved, these should be used to achieve a broad based reduction in rates by directing local authorities to lower their Annual Rate on Valuation.

Energy

- Consideration should be given to phasing out subsidies for peat generated electricity.
- The REFIT scheme should be revised so that the price support levels for new onshore wind projects are phased out over time.
- The cost of supporting emerging energy renewables technologies (e.g. wave, tidal, offshore wind) should be funded through funding mechanisms for R&D, rather than by energy customers through price support mechanisms.
- It is vital that actions to reduce planning delays and improve the efficiency of the planning approval system are progressed quickly (i.e. the North-South interconnector).
- High-tension transmission lines should continue to be placed overhead.

Boosting Productivity

Improve our Formal Education System

Primary School Reform

- Greater class time should be dedicated to mathematics at primary school level.

Training and Teaching Quality

- Professional and in-service development should be frequent, continuing and progressive during a teacher's career, and not limited to introduction of new syllabi. Where feasible, participation in training should occur outside of term time.
- The deployment of out-of-field teachers (i.e. teachers teaching a subject in respect of which their qualifications do not meet the subject-specific criteria set down by the Teaching Council for registration purposes) should be reduced.

Leaving Cert Reform

- A new method of determining entry into third level education, which is meritocratic and promotes critical thinking, problem-solving, self-directed learning, communication skills and innovation, while maintaining access, transparency and fairness, is required to replace the current CAO points system.

Third Level Funding

- Undergraduates should contribute a greater portion of the cost of their education.

Up-skilling and Re-skilling

Activation

- Activation measures should aim to improve employability by providing 'progression pathways' of relevant job search, training, education and employment opportunities for different target groups. In addition, training and education programmes that incorporate traineeships/work placement should be prioritised. Flexible delivery that promotes access is essential also.

Labour Market Adjustment

Replacement Rates

- Replacement rates should be monitored over time with a view to minimising the incidence of high replacement rates. In the longer term, replacement rates should not exceed 70 percent.

Housing Entitlements

- The Council support suggestions that housing related entitlements are transferred out of the Social Welfare System, and into a separate dedicated housing stream where entitlement would depend on income levels rather than employment status.

Enhance Infrastructure

Funding

- Where a priority infrastructure requirement is identified, innovative approaches (e.g. pension funds) to encourage private sector investments should be developed.

Broadband

- The regulatory and planning environment needs to be conducive to facilitating and encouraging investment in advanced broadband infrastructure and services by reducing investment costs and risks. A market assessment should be undertaken to map where deficits will arise outside of existing telecommunications networks and committed investment plans. When deficits are identified, the State should make a commitment to providing or sourcing the funds required.

Intelligent Infrastructure

- The potential for intelligent infrastructure to substitute or complement traditional capital investment should be required as part of the capital appraisal process.

Energy Infrastructure

- To improve Ireland's fuel mix, alternative sources of heat energy such as Waste-to-Energy, CHP, district heating, solar and geothermal energy should be developed and investment incentivised in those with greatest potential in an Irish context.

Restoring a Sound Macroeconomic Environment

Fiscal Policy and Taxation

Broaden the Tax Base

- Ireland needs to broaden the tax base through the introduction of a broadly based and equitable residential property tax, and through greater use of user charges.

Maintain a Competitive Tax Regime for Labour

- Marginal income tax rates are in excess of 50 percent for single individuals earning €32,800 or above (a salary level which is below the average wage). This position should not deteriorate further and should be reviewed when conditions improve.

Ensure Ireland Remains Conducive to Developing Competitive Enterprises

Double Taxation Agreements

- Continued extension of Ireland's tax treaty network (with a focus on key emerging economies) would ensure that Ireland is best placed as an operating base for multinational firms.

Intangible Assets

- The taxation system should not discriminate between intangible and tangible assets - this is an important issue for the taxation treatment of withholding tax on royalties.

R&D

- To increase Ireland's attractiveness as a location for R&D investment, the Council recommends a move to a full volume based R&D tax credit, subject to the results of a cost-benefit analysis.

Improve Cash Flow

R&D Tax Credit

- Where an R&D tax credit instalment refund arises, companies should be permitted to use the year 2 and year 3 instalment of the refund as a credit to offset against other (non-payroll) tax liabilities from January 1st.

Professional Service Withholding Tax

- Where evidence of a tax clearance certificate has been obtained, Professional Service Withholding Tax should be removed for service providers.

Cash Accounting

- Subject to the results of a cost-benefit analysis, consideration should be given to increasing the qualifying threshold for companies to avail of the cash accounting method. This would allow

companies to account for VAT on sales on the basis of monies received, rather than on invoices issued to their customers.

Improve Access to Funding for Enterprise

Restore bank lending

- Ensure that the efficacy of the range of measures put in place to improve credit flows can be assessed and action taken if required. This will require a periodic survey of credit demand and supply.
- Internationally benchmark the availability and cost of bank finance products that are of particular importance to exporters and encourage banks to match offerings available to exporters in other countries.

Promote Investment in Enterprise

- Investigate the possibility of debt/equity swaps or debt write-off and restructuring for business, which can demonstrate future viability through a recovery plan.

Ensuring Delivery of World Class Performance Standards

Reform of the Public Sector

Adopt a Stronger Output Focus

- Departments and agencies should develop key output and outcome indicators that are measured, monitored and published over time.
- Introduce zero based budgeting, to require a more rigorous analysis of expenditure by all government departments and the use of verifiable metrics to assess the outcomes of investments. It is also necessary to ensure that a rigorous system of ex-ante evaluation of expenditure programmes is implemented on a formal basis.
- Mandatory, independent international five year comparative reviews of the performance of government departments should be introduced.

Improve the Allocation of Public Sector Resources

- To reduce the public sector pay bill, each government department and agency should be provided with a pay budget within which they must operate, rather than the current headcount target approach.

Incentivise Good Practice

- Introduce funding procedures (and other competitive mechanisms) to the provision of public services that reflect performance and encourage an output focus.

Reform of Corporate Governance

- Companies should be required to provide more transparent and detailed information justifying any departure from the Corporate Governance Code (where applicable).