



Revisiting the NDP

Priorities for a Mid-term Review of the National
Development Plan

Submission to the Minister for Finance

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1. Key Messages

1.1 A recovery strategy for the Irish economy

Need to avoid two-speed recovery: the Irish economy is currently exiting recession, largely on the back of improved demand in our main trading partners. The domestic sectors of the economy will remain subdued for some time, however, and this will greatly restrict the economy's potential to generate new jobs. An ambitious capital investment programme is needed in order to support balanced economic recovery and provide much needed employment. The cost-benefit arguments of a strong capital programme which delivers much needed infrastructure while simultaneously getting workers off the Exchequer's social welfare bill have been well rehearsed already. Enterprise and the construction sector now urgently require Government to give clarity of its specific investment plans over the coming years.

Prioritise investment to grow enterprise and employment: almost all elements of Ireland's economy have changed radically since the National Development Plan (NDP) for 2007-2013 was launched. It is now appropriate to have a wide-ranging review and re-prioritisation of investment plans for the coming years. The socio-economic objectives of the plan must reflect the new realities of Ireland's economy. Economic recovery can only be achieved through a competitive enterprise sector, while job creation must go back to the top of Government's policy priorities. Capital investment which enhances the productivity and competitiveness of Irish enterprise and both directly and indirectly supports and creates employment must therefore be fast-tracked. Projects in areas such as energy and transport which reduce the cost of doing business must be prioritised. At the same time the long-term investment in competitiveness enhancing measures such as education and training; enterprise development; and R&D must be maintained.

1.2 Investment priorities 2010-2016

Transport infrastructure: with the completion of the Major Interurban Motorways (MIUs) in 2010, it is vital that Government urgently publishes a series of short-term transport priorities in order to maintain an efficient and stable transport investment programme. A series of road and high profile rail projects should move immediately to the commencement stage (see Annex). Further investment in both port and airport infrastructure and their access routes is also essential in order to allow the efficient movement of people and goods.

Science, technology and innovation: delivery of the Smart economy remains key to Ireland's economic recovery. In order for this to happen, public investment in R&D and innovation must be maintained and total R&D expenditure must reach 3% of GDP by 2020. Recent budget cuts in the SSTI must be reversed and the investment programme must remain sufficiently flexible to facilitate funding for new areas of research as they emerge.

Energy: this important sector requires a major policy change in order to address the current energy cost disadvantage faced by Irish enterprise. A range of funding sources, including Exchequer funding; revenue from carbon tax measures; and EU/EIB funding; are required to undertake the essential investment in strategic energy infrastructure such as networks and interconnection. Failure to shift the full burden of this cost from consumers will result in higher electricity prices for the enterprise sector in the short to medium term. The investment strategy must set out clearly defined milestones to ensure timely delivery of the interconnection and network improvements.

Human capital: The much changed labour market context requires a reshaping and mobilisation of labour market programmes and services to meet the needs of enterprises and individuals. Therefore the Human Capital Investment Operational Programme should be redesigned to (i) enhance education and skills levels across the economy (ii) address the training and education needs of target groups such as young unemployed and those previously employed in sectors most affected by restructuring (iii) support activation measures aimed at improving employability by providing 'progression pathways' for unemployed persons.

Waste infrastructure: Ireland's waste policy should promote the provision of an integrated range of waste treatment facilities. This infrastructure should move Ireland up the waste hierarchy; preparing for re-use; recycling; other recovery, e.g. energy recovery; disposal. Specific infrastructures that remain to be completed/developed include thermal treatment; biological treatment and reprocessing capacity for recovered materials (e.g. paper, glass, plastic, metal recycled materials)

Water infrastructure: Government must urgently follow through on its commitment to introduce domestic water metering and charging. It must also accelerate investment in network rehabilitation above and beyond what is provided for in the Water Services Investment Programme 2010-2012. These measures would relieve some of the water supply investment pressures and deliver improved value for limited resources. Exchequer funding should be targeted towards the gateways and hubs where investment is required. The needs of enterprise must be frequently assessed in this regard. Enhanced delivery of contracts/schemes through PPP arrangements should be pursued, particularly in conjunction with the introduction of user charges.

1.3 Funding and delivery

Certainty on funding: the public capital investment programme is set to be cut by one-third between 2008 and 2011. Any further reductions in funding would greatly undermine the credibility of the programme both domestically and internationally. Government must strengthen its commitment to maintaining a capital budget of at least €5.5 bn annually over the period 2010-2016. Any revenues raised through the National Solidarity Bond should be in addition to this minimum Exchequer commitment.

Clarity on project pipelines: enterprise and the construction sector requires greater clarity on the capital project pipeline for the next three years or so. Failure to advance a wide range of projects immediately will result in a damaging hiatus for the investment programme during 2011 and 2012.

Increased milestones for delivery and use of shared services: the quality of programme delivery in the roads programme has increased significantly in recent years. Other areas of investment, however, have not made similar progress. An opportunity now exists for shared services across the public sector in the areas of programme and project management, drawing on the expertise built up by the National Roads Authority. Improved management of the infrastructure programme should involve more transparent milestones in areas such as the electricity grid upgrade.

Greater use of PPPs: Government must advance the adoption of PPPs in order to help compensate for the reduction in Exchequer funding for infrastructure. This established and proven model is the most effective model for channelling private sector funding into much needed capital investment projects. Government must confirm its support for all previously identified PPP projects and ensure that further projects are rolled out across a broader range of sectors. The private sector also urgently requires ongoing clarity and certainty in relation to the progress and timelines of the PPP project pipeline.

2. Ireland's Recovery Path

2.1 Global economic outlook

According to the latest World Economic Outlook from the International Monetary Fund the recovery in the real economy is taking place against the background of the constraining impact of the undercapitalisation of the banks. Fixing this is an important element as the fiscal stimulus ends. The recovery in the real economy and in the financial sector should be mutually supportive but as the economy gains pace there are still credit difficulties in some sectors and for small and medium enterprises in particular.

The pace of world economic growth will flatten in 2011 as fiscal stimulus is withdrawn. The IMF is of the view that monetary policy could remain accommodative for another year given the generally high level of excess capacity, high unemployment and low inflation expectations. This will encourage investment, which will be crucial in pushing up the potential growth rate that will not only help reduce unemployment and prevent it from turning from a short term phenomenon to a long term structural problem, but will also be an important factor in reducing the levels of public debt.

Across the developed world, sharp increases in public expenditure played a stabilising role in the financial crisis, which avoided more serious short-term damage to the economy in terms of output and employment losses. This has caused a synchronised deterioration in public finances, which will act as a drag on growth. The contingent liabilities from the financial sector rescue have added to the looming costs of demographic ageing. This great deterioration in public sector finances has put a severe strain on capital markets and the wider economy. In particular, it required concerted action to avoid contagion spreading from the Greek markets to other vulnerable economies, including Ireland.

Clearly, there is a need for a synchronised exit strategy from the fiscal stimulus to ensure stability in the public finances and to contain the growth in interest payments to regain scope for action and to mobilise resources for future wealth and job creation. Side by side with this exit strategy is an equally important so called "entrance" strategy to direct policy in the post-crisis recovery phase.

2.2 Nature of the domestic economic recovery

The uncertainty surrounding the Greek financial crisis and the markets' reaction to the proposed rescue plan is a compelling reason for government to pursue policies that will put the economy onto a credible path of debt reduction while at the same time avoiding the danger of deflating the economy. IBEC is supportive of the Government's actions that have led to a significant differentiation of Greek interest rate spreads from those of Ireland. It is important that this credibility is maintained.

Although there is still little hard data for 2010, it is clear that Ireland, which has had one of the deepest and most prolonged recessions of any country, is now entering into the beginnings of a recovery phase, which will result in recorded GDP growth most likely in the first quarter of the year or at latest the second quarter. There are a number of positive signals including the pick up in growth in manufacturing led by the pharmaceutical sector and parts of the electronics sector; also the fall in the traditional sectors has bottomed out and there are signs of an upturn in activity. The very rapid rise in the numbers on the live register have reduced greatly in recent months; retail sales having fallen rapidly in 2008, remained flat throughout 2009 are starting to grow in 2010; the ESRI/IIB consumer sentiment survey has been recording more positive

responses for over six months. This renewed economic activity has been reflected in a rise in exports and imports.

It is clear that there is a need for much restructuring to take place in the Irish economy if we are to avoid the surge in unemployment turning in to a problem of long-term structural unemployment. The numbers of jobs in the construction sector and in retailing are not going to recover again to the levels of employment they occupied pre-recession. Ireland's only salvation lies in a return to export-led growth, which will in large measure depend on high technology manufacturing and services. Service sector exports (three quarters of which are computer services and financial sector services) account for almost half of total exports and are likely to take an increasing share. Facilitating the growth and development of these sectors will be a major task of infrastructure, enterprise and taxation policies.

2.3 Moving from Recession to Recovery phase

Ireland must move from exit strategy to "entry" strategy, though in truth there has been little enough stimulus to exit from. There has been an explosive conjunction of the global financial crisis with the bursting of Ireland's construction bubble. The fall-out from this with the consequent huge fall in tax revenues, and the particularly heavy legacy of exposure to the financial sector, have put particular pressure on the Irish government to take early and harsh consolidation measures, as well as establish a costly rescue package for the financial sector. The measures so far taken and planned have gained credibility in the financial markets, resulting in little impact on bond spreads in the light of Greek debt financing problems.

Understandably, the immediacy of the problems of the last two years concentrated attention on the very short-term problems of the public finances and the financial sector. It is now essential that the government turns its attention to the medium and the long-term issues of Ireland's growth regeneration.

It is recognised that the dramatic fall in output, employment and earnings, as well as the much-deteriorated tax revenue will take several years before they are restored to pre-crisis levels. The need to restore the public finances to health requires a reassignment of policy priorities, expenditures and efficiency measures in the public sector. To remain competitive there must be investment in future technologies and excellence in education, training and research.

2.4 Strategies for the recovery phase: investment in research, skills, infrastructure

Since the surge in national debt mainly reflects revenue losses, there is an urgent need to implement reforms that foster strong and sustainable growth. Achieving a faster rate of growth, by taking measures that will raise the potential growth rate, is the fastest and most sustainable way of consolidating the public finances. We know from the 1980s that a rapid rate of growth was a major contributor to debt reduction over the following two decades; at that time, currency depreciation was of considerable assistance. This time restoration of our lost competitiveness through wage moderation and productivity growth must do the heavy lifting. Higher growth rates raise exchequer revenue; a clear objective of fiscal consolidation is to regain scope for investment in areas supporting wealth and job creation.

Human capital is a key element for future economic and social growth. Well-functioning labour markets are a condition for sustainable growth, higher participation rates and job opportunities for young people. To stay competitive and generate growth businesses need a qualified and adaptable workforce. Given the significant permanent job losses

that have occurred in the construction sector, even more emphasis needs to be focused on making education and training more efficient and modern to enable it to deliver to potential workers the skills and competences that companies are looking for.

Life-long learning must become a reality so that the employed constantly improve their competences and the unemployed can adapt their skills to improve their employability. Failure to make the necessary investments in this area will result in those who have lost their jobs in this recession drifting into destructive long-term unemployment. Ireland is already drifting in this direction.

In terms of R&D, Europe is hardly an ambitious benchmark. Nevertheless the European Commission has estimated that if Europe reached the target of 3% of GDP spent on R&D, it could increase EU GDP by between 2.6% and 4.4%, which would clearly help the sustainability of public finances. Ireland must strive to at least match these European ambitions. Increasing R&D is a crucial part of increasing Ireland's competitive position and must remain a strategic priority. We must embrace the EU "Lead Market Initiative" with the aim of creating better and more innovation-friendly market framework conditions (such as regulation, procurement and standardisation). We must ensure that we participate in breakthrough technologies and products in new industry markets such as carbon emission reduction. While wasteful measures should not be undertaken, developments in competitor countries must be taken into account and policy initiatives such as those contained in the Report of the Innovation Taskforce should be pursued.

There are also several areas of infrastructure need that cannot be neglected in areas of information and communication networks, renewal and diversification of power generating capacity, water and waste and adaptation to and mitigation of climate change. The government will have to prioritise investments stemming from legal obligations and those that will boost innovation and growth (such as communication technology, mobility, energy efficiency and renewables and other low-carbon energy sources).

It is clear that a priority of the European Union as well as many other countries will be investing in information and communication technologies and infrastructures. Ireland cannot be left behind in these crucial areas in particular next generation networks are a key driver for jobs, growth, innovation and competitiveness in the 21st century. We need to ensure that we link in with Europe's drive to roll out high-speed broadband, which is a key priority.

3. Funding and delivery mechanisms

3.1 Funding

Given the huge pressure on the public purse to finance major infrastructure projects as well as the raft of essential public services, it would be worthwhile exploring in further detail ways of leveraging private sector finance through a combination of Public Private Partnerships, outsourcing, or other forms of private finance.

There has been considerable discussion since the outset of the economic crisis around the potential of using pension funds to invest in infrastructure. Government has also recently launched its own National Solidarity Bond as a potential funding mechanism for investment in capital projects. IBEC's view is that the PPP model is an established and proven model, familiar to international investment firms, which facilitates private sector investment in public infrastructure.

Exchequer investment in public infrastructure has fallen from about €8.5 bn in 2008 to €6.5 bn in 2010. The Minister for Finance has already flagged that Exchequer capital spending in 2011 will fall further to €5.5 bn. Despite the recent decline in construction tender prices, the 35% reduction in the capital budget represents a substantial curtailment in infrastructure spending.

In order to maintain a meaningful investment programme it is vital that Exchequer funding does not fall below €5.5 bn. Any revenues raised through the National Solidarity Bond should be in addition to this minimum Exchequer commitment. Every effort must be made to increase the volume of activity under PPPs in order to compensate for the fall-off in Exchequer funding.

3.2 Public Private Partnerships

The challenge of funding the capital investment programme, in spite of current economic conditions, is by no means insurmountable. Greater use of private finance through the PPP model would advance infrastructural development while easing the financial burden on the taxpayer and Government. Essentially, PPPs offer a dynamic way of doing more with less. In Ireland, PPPs have already successfully delivered essential educational facilities, modern water and wastewater treatment works, excellent road infrastructure and vital environmental management services. Government must take the lead in making this happen.

The use of private finance through the PPP model can provide an attractive delivery and financing option. It offers a substantial degree of flexibility that is not present in other procurement processes. The cost of infrastructure provision can be spread over a longer time-frame as opposed to large upfront payments on delivery. Furthermore, the off-balance sheet nature of PPPs can allow the Government to deliver needed infrastructure projects that may otherwise be impossible to fund whilst preserving borrowing capacity for other critical areas.

While it was clear that PPP-type arrangements were a key element in the Government's spending plans under the NDP, the reality was that in terms of overall scale, the PPP programme was massively dominated by the Dublin metro which accounted for 46% of PPP spend. The new capital investment strategy should deliver increased use of PPPs on a wider scale. This would be in keeping with global trends of developing new and innovative ways of involving the private sector in public services.

Government needs to be more ambitious in expanding the number of projects procured via PPP beyond traditional developments of large infrastructure and facilities. Given its track-record of delivering projects on time and within budget, there is a clear business case to use this means of procurement for more projects within the NDP. But in many areas, Government needs to exploit the full range PPP-type arrangements that are available and for new types of projects.

All non-PPP capital projects should be reassessed for procurement under a PPP-type structure and the PPP programme expanded accordingly. Key sectors for a more widespread adoption of PPPs as the preferred procurement model include: environment, health, education, housing and transport. Smaller value projects could be procured individually or bundled together into a single package and projects could be bundled across sectors. A better balance between large and smaller projects can improve the absorptive capacity by the private infrastructure financing market.

An extension of the use of PPPs would require knowledge-transfer across Government. Over the past 15 years, tremendous time and effort - from both the public and private sector - have been successfully devoted to establishing the PPP procurement process. Ireland is now one of the most advanced PPP markets globally. We need to capitalise on this expertise in such a way, for example as a shared service, so that it can be made available to key Departments and agencies to provide the necessary procurement and project management skills and experience required to close complex deals for essential capital projects. For example, in light of the anticipated reduction in the roads building programme, the expertise of the National Roads Authority could be made available to other procurement bodies in a consultative manner to advise on successful roll-out and management of PPP projects.

In order to ensure the existence of a mature market, Government needs to reconfirm its intention to fund capital projects that have already been earmarked for delivery via PPP. This would require ongoing and up to date information flow from the National Development Finance Agency as regards estimated time scales for projects to come to market. This would provide much needed certainty for the market and ensure the competitive nature of the procurement process. Without a clear PPP pipeline in Ireland, interested private sector parties would simply look to opportunities elsewhere. This could cause a skills-drain in Ireland that would negatively affect our capacity to deliver future capital projects with private finance. PPPs should also be recognised as an important source of inward investment.

In short, the use of the PPP procurement mechanism yields superior value for money, reduces risk to the taxpayer, completes projects on time and within budget, and eases the burden on exchequer expenditure.

Annex Investment Priorities by Sector

1. Transport Infrastructure & Services

The NDP envisaged capital investment of in the region of €33 billion euro in transport infrastructure over the 7 year period from 2007 to 2013. This projected outlay was largely influenced by Transport 21 which was published by the Minister for Transport in November 2005. Notwithstanding the fact that major strides have been made to significantly improve Ireland's transport infrastructure in the 3 years since the publication of the NDP, IBEC believes that future spend on transport infrastructure, more than ever, needs to support economic development both in terms of domestic demand and trade growth. In addition major infrastructural projects can deliver an economic stimulus in their own right such as the Transforming Dublin Airport project which generated 2,800 direct jobs and supported an additional 2,000 jobs in supply firms in Ireland and overseas.

Large scale projects take many years to plan and deliver. Against this background it is important that achieving planning for major projects is retained as a priority. Whilst the advent of the "Strategic Infrastructure" Act is a welcome development and allows important projects to be fast-tracked through the planning system once they are designated, the designation process itself is slow and requires review. Furthermore as the State must operate within a hugely constrained budget in the coming years, the role of the private sector in providing infrastructure of regional and national importance will increase. There is a pressing need for the regulatory arms of the State to recognise the important contribution that individual organisations and the private sector can make and not to unreasonably inhibit their role in helping to deliver infrastructure to support national economic recovery.

Progress achieved to date

Roads

Substantial progress has been made in delivering the major interurban motorway network between Dublin and the regional cities. The M1/N1 has been completed between Dublin and Northern Ireland, connecting into the A1 and the cities of Newry and Belfast. The M4/M6 motorway has been completed between Dublin and Galway. Significant progress has been made on the other major interurban routes to Cork, Limerick and Waterford with overall completion projected in 2010. Overall, the national motorway network has been extended to just over 700 km in length as of April 2010, up substantially from the 270 km in place at the end of 2006. By the end of 2010 the road network shall comprise almost 900 km of motorway.

Public Transport

Iarnród Éireann has benefitted from a renewed inter-city fleet with the delivery and entry into service of 183 carriages and railcars, with a further 51 on order. Significant investment has been made in the rail network with a number of new lines opened including the Glounthaune – Midleton line and a phase of the Western Rail Corridor between Ennis and Athenry. The first phase of the Navan to Dublin line from Clonsilla to M3 Parkway will open later in 2010. The Kildare railway line has been upgraded and a number of new stations have opened on the Dublin suburban network at Clongriffin, Adamstown, Park West, Clondalkin Fonthill, Phoenix Park, and Docklands. The Luas has been extended to the Dublin Docklands with a further extension to Cherrywood set to open at the end of 2010. A new service to Citywest is planned to commence in 2011.

Additional Luas lines to Broombridge, Lucan and Bray are currently in planning and should move to delivery as soon as possible. All the trams on the Tallaght line have been extended to 40 metres and a number of new trams have been purchased. Several hundred new and replacement buses have also been purchased by Dublin Bus and Bus Eireann. Dublin Bus has also undertaken the most extensive review of its network in its history to respond to changing travel demand in Dublin City. The "Dublin Bus Network Direct Project" is being implemented throughout 2010 and 2011 with the aim of improving Dublin's bus service by making it faster, more frequent, easier to understand and more customer focused.

Developments in the external environment

The legislation and regulatory framework governing transport in Ireland has undergone radical change since the publication of the NDP in January 2007. The most significant development in this time was the establishment of the National Transport Authority on December 1, 2009. The Authority was established under the provisions of the Dublin Transport Authority Act 2008 and the Public Transport Regulation Act 2009 to ensure the delivery of the Transport 21 investment programme as well as the provision of an integrated transport system in the Greater Dublin Area. It ensured that there is a single, properly accountable body with overall responsibility for surface transport in the Greater Dublin Area including the procurement of public transport infrastructure and services.

The Roads Act 2007 provided the necessary statutory basis to successfully facilitate the implementation of the NDP objective of barrier-free tolling on the M50 motorway. The Act also provided for the redesignation of certain high quality dual carriageways to motorway status with appropriate adjustments to speed limits. It facilitated the provision of service and rest areas on the national road network and it amended the functions of the National Roads Authority.

The Public Transport Regulation Act 2009 reformed the system for the licensing of commercial public bus passenger services with the objective of promoting regulated competition in the provision of licensed public bus passenger services on a national basis, as well as the promotion of integrated, well-functioning and cost efficient public passenger transport services.

Smarter Travel: A Sustainable Transport Future; A New Transport Policy for Ireland 2009 – 2020 was launched in February 2009 by the Minister for Transport and has a strong focus on making transport in Ireland more sustainable by emphasising the role of alternative transport modes to the private car.

The Aviation (Preclearance) Act 2009 gave legal effect to the Preclearance Agreement which was signed by the Minister for Transport and the Secretary of the U.S. Department of Homeland Security on 17 November 2008. The Agreement provides for preclearance for scheduled and charter commercial airline flights to the U.S. from Ireland. The introduction of preclearance will enable all U.S. customs, immigration, security and agriculture clearance procedures to be completed before U.S. bound passengers leave Ireland. Currently only U.S. immigration clearance (preinspection) services are available at Shannon and Dublin airports under the provisions of the Air Navigation and Transport (Preinspection) Act 1986. This agreement will support the development of Shannon Airport as a regional cargo hub.

In addition to the above regulatory changes a renewed Programme for Government was adopted by the government in October 2009. The new programme states that from 2011 the ratio of expenditure on new Transport 21 projects between public transport and the national roads programme will be 2:1 in favour of public transport, including such projects as Metro North and Dart Underground which are both at different stages of planning.

Remaining Infrastructural Gaps

Despite substantial improvements to Ireland's transport network since 2007, significant infrastructural gaps remain. The commencement of new projects on the national road network has almost ground to a halt, with 37 proposed national road projects currently suspended, including the entire national secondary road programme, according to the 2009 NRA Annual Report and Programme for 2010.

Given the policy decision that expenditure on national road improvements is to be reduced significantly from 2011 onwards, it is important that those projects that are progressed in future are of strategic national importance to the economy of the state and designed to promote and facilitate economic development, trade and employment in the regions. On this basis, IBEC supports the timely development of the following road schemes;

Short term priority

The following schemes are recommended for delivery in the short term on the basis of their short term affordability and their potential to foster economic development:

Dublin Airport Box

The upgrading of the R132, Collinstown Lane, the R108, Northern Parallel Road, Forrest Little Road and St. Margaret's road to dual carriageway standard as outlined in the Dublin Airport Local Area Plan 2006 should occur in the short term and should include a connection to the M2 motorway at the Cherryhound Interchange to improve access to the airport while relieving pressure on the M1 motorway.

N28 Cork – Ringaskiddy

Given the location of the Port of Cork and the presence of many major employers in its environs and having regard to the fact that Ringaskiddy is a IDA 'Strategic Site' under the strategic sites initiative, the improvement of the N28 should be accelerated.

N11 Oilgate to Rosslare Europort

The development of the N11 corridor and improved access to Rosslare Europort should be a priority so as to improve access to one of Ireland's major ports which is a major driver of economic development regionally. It should be noted that the January 2009, Forfás report "Assessment of Port Services Issues for Enterprise" also supported the timely development of both the N28 and N11 corridors.

N5 National Primary Road

Castlebar and Ballina are identified as nationally important "hub towns" in the Government's National Spatial Strategy, 2002 - 2020. These urban centres are amongst the key drivers of economic development in the west of Ireland. The N5 national primary route is a critical transport link between these towns and the N4/M4 which links the gateway cities of Sligo and Dublin and the Athlone - Tullamore - Mullingar (ATM) axis. Some improvements have been made to the N5 in the vicinity of Charlestown and Strokestown. However, much of the overall N5 route remains substandard and is in urgent need of improvement to safeguard important foreign direct investment and industrial development in this region.

M7 Naas to Newbridge Widening

This part of the M7 motorway is a critical section of our motorway network and forms part of the route from Dublin to Cork, Limerick and Waterford. It is important that the widening of this scheme is not unduly delayed.

M1 (Dublin) Widening

The capacity of the M1 motorway is emerging as a constraint to future development in the vicinity of Dublin Airport. This is leading to objections from the relevant stakeholder

at the planning stage. If this issue is not addressed access to Dublin Airport could be hindered in the short term. While it is noted that 54 kilometres of the M1 is subject to PPP contractual arrangements, these do not apply to the section in the Fingal area and it is here that widening should be prioritised given the recognised national strategic function of the M1 motorway.

Medium term priority

The following schemes are recommended for development in the medium term given their strategic economic function but having regard to the likely higher costs involved in comparison to those above:

A5/N2 Derry/Letterkenny to Dublin dual carriageway

Derry and Letterkenny are classified as a linked gateway in the National Spatial Strategy. Derry is the fourth largest city on the island of Ireland yet the road network between it and Dublin is substandard and militates against the development of stronger all-island economic ties.

Atlantic Road Corridor

The development of this corridor is critical to improving the cumulative strength of the regions and fostering economic development therein. The elements of the corridor that would improve access to ports and airports along the route should be prioritised. For example, there is an identified need for improved access to Shannon – Foynes Port from the national road network and the proposed M20 Cork – Limerick motorway should include a design element to provide this critical road linkage.

Public Transport

IBEC supports the delivery of the programme as envisaged under Transport 21. IBEC supports the delivery of Metro North and DART Underground because of their strategic importance in terms of interconnectivity and considers both should move to construction as soon as possible after completion of the planning process.

It is also important that once the physical infrastructure has been provided that the service operator develops and markets transport services tailored to the needs of the local community in order to encourage modal shift to public transport. Such an approach could safeguard the viability of local services and provide an opportunity for further network expansion in future, further increasing public transport patronage. On a related matter, IBEC believes that with constrained public finances, private sector investment in park and ride facilities should be specifically supported in the NDP, noting that the Indecon review of property based tax incentives for the Department of Finance supported the continuation of the incentive for specific investment in park and ride facilities as these have significant economic benefits in terms of reduced congestion costs.

Traffic congestion actively discourages and even prevents people from carrying out normal business such as shopping in their local town or city centre. This has a major negative effect on the commercial viability of business and is detrimental to the local and national economy. The 2008 IBEC Congestion Survey found that traffic congestion was also seriously effecting staff recruitment, punctuality and retention, while also impacting upon production and distribution costs, all which affect our economic competitiveness. IBEC believes that Government emphasis should continue to foster improvements in public transport. IBEC considers that investment in public transport is a necessary prerequisite for modal change as private car users require an acceptable alternative if they are to switch transport modes. To encourage such change IBEC supports the ongoing roll out of low cost public transport priority and facilitation measures such as quality bus corridors and cycle tracks.

Ports and Freight

To restore the trust of export-led growth, international trade connectivity is vital. Ireland's commercial ports are central to the competitiveness of the economy, handling 99 percent of the State's international merchandise trade in terms of volume. As Ireland's largest port, the role of Dublin Port must be recognised through ongoing investment by central and local government in infrastructure which enables growth. A similar approach must be taken with regional ports to ensure that they can maximise their potential as driver's of economic growth in the regions. In their January 2009 report, "Assessment of Port Services Issues for Enterprise," Forfás found that internal access to port's remains a concern. It is therefore essential that the NDP recognises their role through targeted investment in both road and rail projects which improve access to these hubs of economic growth.

Airports

Dublin Airport is the country's main airport serving the needs of the travelling public in Dublin City and the surrounding counties and also the country's tourism, business and freight sectors generally. Dublin Airport will remain crucial to the national economy. It is also noteworthy that the national spatial strategy has acknowledged that the expansion of the level of air services from Dublin Airport to a wider range of destinations is essential in the interests of underpinning Ireland's future international competitiveness. As Terminal 2 is completed the importance of developing a new longer runway at Dublin Airport will become increasingly evident to maximise the commercial potential of the airport. Such a project would entail significant socio-economic benefits including the facilitation of the export-led economy and the attraction of foreign direct investment, while also boosting tourism. With regard to the regional airports, the feasibility of developing a spur from the western rail corridor to Shannon Airport should be examined. In Cork the N27 should be upgraded to improve access to Cork Airport.

Delivery and Funding Mechanisms

Given the fact that exchequer expenditure on the national roads programme is expected to be substantially reduced over the coming years, Government should build on its positive experience of delivering projects through the PPP model. "*Without the injection of additional private finance*", according to the NRA, "*progress in the roads programme would be substantially delayed and deficiencies, which threaten regional development and economic growth, would fail to be addressed*". Thus, there should be an increase in the number of road projects procured via PPP rather than straight procurement because it is a dynamic way to finance expensive infrastructure projects.

2. Science, technology and innovation

Progress achieved to date

The Strategy for Science, Technology and Innovation 2006-13 underpinned one of the principal pillars of the NDP. It encompasses a vision of Ireland in 2013 which is internationally renowned for the excellence of its research and at the forefront in generating and using new knowledge for economic and social progress, within an innovation driven culture.

According to the October 2009 progress report on science, technology and innovation, public investment has contributed to an increase in the level of R&D performing enterprise. This is demonstrated by the latest business expenditure on research and development figures. In 2007, almost €1.6bn was spent on R&D by Irish-based companies. Last year, this figure exceeded €1.68bn. In particular, there has been a sharp rise in the number of companies spending in excess of €2 million on such activities, with 164 significant R&D performers in 2007 compared to 118 in 2005.

Other recognised achievements include:

- The number of research personnel employed in R&D activities across the business sector in Ireland rose to 13,861 in headcount terms in 2007, many of them having relocated from the US, Canada, Japan, the UK, Switzerland and elsewhere.
- In 2008 Enterprise Ireland supported 838 companies to engage with RD&I. Over the period 2000 to 2007, EI supported 430 High Performance Start-Ups, 40% of which were specifically R&D projects. This investment yielded sales of €638 million, exports of €344 million and generated employment for 5,500 people.
- Science Foundation Ireland (SFI), through its facilitation on industry-academic collaboration, primarily through their Centres for Science, Engineering and Technology and Strategic Research Cluster Programmes, is supporting the employment of over 56,000 people in Ireland.

Developments in the external environment

The current economic downturn has reinforced the need to foster an economy built on innovation. Public investment in research and innovation can generate real economic growth. Maintaining such expenditure will position the country to take full advantage of the global economic recovery. Such a policy was successfully pursued by Finland in the early 1990s.

Already, the funding cutbacks in R&D in higher education institutions and grants to industry have had a negative impact on postgraduate production.

Such short-sightedness ignores the time required to bring successful innovations to fruition and the inter-linkages between the stakeholders that pervade the innovation ecosystem. Cutbacks to the innovation voucher scheme, which is a small but strategically important, should be reversed.

Remaining infrastructure gaps to be addressed

IBEC supports the Government's *Smart Economy* framework document and the Innovation Taskforce report which have stressed the importance of developing technological expertise in new areas for R&D. It specifically cited convergent technologies, new areas for energy research, applied nanotechnology and the development of the greentech sector. This will trickle down into the areas where the

Government is committed to prioritising: academic research; graduate schools; commercialisation; industrial research; sectoral research; increases public awareness of science in society; and cross-border & international cooperation. Industry needs to be at the forefront of defining the key areas for research and innovative ways of ensuring the commercial potential of such research is realised.

New areas for research are constantly evolving and these must be given attention by the Government. The key element is that the Irish innovation policy remains flexible to incorporate new areas as they emerge and that supports either are revised to include them or new ones introduced through the public capital investment programme. For example, given the importance of the services sector to our economy, significant attention must be paid to services innovation. Further economic growth can be enabled through the creative exploitation of new ideas in existing companies and from the establishment of new service industries.

Public procurement can play a key role in promoting innovation in the enterprise sector, while also ensuring better value for the public sector. Improved public procurement practices can help foster market uptake of innovative products and services, while raising the quality of public services in markets where the public sector is a significant purchaser.

One of the key recommendations of the *Innovation Taskforce* calls on the Government to “pilot a number of Flagship projects where public procurement to meet specific public needs would stimulate the development of innovative solutions with export potential through collaboration between MNCs, SMEs, and HEIs”. A more strategic approach to public procurement can lead to greater value for money and efficiencies, whilst enhancing the quality of public service provision to the citizen. For example, a report by the Health ICT Industry states that €195 million annually could be saved through more effective treatment of chronic illness in the home.

Outline of costs and benefits

Like all investments, a business case for investing in specific areas of science is vital. R&D spending is an input, not a measure of efficiency, effectiveness or productivity. R&D productivity - not R&D investment - is the real challenge for innovation. There is a danger in viewing the economic health of the country through the prism of how much it spends on R&D as a bid to invent the future. We should remember that the innovation value we create is the most significant output. Hence, commercialisation should be the priority. This will allow the country to develop real competitive strength in research and development while also creating a dynamic enterprise culture that begins to drive value creation in the economy.

Increased HEI-industry collaboration and commercialisation can be driven by a national capacity in both basic and applied research. Applied research emphasises the development of specific research projects which are more directly related to commercial product/services. Small companies do not usually have the time or the money to build partnerships with HEI departments that are not located in their regions. Therefore HEIs that are located in the regions are well placed to be local leaders in applied research so that they can act as technology development partners to industry.

A short-term focus should not obscure the fundamental benefits of basic research. Outcomes can often be difficult to predict and the commercial benefits cannot be accurately forecasted because some growth industries of the future may not yet even exist. Irish-based multinationals are already seeing the potential of basic research and many are partners in the Science Foundation Ireland C-SETS. It also needs to be acknowledged that publicly-funded research can be directed through national strategies and appropriate funding programmes.

Delivery and funding mechanisms

Ireland needs to strive to become an innovation leader in Europe. To achieve this, continued research and development (R&D) expenditure is needed throughout the innovation system, particularly in the Higher Education Institutions. Such investment can imbue innovative, high-value activity in Ireland which will provide high quality jobs. While Ireland has converged with the OECD average in terms of higher education research and development investment (0.46% of GNP), it still lags behind leading countries such as Sweden (0.76% of GDP) and Finland (0.64% of GDP).

In its strategy for growth, the European Commission has stated that 3% of the EU's GDP should be invested in R&D. This remains a national priority and was re-iterated in the renewed programme for Government and by the Innovation Taskforce. This needs to be reinforced by the necessary provisions for science, technology and innovation in the public capital investment programme. This target will be achieved through a combination of public and private investment.

Over the last few years, Irish universities and institutes of technology have taken a number of pragmatic steps to deliver real value from public investment in R&D. The Government's *Innovation Taskforce* and the Forfás *Review of current supports to encourage the exploitation of Intellectual Property emanating from the higher level research sector* seek to improve these further. If these recommendations are implemented as part of the science, technology and innovation programme, it will lead to an increase in commercialisation and technology transfer. Given this, the outcome of continued investment will be an increase in the absorption of the research pipeline by industry. It will attract FDI, as well as increasing R&D take-up by indigenous companies.

Priorities for 2010-'16:

- Public investment in innovation must be maintained at a high level. Recommendations by the Innovation Taskforce and other Government-commissioned studies should be acted upon, alongside changes that have already occurred since 2007, so that Ireland can better ensure investment in science, technology and innovation translates into high-value jobs and sustainable growth. Ireland should strive to achieve an R&D expenditure level of 3% GDP by 2020.
- The urgent need to reduce public expenditure should not compromise Ireland's future prosperity. Due to the inter-linkages that pervade the Irish innovation ecosystem, recent cuts to science, technology and innovation should be reversed. Cuts or delays will limit our ability to convert public investment in research into commercialised products and services.
- New areas for research are constantly evolving and the key element is that the public capital investment programme remains flexible to incorporate new areas as they emerge (e.g. convergent technologies, services innovation etc) and that supports either are revised to include them or new ones introduced.
- Public procurement can in itself stimulate innovation in the enterprise sector, while also ensuring better value for the public sector. Ireland should be a flagship for procuring innovative products/services.

3. Waste infrastructure

Progress achieved to date

NDP 2007-2013:

€753 million under the waste management sub-programme in three priority areas:

1. Legacy landfills
2. Recycling and recovery
3. Thermal treatment

NDP Annual Report 2007:

1. Legacy Landfill: Remediation of 11 landfill sites
2. Recycling and Recovery:
Bring banks: 2,012 (From 1909 in 2006)
Civic Amenity Sites: 86 (From 81 in 2005)
3. Thermal Treatment: Waste to energy plants to be provided as entirely private sector developments or by way of public private partnership.

Further progress:

1. Landfill

In line with Government policy, the number of landfill sites has been reduced in recent years:

	No. landfill sites in operation
2004	67
2005	48
2006	65
2007	48
2008	61

2. Recycling and Recovery

There has been a steady increase in bring banks and civic amenity sites:

	Bring Banks	Civic Amenity Sites
2002	1,636	49
2003	1,692	60
2004	1,824	69
2005	1,921	79
2006	1,919	86
2007	1,960	90
2008	1,989	96

3. Thermal Treatment

Dublin Waste to Energy project: Poolbeg

- Construction work began December 2009
- Operational by 2013 approx.
- Public Private Partnership involving the four Dublin Local Authorities

Developments in the external environment

- **International Review of Waste Policy** (Published 2010)
- High court ruling on the **direction of waste** by local authority (Delivered December 2009) means that there is still a lack of clarity in relation to Ireland's waste management policy
- The first of three EU **Landfill Directive** target applies from 2010: Ireland must reduce the amount of biodegradable municipal waste (BMW) going to landfills

- Draft legislation on increased landfill **levies** and the introduction of a waste facility levy on incineration (Environment Bill 2010)
- **Waste Regulator**: Public Consultation closed late 2006, but no action to date
- All **Regional Waste Management Plans** will be required to be updated by 2011
- Waste hierarchy given legal standing in the revised EU **Waste Framework Directive**, which is to be transposed into law in Ireland before the end of 2010
- **Market Development Programme** (MDP) for Waste Resources 2007 – 2011, to promote more recycling of materials recovered in Ireland
- National **Waste Prevention Programme** 2009-2012
- National **Hazardous Waste Management Plan** 2008-2012

Remaining infrastructure gaps to be addressed

Ireland's waste policy should promote the provision of an integrated range of waste treatment facilities. This infrastructure should move Ireland up the waste hierarchy; preparing for re-use; recycling; other recovery, e.g. energy recovery; disposal. Specific infrastructures that remain to be completed/developed include

- Thermal treatment
- Biological treatment
- Reprocessing capacity for recovered materials (e.g. paper, glass, plastic, metal recycled materials)

Outline of costs and benefits

Ireland will continue to have relatively higher waste management costs unless capacity constraints are addressed. Ireland must move away from our dependence on disposal in landfill towards re-use, recycling and other recovery, e.g. energy recovery as required under EU law.

"Ireland's comparatively poor performance on key benchmarking indicators such as costs and waste treatment capacity can be traced back to the failure to deliver key waste management infrastructure in recent years" Forfas: Waste Management Benchmarking Analysis and Policy Priorities, May 2008.

Delivery and funding mechanisms

While both public and private entities provide waste services, local authorities own most of Ireland's landfills while private operators own most recycling and transfer facilities.

A clear conflict of interest exists in the overlapping roles local authorities have as planners, policy makers, regulators, service providers and owners of infrastructure. If investment in waste infrastructure is to be encouraged all involved, both public and private, must be allowed to compete fairly and equally. If local authorities are to deliver infrastructure funded under the NDP these issues must be addressed.

In 2008 over €33 million was collected by local authorities in landfill levies. The government has recently published plans to increase the landfill levy amount and introduce a waste facility levy. This money should be made available, in a non-discriminatory fashion, to both public and private projects immediately.

4. Human Capital

Human capital is at least as important as physical capital in competitive, innovation driven economies. It ties together innovation and entrepreneurship - the generation of new knowledge, ideas and know how, and the drive to exploit these to gain a competitive advantage. Investment in education and training will also provide the labour force with the skills and adaptability to take advantage of an international economic recovery. Unlike physical facilities, human capital must be constantly reinforced. Projects cannot be mothballed or put on a care and maintenance basis. Therefore continuous investment through the revised capital programme is essential.

Developments in the external environment

The downturn in the economy had a major impact on the Human Capital Investment Operational Programme 2007 - 2013. It rapidly increased the number of unemployed persons in the country and, hence, the potential demand for education and training courses. It also reduced considerably the number of vacancies in the economy and the chances of trainees finding employment after their training. The nature of the unemployed changed also, with an increasing proportion of recent graduates and professionals becoming unemployed.

Participation in adult employee training fell by one third from 2007 to 2009. In relation to the in-company training activity, the Government misguidedly decided to reduce funds for this programme in 2009 (in order to provide more funds for programmes for the unemployed).

The start of the 2009/10 academic year also saw the largest jump ever in numbers accepting places through the Central Applications Office in higher education institutions, 8.3%, to bring first year numbers to 45,582. This compares with 42,117 in 2009 and 39,915 in 2008. In addition, growing numbers are also returning to or accessing higher education through routes other than the CAO. This jump brings the number of full time undergraduate students in Ireland to over 110,000, more than the total number engaged in farming and related activities in this country.

Progress achieved to-date

The table below sets out the major outputs under the Human Capital Priority and IBEC's assessment of progress to-date

Planned Output	Comment
Access to appropriate training and lifelong learning	Education and training system overwhelmed by demand from unemployed (e.g. estimated 60,000 applicants for 30,000 VEC places). System has largely responded by offering short courses. These will not meet the fundamental demand for re-skilling for workers from construction and traditional manufacturing sectors.
Implementation of National Skills Strategy	Progress on some metrics. For example, the percentage of those in the labour force with Higher Education qualifications has increased from 33% in 2005 to 39% in 2009. However, the percentage with NFQ Levels 4 & 5 has remained at 40%, compared to a target by 2020 of 45%. Slow progress has been made at lower skill levels, with 21% of labour force still limited to a Level 1-3 (Junior Certificate and below) qualification.
Activation of specific unemployed groups (e.g. people with disabilities, lone parents, travellers, ex-offenders, women and older people)	Greater competition for training and educational programmes due to the increased demand from people on the live register. Consequently difficulty with the availability of opportunities for progression of these target groups, be it into education/training or employment.
High investment levels in third level infrastructure – 35 large scale priority projects planned by the end of 2010	Severe cutback on NDP target with significant projects shelved. Just €141m is being provided for infrastructural investment in HE in 2010 of which €46m will be provided for investment under the Strategy for Science, Technology and Innovation. A Higher Education Authority (HEA) report has described 40% of college buildings as 'seriously inadequate'.
Reform and modernisation of third level sector	Strategic Review of Higher Education due to be published at the end of 2009. Report now expected in summer 2010.
Increase number of high quality graduates and widen participation	Significant increases in HE enrolments has brought number of full time undergraduate students in Ireland to over 110,000, more than the total number engaged in farming. However this is putting enormous pressure on the system and raising concerns about the ability of HEIs to maintain teaching quality.
Sufficient school capacity at first and second levels	€579m will be allocated to school building programme. That includes €72m from the capital carry-over. Given the reduction in tender prices, it's expected that the

	Department will be able to deliver a similar-sized programme of large and small-scale building projects in primary and post-primary schools in 2010 as was delivered in 2009.
Provide teachers and accommodation needed for improvement in special education provision	Significant cutbacks in number of special needs teachers
Modernisation of subjects at post primary level	Severe reductions in budget of the National Council for Curriculum and Assessment (€0.93m in 2010) will constrain activity in this area. Ambitious reform of junior cycle curriculum announced but will require funding support. Ongoing support of Project Maths (€5m over next three years) is welcome but this funding needs to be maintained beyond the rollout of the curriculum to support teacher CPD.
Investment in ICT in schools	€150m is being allocated to support the integration of ICT in teaching and learning in schools (compared to an NDP target of €252m). Implementation of the 'Smart Schools' programme has commenced.
Ongoing development of the National Framework of qualifications	Merger of the training awards councils, qualifications and quality assurance bodies is welcome and should provide impetus to development of the National Framework of Qualifications.

Priority infrastructure gaps to be addressed

Skills for jobs

The much changed labour market context requires a reshaping and mobilisation of labour market programmes and services to meet the needs of enterprises and individuals. Therefore the Human Capital Investment Operational Programme should be redesigned to (i) enhance education and skills levels across the economy (ii) address the training and education needs of target groups such as young unemployed and those previously employed in sectors most affected by restructuring (iii) support activation measures aimed at improving employability by providing 'progression pathways' for unemployed persons. The programme should

- Raise the skills levels of the labour force (both employed and unemployed) to improve employability and maintain / secure employment – in line with the objectives of the National Skills Strategy (2007) and Building Ireland's Smart Economy (2009).
- Support in-employment training, particularly as we look to the medium term. It is more difficult to create a new job than retain an existing job. Therefore IBEC believes it is extremely short-sighted to divert large scale funds from in-company skills development to social employment schemes.
- Support the enterprise-led training model and provide flexible learning opportunities (modular, in-company, part-time, blended learning etc.) from the education sector

- Ensure that unemployed persons receive training in skills relevant to the needs of enterprises for jobs opportunities that will arise from replacement needs / start ups / expansions.
- Provide work experience placements / learning opportunities with certification for young people leaving education who become unemployed. Address the level of early school leaving.
- Facilitate improved access to training, education and employment service provision for groups most affected by unemployment while ensuring that disincentives in the interaction between the social welfare payment system and moving into employment are removed.

Third Level Funding and provision of part-time places

Third-level colleges are facing a financial crisis. According to the Higher Education authority (HEA), some €4 billion is required to upgrade building space and to provide facilities for an additional 55,000 students over the next decade.

As part of the current strategic review of higher education, an investment needs“ analysis should be conducted to determine the funding required to enable Irish institutions to become world class. Greater specialisation and amalgamation of courses among Irish HEIs are also required to develop critical mass.

IBEC supports the concept of top-up fees and income contingent loans. This is in line with the OECD’s recommendation to the Irish government in 2004. The loans reduce the liquidity constraints faced by individuals and improve progressiveness of the overall system – lower public subsidy for graduates with higher private returns. Any reintroduction of a private contribution should be accompanied by the development of a comprehensive student support mechanism

Reform of the existing funding model should not be seen as part of a short-term solution to the crisis in public finances. While this context is obviously impossible to ignore, it is critical that any future funding strategy will enhance the contribution of the higher education system to society and the economy.

Third level part-time fees for those who have not benefited from higher education and/or are on lower incomes remain a barrier to re-entry into education and contradict constantly re-stated aspirations to upskill the workforce. Part-time students should be treated on the same basis as full-time students in respect of fees.

Early Childhood and Second-level Education

Early childhood

The Government’s decision to introduce a pre-school Early Childhood and Education Scheme (ECCE) was a significant step and an acknowledgement of the importance of linking early childhood payments directly to pre-school education. International research supports the view that investment in pre-school education is a key contributor to combating child poverty and educational disadvantage, and protecting children at risk. It is a significant factor in how children learn, their readiness for formal schooling, and their future success in school, at work, and as citizens.

It is critically important that the ECCE is based on the highest quality professional and pedagogical practices. The Government must not lose sight of the need for strategic

investment in areas where early intervention can result in substantial socio-economic benefits. Therefore it is critical that investment in the scheme is afforded the highest priority. An early review of the scheme is required to ensure that it is meeting its objectives.

Second level

Spending on educational infrastructure is a necessary prerequisite for the provision of quality second-level education but this type of spending alone is not sufficient to achieve high level outcomes. Relatively modest investment in continuous professional development (CPD) for teachers and curriculum reform can have an even more fundamental impact. Recent cuts in teacher CPD programmes and support for curriculum reform will have a disproportionate effect on education quality. Therefore teacher CPD and curriculum reform (particularly ongoing support for the Project Maths initiative and junior cycle reform) should be an integral component of the human capital programme.

5. Water and Waste Water Infrastructure

Progress achieved to date

Significant investment in water and waste water infrastructure has occurred during the past decade, with some good progress achieved. Exchequer spending amounted to €3.7 billion (water services investment programme under the NDP 2000-2006 and a further €900 million was spent during the period from water services authorities' resources.

Exchequer spending on the water services investment programme during the period 2007-2009 amounted to €1.17 billion. 120 contracts/schemes were completed in this period. Over the entire period 2000-2009, 480 major water and wastewater public schemes were completed, including many very large waste water treatment plants.

The amount earmarked for capital investment under the Water Services Sub-Programme of the National Development Plan 2007-2013, was originally €4.75 billion.

Significant investment over the past decade has alleviated a number of significant capacity constraints and addressed a number of environmental compliance issues, including far greater compliance with the secondary treatment requirement of the Urban Waste Water Treatment Directive, which has alleviated much of the pressure against Ireland to comply with ECJ rulings.

Developments in the external environment

Since 2007, non-domestic water metering and charging has been rolled out more comprehensively, to differing degrees, by the various water services authorities.

The preparation and finalisation of River Basin District Management Plans for the management of water services on a river basin basis has been completed (as of May 2010).

Recent adverse weather conditions, with severe flooding in late November 2009 and in particular the prolonged sub-freezing temperatures in January 2010, brought the issue of unaccounted for water and water conservation through the refurbishment of existing networks to the fore.

Budget 2010 included a commitment by Government to the introduction of water metering and charging for domestic water users, in line with the polluter pays principle, which was welcomed by enterprise. The proposal is for all households to be given a certain water allocation usage above which would be subject to charging. The installation of domestic metering is due to commence in 2011, and it is likely to be at least 2013 before charges are introduced for domestic users.

The Water Services Investment Programme 2010-2012¹ was launched in April 2010, outlining the three-year rolling funding plan for water services infrastructure. It follows from a needs assessment by water services authorities, prioritisation based on environmental and economic objectives and is organised on a river-basin district basis, has contracts rather than schemes as its focus, and incorporates water conservation and network rehabilitation measures.

Budget 2010 included €508m in the DEHLG 2010 vote estimate to fund water services infrastructure.

¹ <http://www.environ.ie/en/Environment/Water/WaterServices/News/MainBody,22736,en.htm>

Remaining infrastructure gaps to be addressed

Analysis in 2008, which did not take account of the recent recession, indicated that current and planned infrastructure would not be sufficient to meet expected increases in demand by enterprise in certain urban areas in the medium term.² This was particularly found to be the case for Athlone, Dublin, Galway, Letterkenny, Mallow and Wexford.

While population pressures will have eased in light of the recession, the Gateways and Hubs must continue to be prioritised, on the basis of their ability to develop and drive regions when the economy recovers. Enterprise needs must be frequently reassessed.

Outline of costs and benefits

Enterprises require sufficient water supply and waste water treatment capacity to meet current and anticipated needs, based on robust analysis. The delivery of capacity that far exceeds reasonable expectations of demand at present would be an inefficient use of available resources.

IBEC supports the flexible approach outlined in the Water Services Investment Programme 2010-2012, which includes an annual review to take account of emerging needs, and should facilitate optimal infrastructure planning.

Delivery and funding mechanisms

The Water Services Investment Programme 2010-2012 is the latest phase of the national funding plan for major water supply and waste water infrastructure, which has seen significant levels of capital investment since 2000.

In terms of water charges, business users pay for the capital expenditure component on the basis of the difference between the total cost of providing water to all users and the cost of providing water service infrastructure to domestic users. Average operational costs for water services are also a component of water charges.

The needs assessment review and prioritisation that has been built into the Water Services Investment Programme 2010-2012, is a positive and welcome development from the perspective of enterprise, with the aim of supporting economic and environmental objectives in a resource constrained context.

Of particular importance to the enterprise sector is the degree to which the current programme and its successor focus on the needs of Gateways and Hubs under the National Spatial Strategy, as well as employment creation in line with the *Smart Economy* framework, as outlined in the programme priorities.

The refocusing of the programme on a River Basin District basis, the focus on priority contracts within schemes and the integration of water conservation projects as a mainstream aspect of the programme, are positive developments. The focus on contracts rather than entire schemes should facilitate prioritisation and flexibility. The integration of water conservation projects into the programme through network rehabilitation should facilitate a more efficient approach to water supply delivery, rather than an exclusive focus on developing treatment capacity in isolation.

Enhanced delivery of contracts/schemes through Public Private Partnership arrangements such as the DBFO (design, build, finance, operate) schemes should be pursued.

² Assessment of Water and Waste Water Services for Enterprise, Forfas, September 2008

Investment Priorities 2010-2016

- IBEC considers that Government must follow through on its commitment to introduce domestic water metering and charging, and should progress these proposals as a matter of urgency. It must also accelerate investment in network rehabilitation above and beyond what is provided for in the Water Services Investment Programme 2010-2012. These measures would relieve some of the water supply investment pressures and deliver improved value for limited resources
- Exchequer funding should be targeted towards the gateways and hubs where investment is required. The needs of enterprise must be frequently assessed in this regard
- Enhanced delivery of contracts/schemes through PPP arrangements should be pursued, particularly in conjunction with the introduction of user charges.

6. Energy

Progress Achieved to Date

Sub-Programmes under <i>Economic Infrastructure Priorities of NDP 2007-13</i>	NDP 2007-13 Proposed Investment	Reported Progress to date (NDP Annual Report 2007 ³ and Revised 2010 estimates from DoF)			
		<i>Projected Exp. 2007</i>	<i>Outturn 2007</i>	<i>Provisional Outturn 2009</i>	<i>2010 Est</i>
Strategic Energy Infrastructure Sub-Programme (DCENR)	€1.2 Billion for: <ul style="list-style-type: none"> • Interconnection • Networks improvements • Market integration – SEM • Strategic gas/oil storage 	<i>Current</i>	Current	Current	Current
		€ -	€ -	€ - M	€ - M
		Capex	Capex	Capex	Capex
		€ 100 M	€ 3 M	€ - M	€ 1,000
		Total	Total	Total	Total
		€100 M	€ 3 M	€ - M	€ 1,000
Sustainable Energy Sub-Programme (DCENR)	€276 Million for: <ul style="list-style-type: none"> • Incentives and subsidies to support deployment of renewable energy • Energy efficiency measures • Integrate sustainable energy practice into public policy and infrastructure 	<i>Current</i>	Current	Current	Current
		€11.9 M	€11.9 M	€ 7.8 M	€ 11 M
		Capex	Capex	Capex	Capex
		€21.2 M	€37.3 M	€ 47.9 M	€ 94 M
		Total	Total	Total	Total
		€33.1 M	€49.2 M	€55.7 M	€105 M
State Energy Companies Sub-Programme (DCENR)	€7 B Million of which: <u>BGE</u> : Capex €1.97 B: <ul style="list-style-type: none"> • Networks • New plant <u>ESB</u> : Capex €4 B <ul style="list-style-type: none"> • Networks • Refurbishment & new plant <u>Eirgrid</u> : Capex €770 M <ul style="list-style-type: none"> • Networks and interconnection <u>Bord na Mona</u> : Capex €270 M <ul style="list-style-type: none"> • Renewable energy projects 	<i>Current</i>	Current	-	-
		€ -	€ -	-	-
		Capex	Capex	-	-
		€1,342 M	€1,172 M	-	-
		Total	Total	-	-
		€1,342 M	€1,172 M	-	-
Total Proposed Energy Sub-programmes Investment	€8.5 Billion	Projected Exp. 2007	Outturn 2007	Provisional Outturn 2009	2010 Est
		€1,475 M	€1,224 M		
Climate Change Sub-Programme (DEHLG)	€270 Million for: NTMA to purchase 18 M carbon allowances in the period 2008-2012. (i.e. 3.6 M allowances p.a. @	<i>Projected Exp. 2007</i>	<i>Outturn 2007</i>	<i>Provisional Outturn 2009</i>	<i>2010 Est</i>
		€0	€0	€53 M (Capital)	€33 M (Capital)

³ Last published report on NDP expenditure.

	€15 per allowance)				
Sub-Programmes under Enterprise, Science & Innovation Priorities of NDP 2007-13	NDP 2007-13 Proposed Investment	Projected Exp. 2007	Outturn 2007	Provisional Outturn 2009	2010 Est
Energy Research		€ 17 M	€ 10 M	€6.2 M (Capital)	€12.9 M (Capital)
ENERGY Total Expenditure	NDP 2007-13 Proposed Investment	Projected Exp. 2007	Outturn 2007	2010 Est	2010 Est
	€8.53 B	€1.492 B	€1.234 B	-	-

Developments in the external environment

<i>Name and reference of the measure</i>	<i>Objective</i>	<i>Existing or planned initiative</i>	<i>Start and end dates of the measure</i>
Market Development			
SEM goes live	All-island electricity market	Existing Planned full deregulation of electricity market from October 2010 on for business segment of retail market Work also ongoing for common arrangements on gas (CAG)	November 2007 onwards
Strategic Enabling Infrastructure			
Rollout of Grid 25 strategy	Grid 25 is a the framework to build a more cost effective and efficient system to cater for the shift towards the integration of increasing amounts of renewable generation over time and will necessitate €4 billion investment in the grid.	Existing and planned (Grid 25 is in the implementation and rollout phase.)	2008 onwards
Interconnection	A 500MW East West interconnector between Ireland and the UK due to be operational by 2012 which will allow for electricity exports from Ireland to the UK and facilitate integration of renewable generation on the Irish electricity system. A second North-South interconnector is also in the planning process (Cavan-Tyrone, 400Kv line and Meath-Cavan 400 Kv line).	Existing	2009-2012
Research, Development & Demonstration			
Ocean Energy	The Ocean Energy Prototype Development Fund is aimed at	Existing	2008 onwards

Smart metering	stimulating the development and deployment of Ocean Energy (OE) devices and systems. The Ocean Energy Development Unit is working on a grid connected test facility for wave energy devices. A strategic environment assessment of our offshore waters is being undertaken. All of this should feed in to the development of the sector.		
Market incentives or subsidies			
Carbon Taxation	Introduce a price for carbon into non-traded sector of economy and broaden tax base	Planned	May 2010 onwards
Accelerated Capital Allowances (ACA) for Energy Efficient Equipment (SI 393 of 2009)	Specifies certain technical standards to be met by renewable energy products to be eligible for the ACA tax relief. Technologies covered include wind turbines >5kw, solar PV and CHP.	More technologies to be added in 2010	2009 onwards
Regulatory Processes			
Rollout and implementation of Gate 3 renewable generation grid connection offers	Under Gate 3, 3900MW of renewable generation are receiving grid connection offers over 18 months from December 2009. The rollout and implementation of Gate 3 by the regulator, and networks operators aims to ensure that Ireland can reach its 40% renewable electricity target.	Existing and planned	December 2009 onwards
Part L of the Second Schedule of the Building Regulations 1997-2008	In relation to Dwellings, Part L 3(b) requires that "a reasonable proportion of the energy consumption to meet the energy performance of the dwellings is provided by renewable energy sources". This provision is expected to increase use of renewable energy in dwellings	Existing The DEHLG is developing a strategic framework to achieve a carbon neutral standard for dwellings by 2013. Increased use of onsite renewables will be a key element of the framework. Building Regulations Part L (Conservation of Fuel and Energy) for buildings other than dwellings are being reviewed in 2010.	2008
EU Policy Drivers			
EU Third Energy Package	EU ambition for liberalised energy market in EU	Existing and planned	June 2009 onwards to 2020
EU Climate and Energy Package December 2008	EU ambition for a low carbon economy with 20:20:20 vision Ireland has legal obligations to 2020 under burden sharing rules regarding: •Renewable Energy Deployment in power, heat and transport •Greenhouse Gas Reductions •Energy efficiency improvements		

Remaining infrastructure gaps to be addressed

- Delivery of Grid 25 and further interconnection
- Delivery of gas storage capacity
- Delivery of offshore gas resources that have been discovered

Outline of the costs and benefits

Costs:

- Cost of Grid 25 is estimated to be €4 bn to the year 2025.
- The cost of North-south interconnector is estimated to be €280 mn (€180 mn for the Cavan-Tyrone line and €100 mn for the Meath-Cavan line)
- The cost of East-west interconnector is estimated to be €600 mn

Benefits:

Benefits of Grid 25

- Enhances regional development potential
- Enhances network reliability and security of supply
- Increases connectivity around country and to European Grid, which positions Ireland for further energy market integration with the rest of the EU
- Encourages market entry in the power sector
- Encourages the development of Ireland's renewable energy generation, which assists in meeting Ireland's renewable electricity (RES-E) targets for 2020 and reduces Ireland's dependency on imported fossil fuel and ultimately greenhouse gas emissions

Benefits of interconnection

- Electricity Interconnection between member states is central to the European Energy policy
- Enhance diversity, capacity and security of supply and reduce peripherality
- Promote competition in the electricity sector
- Allow sharing of resources/costs and allow trade in power to UK and vice versa
- Encourage the development of Ireland's renewable energy generation, which assists in meeting Ireland's RES-E targets for 2020 and reduces Ireland's dependency on imported fossil fuel and ultimately greenhouse gas emissions

Delivery and funding mechanisms

The East-west interconnector represents an investment of €600 mn and will be funded by:

- €110 mn grant from European Commission under its EU TEN-E initiative⁴
- €300 mn loan from the EIB - The EIB raises funds on the capital markets which it lends on favourable terms to projects furthering EU policy objectives. The planned East West Interconnector between Ireland and Wales is of strategic importance to Europe in helping to create a single European electricity market.
- €190 mn combination of capital investment from commercial banks and Eirgrid equity

The North-south interconnector represents an investment of €280 mn and will be funded as follows:

⁴ Trans-European Network for Energy

- 50% of the planning stage is funded by the EU TEN-E initiative
- The remainder is funded by ESB as transmission asset owner, (costs are recovered via Transmission Use of System charges) and ultimately the consumer and NIE for its portion of the works.

IBEC Priorities

In relation to energy the stated strategic objective of NDP 2007-2013 is to “*ensure security of energy supply nationally and regionally, which is competitively priced, in the long term while meeting a high level of environmental standards*”. Energy is included in the NDP but the majority of the investment will not be funded directly by the exchequer but end-consumers. Energy is included in NDP because of its fundamental role in the economy and promoting environmental sustainability.

Energy, including sustainable energy supply, has become a leading policy issue for business and society. Global pressures associated with energy security, energy costs and climate change are driving significant change in the way we supply and consume electricity.

Progress is being made. The completion of the Single Electricity Market (SEM) on the island of Ireland in 2007 has shown the economy of scale and complementary benefits that can be derived through market integration. However the NDP should be re-examined in the current economic context to ensure it remains a platform for further progress.

The EU Climate and Energy Package, December 2008 must now be given sufficient weighting in a revised NDP. Given the alignment between energy and climate change, the Government must firmly align the Energy White Paper and National Climate Change Strategy.

IBEC is disappointed at the continued lack of exchequer spending on strategic energy infrastructure. Current consumers are paying the full cost of decades of under-investment in such infrastructure, which have contributed to energy costs well above the EU average, and runs contrary to one of the aims of the NDP, namely to ensure competitively priced energy.

In order to transition to a low carbon economy between now and 2020, Ireland will have to make considerable investment in strategic infrastructure initiatives such as improved energy efficiency, networks and interconnection. Networks and interconnection development are key infrastructural enablers that will allow Ireland to realise the benefits of its renewable energy resources and access to a wider EU energy market in the medium to long-term.

In the short-term, this investment will add to energy bills. However in the medium to long-term a low carbon economy would hedge Ireland against volatile international fuel markets that are a driving force in our energy costs.

In order to protect competitiveness and societal welfare in the short-term and effectively reap the benefits of renewable energy and market integration in the medium to long-term, IBEC urges Government to assess the benefits of alternate financing arrangements for Grid 25 and seek EU assistance in financing strategic energy infrastructure facilitating regional market harmonisation.

IBEC recommends that the following alternative financing arrangements be explored and used for elements of strategic energy infrastructure such as networks, interconnection and strategic efficiency initiatives:

- Exchequer funding
- Revenue from carbon tax measures from May 2010 onwards (estimated revenue ca. €200 M p.a.)
- Revenue for the auctioning of ETS allowances to the power generation sector post-2012 (estimated revenue ca. €200 M p.a.)
- Reallocation of funds from climate change sub-programme for purchasing allowances (ca. €270 M).
- EU funding, whether EIB or TEN-E etc.

7. Enterprise Development

Progress achieved to date

The NDP originally envisaged investment of €3.3 bn under the Enterprise Development Programme between 2007 and 2013. The Indigenous Industry Sub-Programme was allocated €1.7 bn and €1.6 bn was allocated to the Foreign Direct Investment Sub-Programme. Despite the extreme difficulties which the enterprise sector has experienced since 2008, the amount of funding available under the programme has been reduced as part of the overall fiscal adjustment. In recognition of the difficulties facing the sector, however, and in particular the need to preserve employment Government introduced two new schemes as a direct response to the economic crisis. Both the Employment Subsidy Scheme and the Enterprise Stabilisation Fund have been important measures in ensuring the sustainability of vulnerable but viable employment.

Developments in the external environment

The enterprise environment has changed radically since the NDP was launched. In relation to national policy priorities the need to protect and foster enterprise has become much more pressing. Economic recovery can only be achieved through a vibrant and competitive enterprise sector operating effectively in both the domestic and export markets. Despite the beginnings of recovery in the Irish economy it is likely that unemployment will remain stubbornly high for a number of years. Measures to support the productivity and competitiveness of Irish enterprise and enhance job creation must be placed at the very top of Government's investment priorities.

Priorities for capital investment

Grants to enterprise remain an important part of overall enterprise policy and represent an important policy response to Ireland's unemployment crisis. Reflecting the urgent need to create new jobs in the economy, funding available under the enterprise development programme should receive no further reduction and some previous cuts should be reversed. In particular, funding for the Country Enterprise Boards should be restored to the allocations previously envisaged under the NDP.

In relation to the temporary measures announced to help vulnerable enterprises survive through the crisis, Government should remain fully committed to the original spending envelopes of €250 mn for the Employment Subsidy Scheme and €100 mn for the Enterprise Stabilisation Fund. Cuts previously indicated for the latter scheme should be fully restored as access to credit remains a major challenge for SMEs in particular and represents a continued threat to employment.

8. Social infrastructure

Considerable infrastructure deficits remain in the area of social infrastructure and it is vital that capital funding for the sector is not squeezed to such a degree that other costs to the Exchequer and society increase. Experiences of the 1980s show that an across-the-board restriction on capital investment can result in inefficient use of existing resources and ultimately a significant increase in current expenditure.

In the area of health provision, the strategy for the provision of effective primary health care should be pursued through a range of delivery options. Urgent investment is also required in the area of rehabilitative care. The inadequacies of the current infrastructure have been long established and delivery of an investment programme is urgently required.

In the area of education, a lack of ambition in capital investment is resulting in higher current costs (rental of portacabins, energy inefficiency etc) and sub-standard accommodation for pupils and staff. The roll-out of PPP projects in this sector has been particularly slow and needs to be accelerated.