

Budget 2020 Analysis for Construction

CIF | Economic Policy &
Research

Economic and Fiscal Context for Budget 2020

Budget 2020 is framed against a backdrop of an increasingly fragile global economy.

National economic growth of 5.5% forecast in 2019; with growth in modified domestic demand forecast at 3.2% in 2019.

Government is assuming a sharp slowdown in the pace of economic growth in 2020, with GDP projected to increase by just 0.7 per cent.

Budget 2020 involves a net budgetary package of €2.9 billion, including a €0.8 billion increase in capital spending.

In the event of a disorderly Brexit, Government is to provide financial supports of +€1.2bn through higher unemployment-related and other spending.

The rate of employment growth will slow to 0.8% (+19k jobs) in 2020 and the unemployment rate is expected to increase to 5.7% in 2020.

While the economy is still projected to expand, it is going to be very much a “two-speed” economy: sectors dominated by multinational enterprises are assumed to step up a gear, while activity in UK-facing sectors will slow sharply.

Housing completion data indicates a modest slowdown and 21,000 units are expected to be completed in 2019 (+17%). **Housing supply pressures will continue to adversely impact on economic competitiveness by reducing mobility of labour**

Summary of
economic and
fiscal variables
forecast to
2024

	2018	2019	2020	2021	2022	2023	2024
Economic Activity							
Real GDP (per cent)	8.2	5.5	0.7	2.5	2.8	2.7	2.6
Real GNP (per cent)	6.5	4.3	-0.1	2.4	2.5	2.4	2.3
Prices (per cent)							
HICP	0.7	0.9	1.3	1.4	1.8	2.0	2.1
Core HICP (ex energy & unprocessed food)	0.2	1.0	1.5	1.6	1.8	2.0	2.1
Labour Market							
Total Employment ('000)	2,258	2,312	,2,330	2,355	2,289	2,429	2,475
Employment ('000)	2.9	2.4	0.8	1.1	1.5	1.7	1.9
Unemployment (per cent)	5.8	5.2	5.7	5.9	5.9	5.7	5.5
Investment (per cent GDP)	23.9	33.8	25.7	24.3	24.6	25.0	25.3
Of which: building & construction	7.5	7.8	8.2	8.5	8.8	9.1	9.4

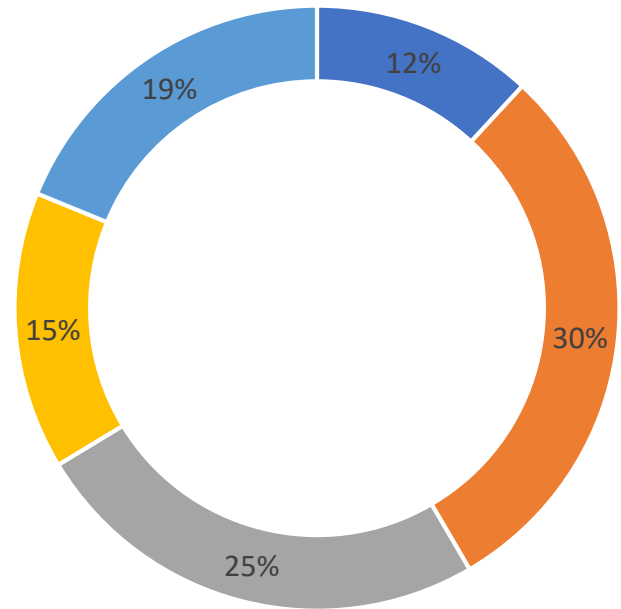
Expenditure
2020

Capital: +10.8%
Current: +4.3%

Estimate of Gross Voted Expenditure 2020	€ million
Gross Voted Current Expenditure (core)	61,868
Gross Voted Capital Expenditure (core)	8,136
Total Gross Voted Expenditure (core)	70,004
<i>Brexit - contingency for temporary targeted measures</i>	<i>650</i>
<i>Brexit - necessary compliance checks</i>	<i>160</i>
<i>Brexit - additional employment/labour market supports</i>	<i>410</i>
Total Disorderly Brexit Response	1,220
Cash costs	169
Total Additional Total	1,389
Total Gross Voted Expenditure	71,393 (+5%)

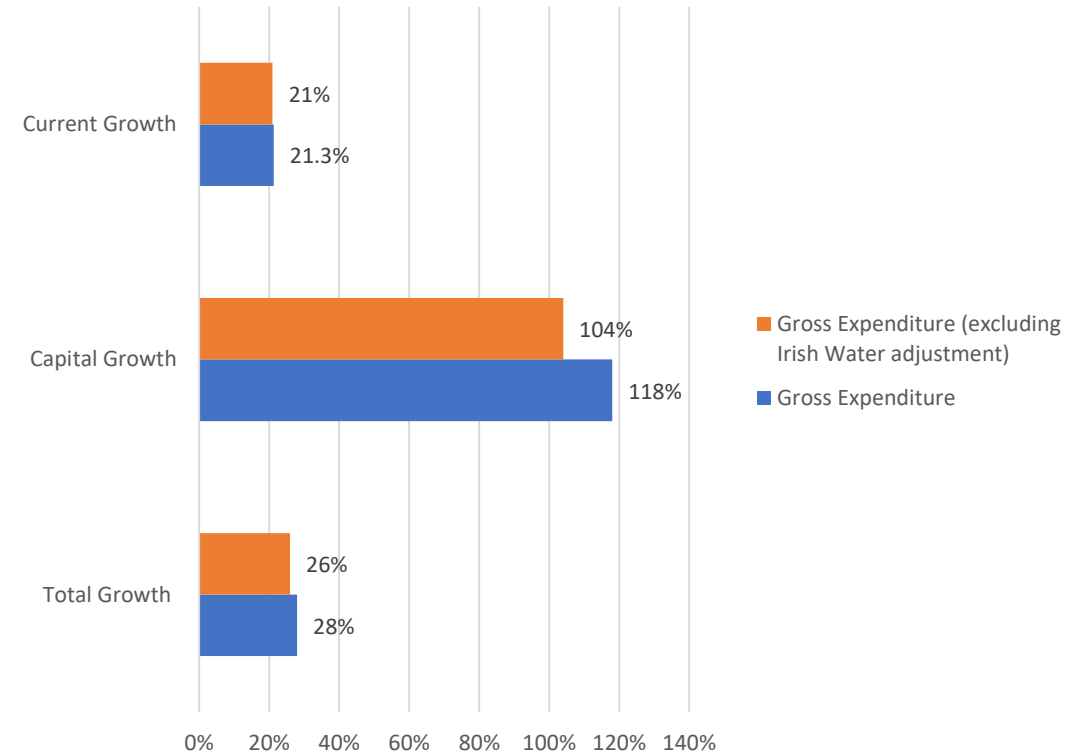
Budget 2020 - expenditure priorities

Core Public Spending Priorities 2020



■ Capital ■ Social Protection ■ Health ■ Education ■ Other Current

Growth by Expenditure Type, 2015 - 2020



Exchequer
Balance 2019-
2024
Capital
Expenditure and
Brexit Contingency

	2019	2020	2021	2022	2023	2024
Gross voted capital expenditure	7,385	8,140	9,160	9,415	9,700	10,300
Non-voted capital expenditure	2,065	1,175	1,685	1,710	1,745	1,760
Gross capital expenditure	9,450	9,310	10,845	11,125	11,445	12,060
Less capital receipts	35	30	30	30	30	30
Net capital expenditure	9,415	9,280	10,815	11,095	11,415	12,030
Brexit contingency		1,220	780	780	705	570

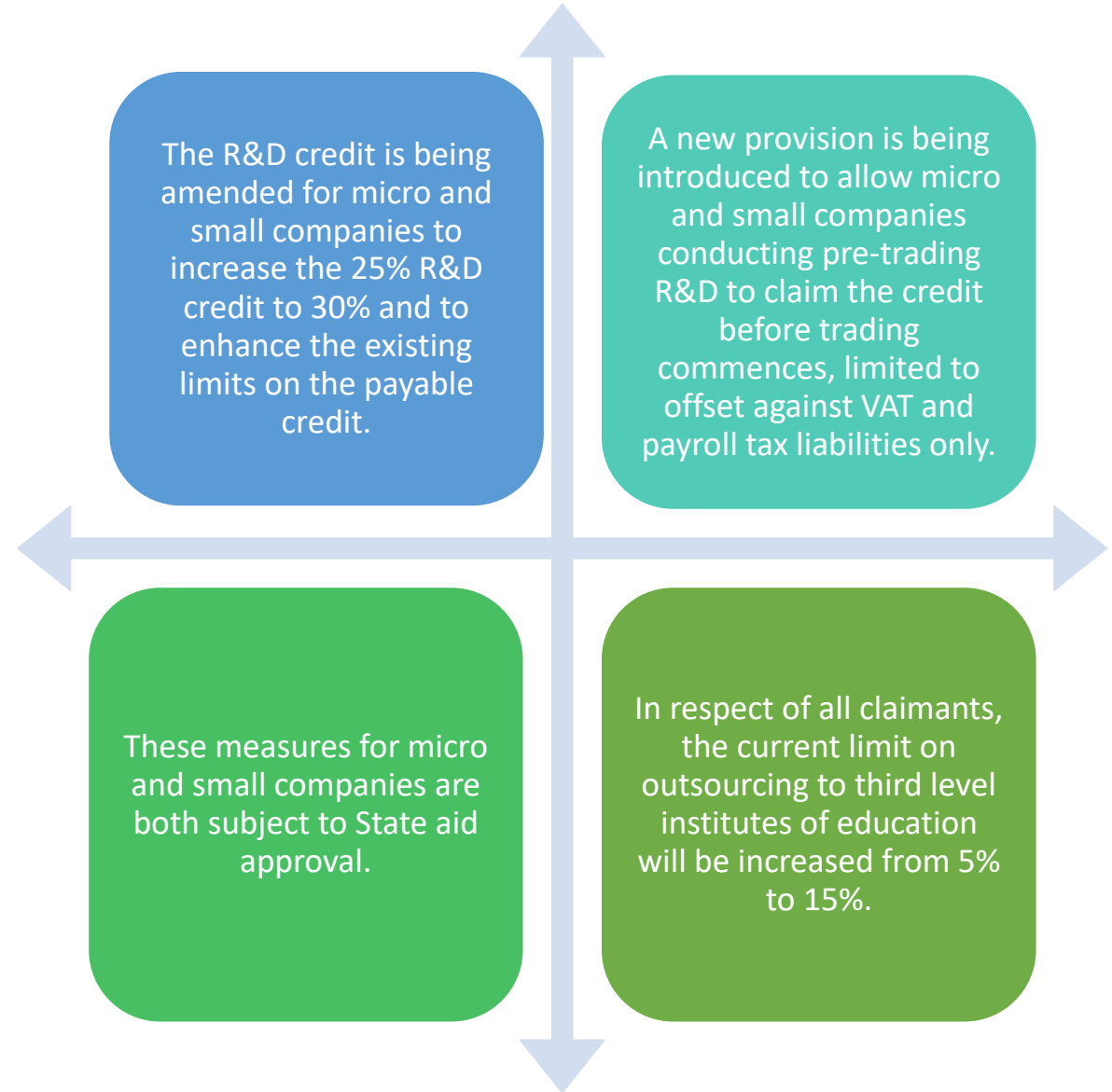
Budget 2020 headline items

- The **Help to Buy** scheme is extended in its present format until 31 December 2021. The HTB scheme is an income tax incentive measure designed to assist first-time buyers with the deposit required to purchase or self-build a new house or apartment to live in as their home
- The **Living City Initiative** is extended in its present format until 31 December 2022. The LCI is a scheme of property tax incentives aimed at the regeneration of certain 'Special Regeneration Areas' in the historic centres of Cork, Dublin, Galway, Kilkenny, Limerick and Waterford.
- There is an increase in **Stamp Duty on Non-residential Property** from 6% to 7.5% from Budget night.
 - The rate of stamp duty applicable to non-residential property transactions will be raised from 6% to 7.5% from Budget night. This will be subject to transitional arrangements whereby the existing 6% rate will apply to instruments executed before 1 January 2020 where a binding contract existed prior to Budget day (8th October 2019).
 - Consequential amendments will also be made to the legislation relating to the repayment of stamp duty where the land involved is subsequently used for residential development, so as to ensure that the rate of stamp duty chargeable after a full refund remains at 2%.
- If there is a '**No Deal**' **Brexit** €220 million will be made available immediately. Of this, €110 million will be targeted to help vulnerable but viable businesses.
- There will be a €6 increase on the current rate of **Carbon Tax** applied per tonne of carbon dioxide emission. This will bring the rate from €20 per tonne to €26. The increase will be applied to petrol and auto diesel from midnight on 8th October and all other fuels on 1st May 2020.
- The **R&D tax credit** is being amended for micro and small companies to increase the 25% R&D credit to 30%. See Slide 9.
- A **regionally balanced project pipeline** is promised in order to respond to Brexit and wider challenges such as climate change and to bring greater economic resilience to Ireland's regions by addressing **current infrastructural deficits**. *Reference: Project Ireland 2040 and the NDP.*

Budget 2020 headline items

- **Irish Real Estate Funds (IREFs) and Section 110 Companies Act**
 - Following analysis of the first sets of financial statements filed by Irish Real Estate Funds (IREFs), Revenue have identified that some IREFs are using excessive interest charges to avoid the payment of tax in respect of profits from Irish property. A number of anti-avoidance measures are being introduced to address these issues, including the introduction of limitations on interest expenses based on debt to property cost and on an income to interest ratio. These measures will be brought in via Financial Resolution on Budget night. Anti-avoidance provisions in section 110 TCA 1997 are also being strengthened to ensure that they operate as intended. These changes will be brought in as part of Finance Bill 2019.
- **Real Estate Investment Trust companies (REITs)**
 - A number of amendments are being made to the REIT framework to ensure that the appropriate level of tax is being collected from the regime, particularly in the area of capital gains. The distribution of proceeds from the disposal of a rental property will be subject to dividend withholding tax upon distribution. An existing provision whereby a deemed disposal and re-basing of property values occurs should a company cease to be a REIT is being limited to apply only where the REIT has been in operation for a minimum of 15 years, in line with the original policy intention of encouraging stable long-term investment in the rental property market. These changes will be brought in via Financial Resolution on Budget night.
- **Stamp Duty of 1% being introduced** on Schemes of Arrangement involving a 'Cancellation Scheme' where used for the sale of a Company.
 - An amendment is being made to the Stamp Duties Consolidation Act 1999 to provide that a stamp duty charge of 1% is applicable where a scheme of arrangement, in accordance with Part 9 of the Companies Act 2014, is used for the acquisition of a company.
- **Employment and Investment (EII).** EII provides individual investors with **tax relief for risk capital investments in qualifying SMEs**. A range of proposals are being brought forward to enhance the scheme including a number of technical adjustments to improve its operation. The main changes are as follows:
 - The level of relief: full income tax relief (40%) to be provided in the year in which the investment is made. This compares with current arrangements where 30% relief is provided upon the initial investment and a further 10% is given after Year 3 subject to certain conditions; and
 - The investment limit: the annual investment limit will be increased from €150k to €250k and to €500k in the case of those who invest for a minimum period of 10 years.
- **Special Assignee Relief Programme.** SARP is an income tax relief measure which aims to reduce the cost to employers of assigning skilled individuals in their companies from abroad to take up positions in their Irish based operations, thereby facilitating the creation of jobs and the development/expansion of business. Existing SARP legislation had a sunset clause of 31 December 2020. It is proposed to extend the scheme until 31 December 2022 (three years 2020-2022).

Research & Development Tax Credit



Capital Expenditure 2020

The €8.1 billion allocated to capital expenditure in 2020 is in line with the NDP 2018-2027. This represents a +10.8% (+€800 million) increase over 2019 allocations.



Budget 2020 also introduces new carbon tax measures which will raise €90 million in 2020. €69 million of this is being allocated to capital expenditure programmes. Examples of planned investment are set out below:

Housing upgrade scheme - €20m

Greenways/Urban Cycling - €9m

EV Charging Infrastructure - €3m



Gross Voted Capital Expenditure 2020

Capital allocations by department with sample programmes

Agriculture, Food and the Marine

Sample programmes:

- Grant aid for capital investment for food and drinks SMES to improve productivity.
- Invest in agriculture, food and forestry sectors research facilities including the National Food Innovation Hub.
- Further develop the Fisheries Harbour Centres.

Agriculture, Food and the Marine	2020	2021	2022
Gross Voted Capital Expenditure	€274m	€265m	€275m

Children and Youth Affairs

Sample programmes:

- While not capital investment per se there will be an expenditure of €1,573 million towards childcare services in 2020.

Children and Youth Affairs	2020	2021	2022
Gross Voted Capital Expenditure	€31m	€32m	€33m

Business, Enterprise and Innovation

Sample programmes:

- Deliver continued funding under the Disruptive Technologies Innovation Fund.
- Jobs and Enterprise Funding programmes.
- Funding to Science Foundation Ireland to support the next phase of its Research Centres Programme

Business, Enterprise and Innovation	2019	2020	2021
Gross Voted Capital Expenditure	€632m	€640m	€715m

Communications, Climate Action and Environment

Sample programmes:

- Commence rollout of the National Broadband Plan.
- Grant fund energy efficiency improvements in homes and work towards a new Retrofitting model as set out in the Climate Action Plan.
- Target the new 'Just Transition Fund' in the Midlands.
- Support the EPA in delivery of its research commitments to help mitigate and adapt to climate change.

Communications, Climate Action and Environment	2020	2021	2022
Gross Voted Capital Expenditure	€371m	€517m	€611m

Culture, Heritage and the Gaeltacht

Sample programmes:

- Support protection of archaeological and built heritage by investing in built heritage initiatives.
- Support the provision of island infrastructure

Culture, Heritage and the Gaeltacht	2020	2021	2022
Gross Voted Capital Expenditure	€81m	€80m	€110m

Defence

Sample programmes:

- Replacement and upgrading of essential military building and maintenance works across the Army, Air Corps and Naval Service.

Defence	2020	2021	2022
Gross Voted Capital Expenditure	€113m	€120m	€125m

Education and Skills

Sample programmes:

- Provide increase in apprenticeship training to cater for apprenticeship population reaching almost 20,000 in 2020.
- 60 new schools projects are due to go to construction in 2020 and ranging in value from €1m to in excess of €20m.
- There are 40 existing projects which are currently un construction through 2020.
- The capital allocation will also facilitate the delivery of small scale projects such as site acquisition and the School Remediation Programme.
- €174m will be allocated to the Higher Education, Research and Further Education Sectors to support infrastructure investments to expand student places and upgrade existing infrastructure.

- Skills development and higher education investment to upskill and reskill to meet labour market requirements.
- The NTF Levy increases to 1% in 2020 giving an additional €74m for investment in Higher and Further Education Sectors.
- Launch of the Human Capital Initiative with €60m allocated in 2020 providing 3000 additional places for existing graduates to receive advanced training in high-demand areas.

Education and Skills	2020	2021	2022
Gross Voted Capital Expenditure	€922m	€1,006m	€1,100m

Health

Sample programmes:

- Funding for the continued progression of the National Children’s Hospital.
- Completion of a purpose-built, modern National Forensic Mental Health Hospital at Portrane.
- New hospice facilities in Mayo, Waterford and Wicklow.

Health	2020	2021	2022
Gross Voted Capital Expenditure	€854m	€780m	€825m

Justice and Equality

Sample programmes:

- Extensive modernisation of prison facilities at Limerick prison.
- Development of new Garda facilities at Military Road.
- Commencement on the construction of the Forensic Science Laboratory.

Justice and Equality	2020	2021	2022
Gross Voted Capital Expenditure	€265m	€208m	€216m

Housing, Planning and Local Government

Sample programmes:

- Continuation of Rebuilding Ireland: Action Plan for Housing and Homelessness.
 - €1.5bn provided in 2020 allocated for housing in 2020 to focus on delivery of 8,500 new social homes through build and acquisition programmes.
 - €126m for the Serviced Sites Fund to provide infrastructure to deliver 6,200 new affordable homes over the life of the Fund.
 - €72m provided for the National Regeneration Programme.
 - €14.5m for delivery of Traveller specific accommodation.
 - €59m for delivery of 12,000 adaptation grants for home of older people and people with a disability.
 - €40m for remediation of homes affected by pyrite and a new grant for homes in Donegal and Mayo affected by defective concrete blocks.
 - €25m to support and improve energy efficiency in 1,000 social housing homes.
- €582m in capital funding to Irish Water for provision of domestic water services.
- €25m in capital funding for the Rural Water Programme.
- €8m to support the Developer-Provided Water Services Infrastructure programme.
- €130m provided to the Urban and Regeneration Development Fund
- €17.5m provided to the Land Development Agency in advance of its capitalisation through ISIF.
- €0.5m increased funding provided for the operational budgets of An Bord Pleanála and the Office of the Planning Regulator.

Housing, Planning and Local Government	2020	2021	2022
Gross Voted Capital Expenditure	€2,230m	€2,269m	€2,280m

Public Expenditure and Reform

Sample programmes:

OPW:

Flood Risk Management:

- Commence construction of 4 major flood relief schemes including Blackpool, Glashaboy, Crossmolina and Enniscorthy.
- Continue design and development of 80 additional flood relief schemes.
- Continue maintenance of arterial drainage schemes.

Estate Management:

- Progress office accommodation projects such as Leeson Lane redevelopment and demolition of Hawkins House.
- Continue Fabric Upgrade Programme, Mechanical and Electrical Programme, Energy Conservation, Fire and Security Upgrades and Universal Access Programmes in 2020.
- Continue ongoing works at Athlone Garda Station, Athlone Water Unit, Glanmire Garda Station, Garda Cell Programme

Public Expenditure and Reform	2020	2021	2022
Gross Voted Capital Expenditure	€219m	€223m	€232m

Office of Government Procurement:

- Delivery of value for money, transparency and accountability to remain a consistent aim for all public spending in 2020.
- Deliver improved procurement capability in the public service, which will yield financial, performance and risk management benefits to the State.
- Continue to support awareness and education of SMEs regarding the opportunities arising from public procurement.
- Publish and deliver a schedule of Contracts and Framework Agreements giving advance notice to Public Service Bodies (PSBs) and the supply markets of planned significant tenders.
- Leading on all national procurement policy and driving Ireland's contribution to EU and international public sector procurement policy.
- Leveraging spend and tendering analytics and data management.

Rural and Community Affairs

Sample programmes:

- Continue investment in strategic projects under the Rural Regeneration and Development Fund to advance economic and social progress in rural Ireland.
- Support ongoing delivery of LEADER 2014-2020 Rural Economy sub Programme.
- Enhance Rural Development Schemes such as the Outdoor Recreation Infrastructure Scheme and high quality walking trails.
- Provide additional capital funding for innovative digital projects and funding for small scale works and improvements in Libraries nationally.

Rural and Community Affairs	2020	2021	2022
Gross Voted Capital Expenditure	€150m	€152m	€175m

Transport, Tourism and Sport

Sample programmes:

- Continue to progress major Capital Plan projects including the BusConnects Programme, MetroLink and the DART Expansion Programme.
- Commence construction of the National Train Control Centre and a new train station at Pelletstown.
- Provide enhanced maintenance and renewal of the existing heavy rail network.
- Commence construction of a number of important Active Travel infrastructure projects.
- Progress some major Project Ireland 2040 roads projects including:
 - Planning work on the M20 Cork to Limerick scheme
 - Ballyvourney to Macroom Upgrade Scheme
 - Sligo Western Distributor Road
 - Coonagh/Knockalisheen Distributor Road
 - Westport to Turlough

Transport, Tourism and Sport	2020	2021	2022
Gross Voted Capital Expenditure	€1,943m	€2,613m	€2,424m

- Continue to provide grant support for both the national and regional & local Road network maintenance and renewal. This includes funding for programmes to reseal roads and strengthen roads across the network. Ring-fenced funding will also be provided for Drainage works and for Community Involvement Schemes for regional and local roads.
- Support the development and sustainability of Irish tourism, in particular through enterprise supports, capital investment, growing event and business tourism and continued enhancement of the experience brands.
- Support the development of Greenways.



Questions?

Jeanette Mair | CIF | Economic & Policy Research

Email: jmair@cif.ie | Tel: 01 4066035