



**Services Industrial Professional & Technical Union**

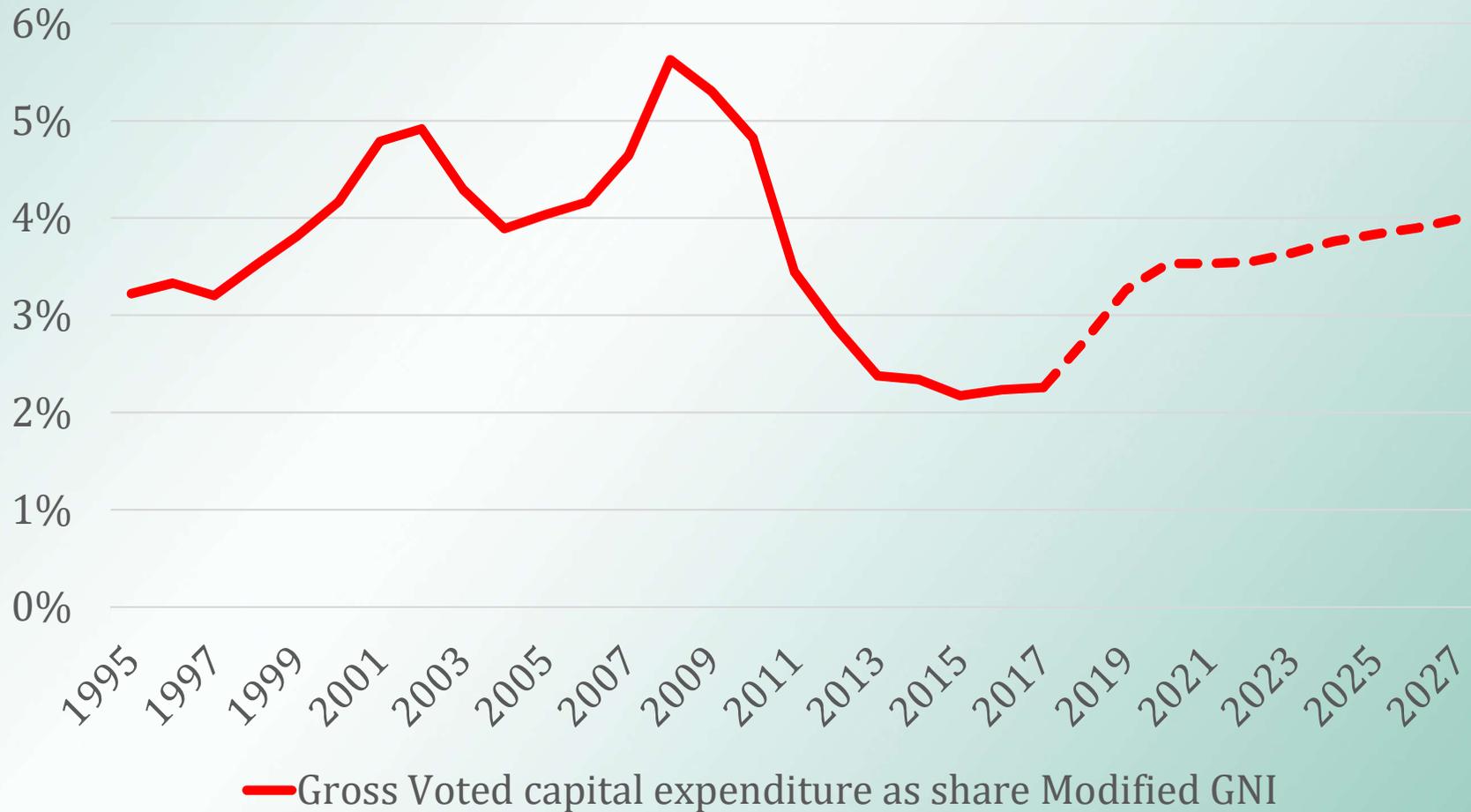
# **Will Project Ireland 2040 deliver Ireland's Infrastructure Needs?**

Marie Sherlock  
May 16<sup>th</sup>, 2018

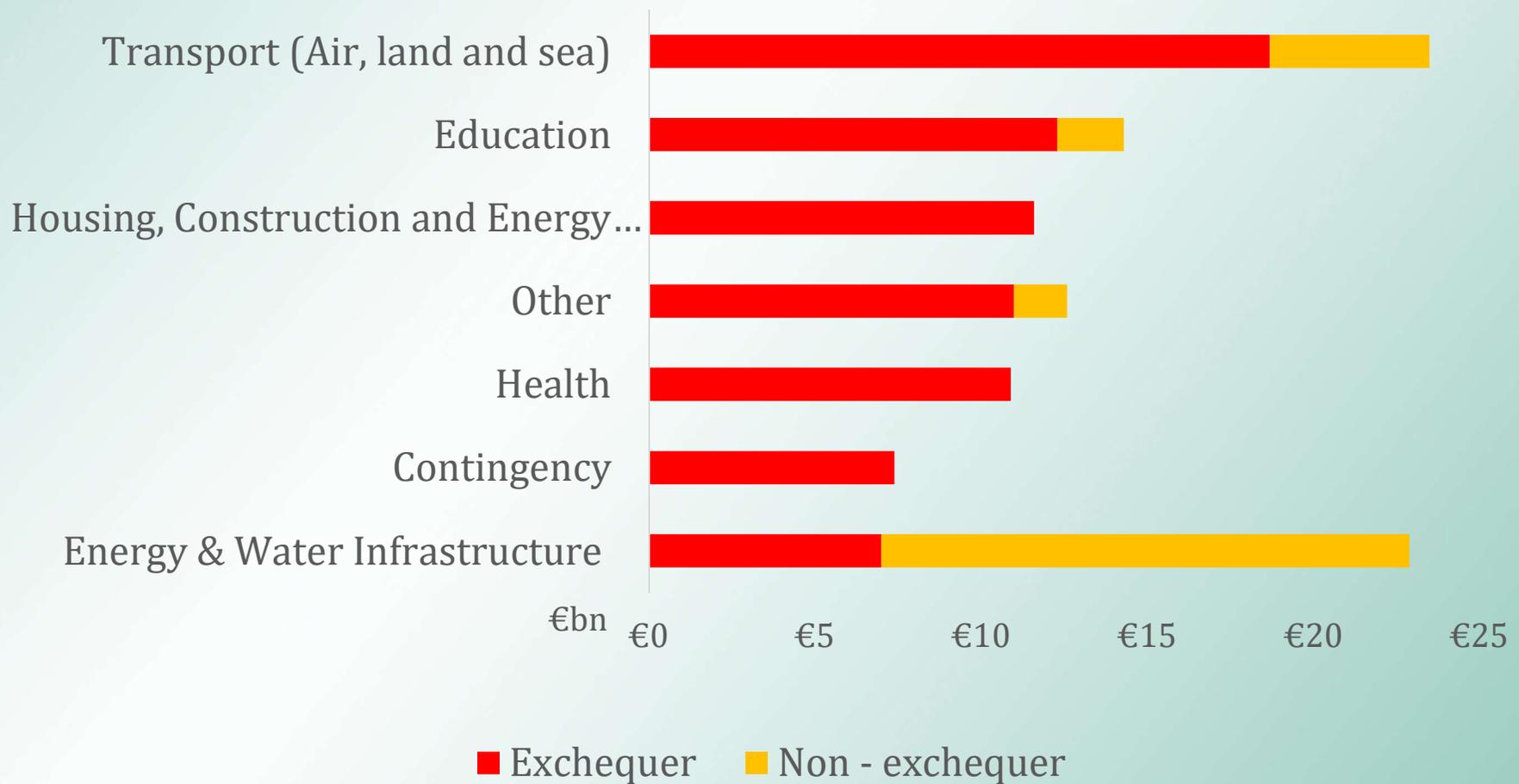
**1) Can Ireland 2040 be delivered?**

**2) Will it meet Ireland's infrastructure needs?**

# 1) What exactly has the Government promised?



# Sectoral allocation of capital plan



Source: NDP 2018-2027

# Delivery

## The key factors

- (i) Financing these commitments
- (ii) Labour supply

# (i) Financing Commitment

Additional spending commitment is modest.

- **Coming from a low base- with the exception of Italy, we have lowest public investment across EU in 2018- just 2.1% of GDP.**
- **Only €5.8bn in additional cumulative exchequer spending over a decade 2018-2027.**
- **Well within fiscal rules- general government and structural budget surpluses planned post 2020.**

# Financing risks

- 1) **Cyclical risk: All exchequer financed capital expenditure will be within own resources from 2020. No guarantees of outlay in the event of a downturn.**
- 2) **Political risk: Almost 60% of total spend is backloaded 2023-2027- two governments away.**
- 3) **Operational risk: no profile of additional current expenditure required to operate new capital projects.**
  - **Proposed “capital tracker” to be rolled out by DPER must detail and include operational costs.**
  - **Will current expenditure ceilings be increased to allow for additional capital spend?**

# Structural economic risk: Brexit

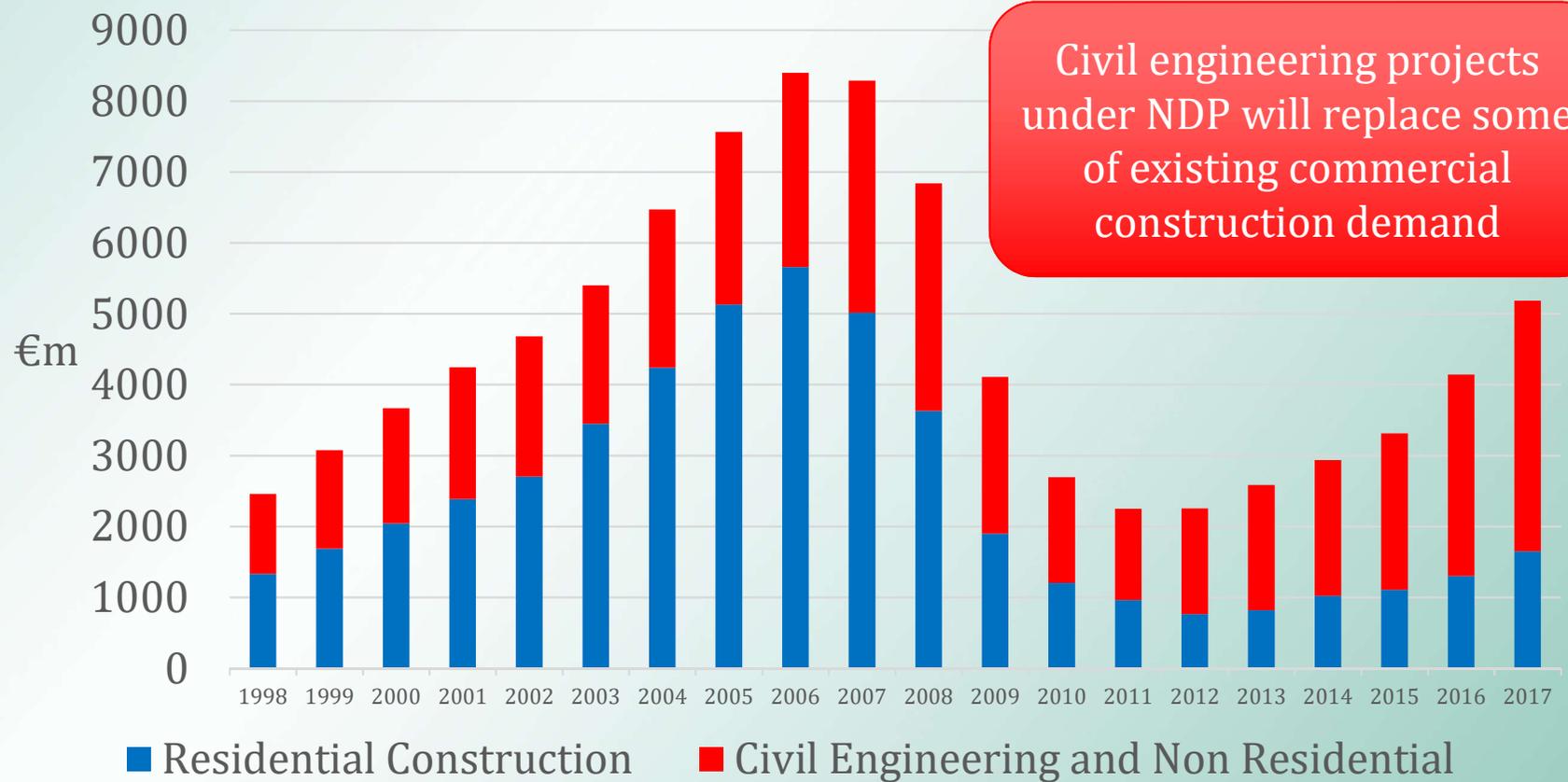
- **Serious timing issue: lion's share of outlay is timed to coincide with greatest impact of Brexit.**
- **Possible positive spill-over to factor costs. Relatively high import content (47.8%) in construction materials. Weaker sterling may lower factor costs.**
- **Possible increase in commercial floor area demand.**

## (ii) Labour Supply

**Will there be enough construction workers to deliver Ireland 2040?**

# Non residential activity driving the construction recovery to date

Construction Output 1998-2017 current prices



Civil engineering projects under NDP will replace some of existing commercial construction demand

Source: CSO QNA

# Housebuilding- main driver of construction employment demand

(projection assumes volume of housebuilding activity increases by over 60% 2017-2020)



Source: CSO LFS and EHECS

# Recruitment constraints- labour supply issues

- Business demography and output model in construction are contributory factors in growing shortage of craft and semi skilled construction workers.

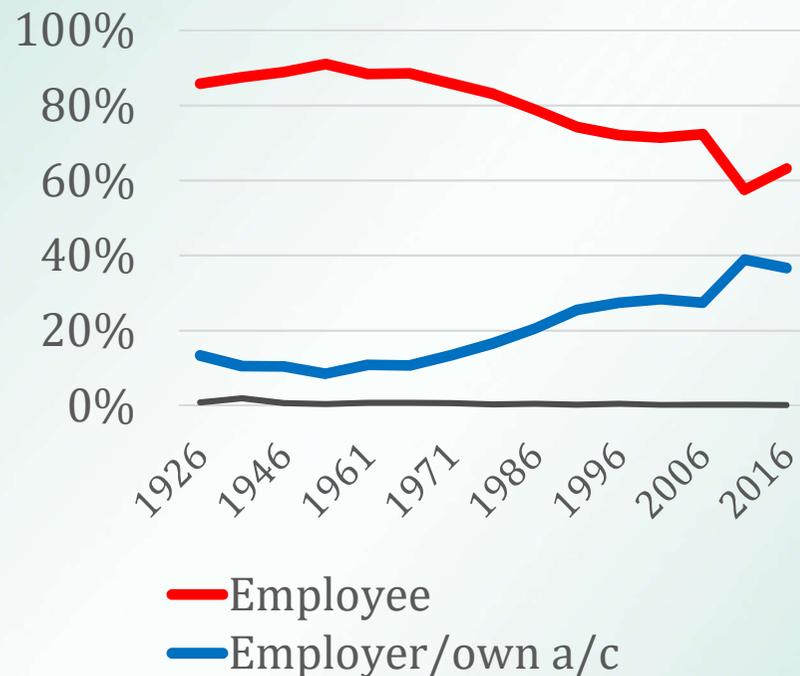
## Firm size

- Distribution highly skewed to firms employing 10 or less people (97% in 2015).
- Evidence of increased fragmentation in construction market. Average firm size has fallen from 2+ in 2008 to less than 2 in 2015.

## Vertical Disintegration

- Marked rise in sub contracting activity at each stage of construction process.

## 90 years of Construction employment PES data census 1926-2016



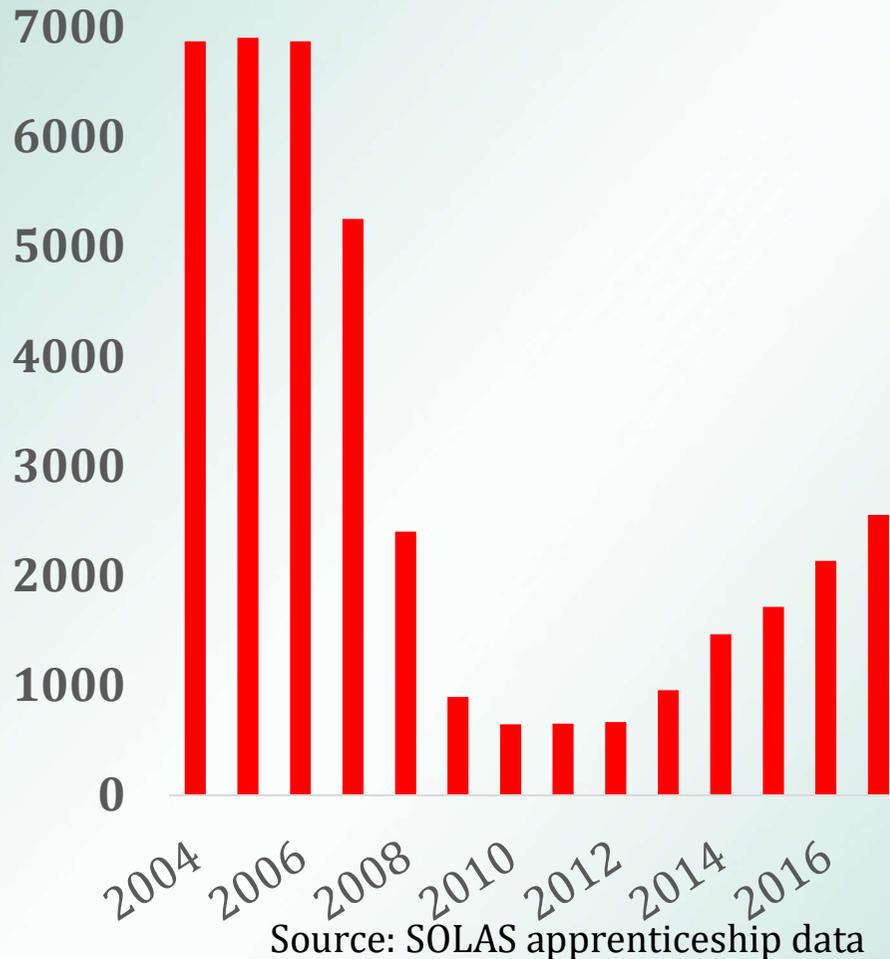
Source: various census

### Other key features

- Increased reliance on temporary agency workers for general operative grade. Almost no direct employment at general operative grade across major Dublin construction sites at present. Less secure, more precarious work.
- Increase in incidence of self employment and bogus self employment in construction sector.

# Training constraints

Total Construction Apprenticeship Registrations 2004-2017



## Key factors in not taking on craft apprentices:

- Insufficient staff to apprentice ratio in smaller firms

## Key factor in not growing supply of semi skilled construction workers:

- Direct employment opportunities are minuscule and so there is little or no employer sponsored workplace training.

# Key to improving labour supply issues

## Productivity & Skills

- Migration is only one (semi short term) solution. Shift level increase in residential housing activity necessitates increase in flow of trained skilled workers.
- Need greater state support for workplace skilling for general operatives.
- Explore new model of construction apprenticeship provision.

## Pay & Conditions

- Lower work intensity, more consistent alternative employment options crowding out labour supply into construction.
- Need to introduce greater incentives to stamp out bogus self employment. Dept. Social Protection recommending an increase I Class S PRSI.
- Construction industry needs to reflect on long term impact on job quality and labour supply arising from sub contracting practises.

## **2) Will Ireland 2040 meet Ireland's Infrastructural needs?**

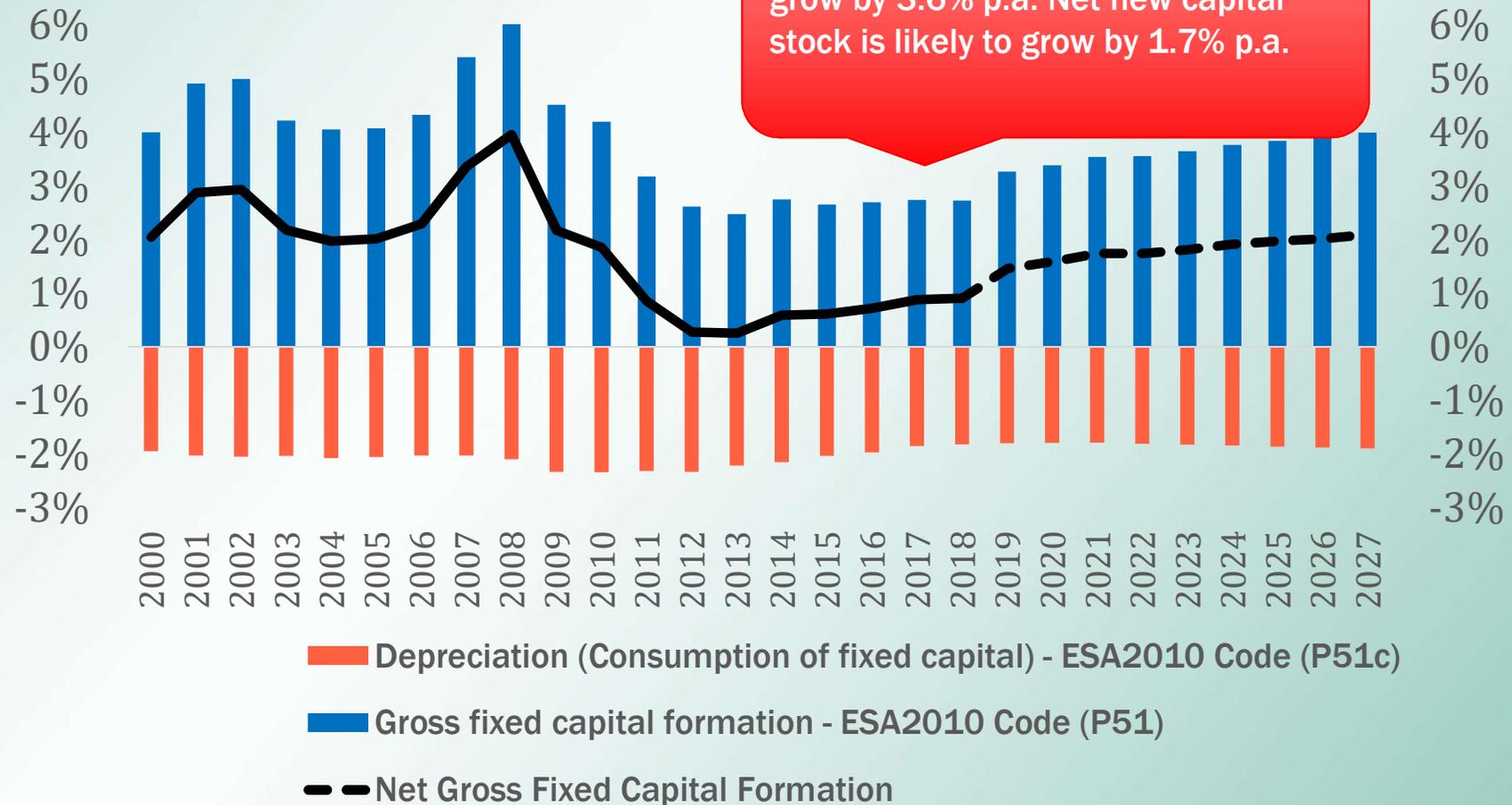
**(i) How much of the NDP involves net new capital stock?**

**(ii) Is 500,000 in new housing supply sufficient to meet the scale of demand?**

## (i) The catching up process

- Net new additions to the capital stock were close to zero during worse years of crisis.
- Depreciation/maintenance costs accounted for 90% of Public Capital Expenditure in 2012 and 2013.
- In 2017 depreciation accounted for 68% of total capital investment.
- Depreciation is likely to average just over 50% of total capital investment 2018-2027 (assuming average annual rise in depreciation costs 2000-2017 of 4% is held constant 2018-2027).

# Net Public Capital Expenditure as share of GNI\* 2000-2027(f)



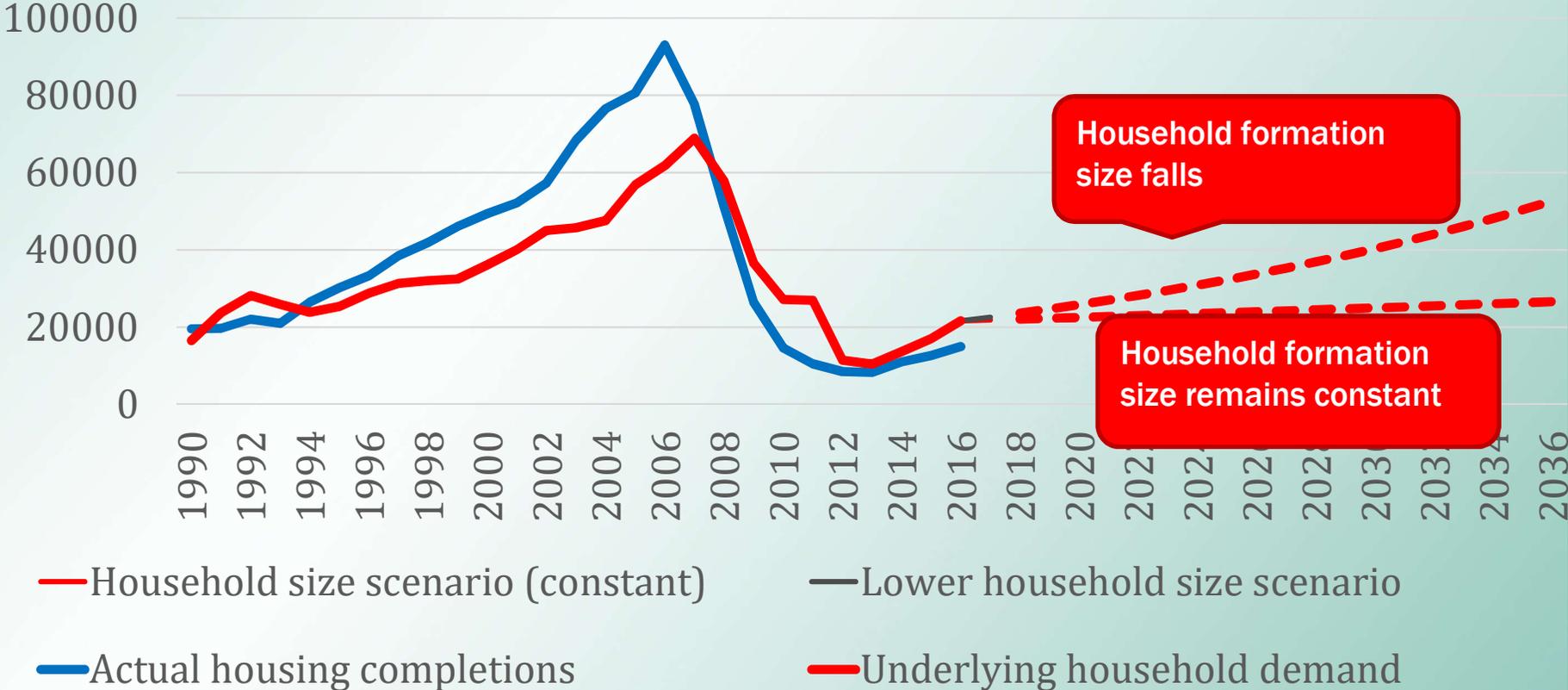
Source: CSO Government Finance Statistics, CSO National Income and Expenditure, NDP 2018-2027, SPU 2018 and own calculations

## (ii) Housing

- **Project Ireland 2040 underestimates the scale of residential demand over next two decades.**
- **Misplaced expectation that increased supply will reduce prices- by extension affordability likely to remain major issue in Irish housing market. Longer term leasing and expanded state provision in affordable and market priced housing supply will have to become a feature of Irish housing market.**
- **Little confidence to date that existing State initiatives are sufficient to meet own targets of 25,000 p.a. to 2020 and up to 35,000 post 2020.**

# Is 500,000 houses enough?

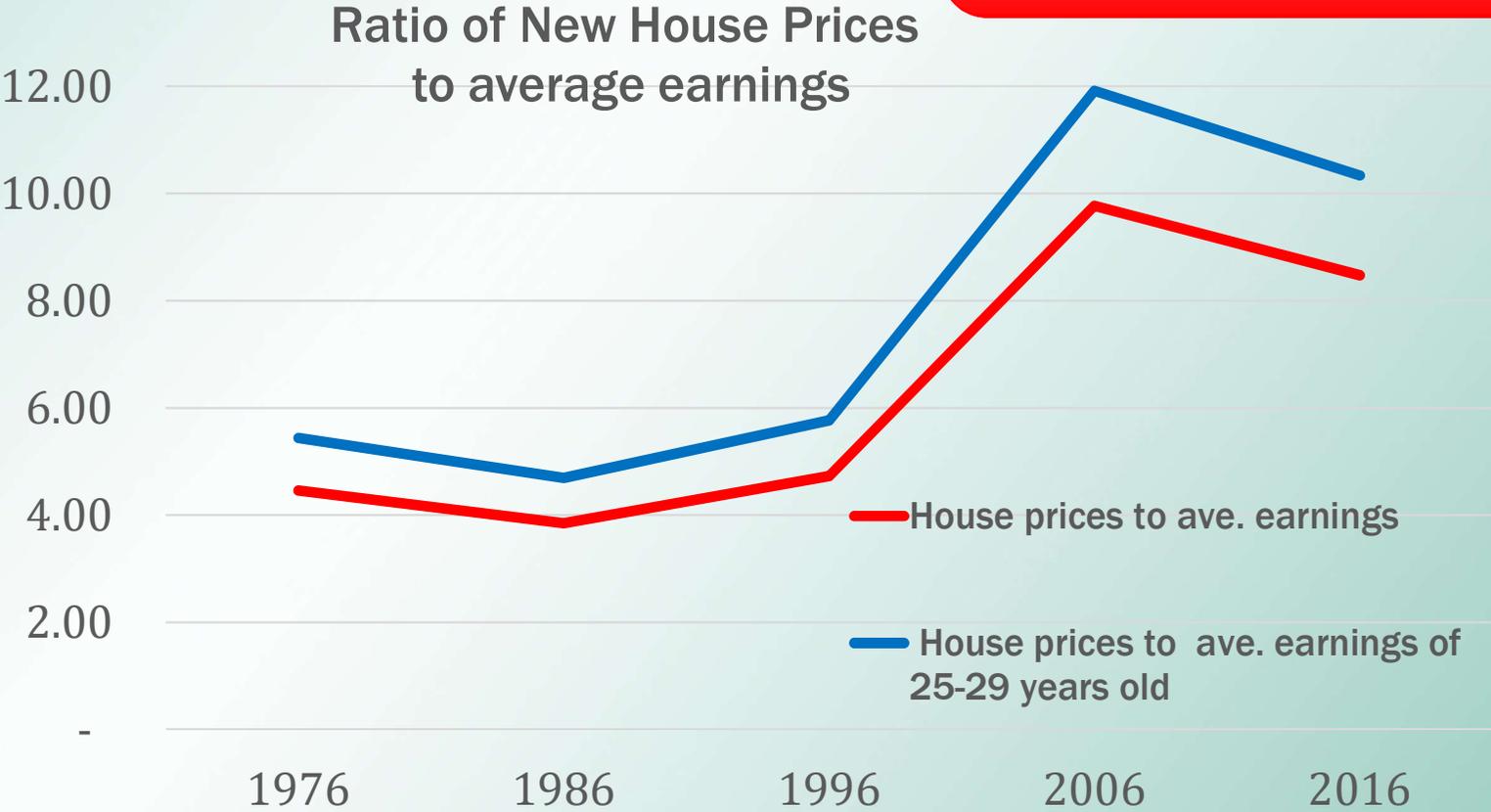
Housing demand and output 1990-2036 (f)



Source: OECD, 2018, DHELG ESB completion statistics

# Housing Affordability

Significant fall in ave. house price required for worker on ave. earnings to qualify for mortgage under macro-prudential rules



Source: various census, CSO Industrial earnings, DHELG, own calculations

# Public use of Public lands?

**1,700 hectares of land are in local authority or Housing Agency ownership. Another 300 hectares is State owned or semi state company owned land – Government estimates some 48,000 houses could be developed on these lands.**

**Most cost efficient way of developing this land?**



# **Will Project Ireland 2040 deliver Ireland's Infrastructure Needs?**

- **Additional spending commitment in National Development Plan is modest.**
- **No substantive risk of capital plan contributing to an overheating economy.**
- **Housing development plan underestimates the scale and type of future housing need.**



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