CONGRESS

WORKING FOR PROGRESS

IRISH CONGRESS OF TRADE UNIONS

Congress Pre-Budget Submission

2005

HIGHLIGHTS

Macro Economic Context:

The recent report of the IMF seems confident that a global economic recovery is well established. Domestic commentators share this view and growth rates of up to 6.5 per cent are being forecast for next year for the Irish economy.

Congress acknowledges that there are potential risks to global growth from:

- Oil prices;
- Imbalances in the US economy;
- A hard landing for the Chinese economy

but nevertheless feel that the budget can be framed in an optimistic context. The public finances look particularly good with income of €1.8 billion in excess of expectations and expenditure less than budgeted for.

Objectives of the Budget:

From a Congress perspective the budget should implement the provisions of the Sustaining Progress partnership agreement and also avail of the favourable circumstances to start addressing some medium term strategic issues. It is worth recording that economic and budgetary conditions are way beyond even the most optimistic outlook when Sustaining Progress was negotiated. As such there should be no difficulty delivering on the commitments contained in it.

Immediate Commitments Arising from Sustaining Progress:

On Tax……

- All income up to the level of the Minimum Wage (€7/hour - €273/week) should be exempt from tax;

- No worker on average industrial earnings (€29,879 in September 2004) should be paying at the top rate and 80 per cent of tax payers should pay at the standard rate;

- Tax credits and tax bands should be adjusted to preserve the value of wages;

- Tax relief for childcare costs/provision including a minimum tax credit of at least €20/week and tax relief up to an initial €50/week for parents using approved and receipted childcare.

- Existing thresholds for PRSI and levy payments should be adjusted in line with wage movements as follows:

    - PRSI allowance to be raised from €127 to €198
    - PRSI exemption threshold to be moved to €386/week
    - Health levy threshold to be moved to €479/week

On Tax Administration……

- The guiding principle of taxation should be that Income and Capital Gains should be treated equally;

- Policy on corporation tax should be re-evaluated;

- Tax shelters, especially those relating to property, should be eliminated or capped as appropriate;

- For environmental purposes a levy of €5,000 on SUVs over 2.4 litres should be considered.

On Welfare……

- Lowest SW rates to increase by €21 per week to progress towards target of 30 per cent of gross average industrial earnings by 2007;

- Pensions to increase by at least €21 to progress towards target of achieving 34% of GAIE by 2007;

- Maternity Benefit to be restored to 80 per cent of reckonable earnings (70 per cent at present) including 'reckonable earnings' raised to €452.00 per week;

- Child Benefit to increase to €150 per month for the first two children and €185 per month for third and subsequent children;

- Retention of secondary benefits – the gross household limit of €317/week has not increased since 1994 and should now be adjusted in line with wage movements.

On Health…..

- Investment to support greater progress in the implementation of the National Health Strategy;

- Medical Card income guidelines to be increased and index linked to earnings as follows:

Single Person	-	€178/week
Couple	-	€355/week
Children under 16	-	€53.60/week

- Introduction of a non means tested payment and more flexible regime for carers;

On Education…..

- Increased investment in tackling educational disadvantage.

On Community Employment……

- Reverse policy on community employment and jobs initiative with a view to ensuring that vulnerable people are assisted, that community services are maintained and people who can are supported to access the labour market;

Commitments over Lifetime of Sustaining Progress (two budgets):

On Housing……

- 10,000 affordable houses must be completed;

- Accommodation of social housing programme to tackle waiting lists of 48,000.

On Children……

- Consider amalgamation of Child Dependent Allowances and FIS into single programme aimed at child poverty in the context of the forthcoming NESC Report;

- Introduce additional childcare supports – exemption of childcare costs scheme – BIK on supports provided by employer to go – tax exemption to carer in home (in addition to tax relief requested in Budget 2005);

On Providing an Infrastructure of Caring……

- Congress remains seriously disappointed at the lack of progress on the Special Initiative in Sustaining Progress on tackling the caring needs of children, people with disabilities and older people. This is not just a social policy issue – it has strategic implications for economic development as well. Budget 2005 should at least demonstrate intent towards dealing with this issue by providing an initial financial allocation towards the achievement of the objectives of the Special Initiative.

On Foreign Policy……

- The commitments to achieve 0.7 per cent of GNP for overseas development should be formulated in a way that will give incremental increases each year until the target is achieved.

- The recommendations of the Task Force on Emigrants should be implemented (€17m-€37m over 3 years);

Strategic Issues for the Medium Term:

- The capital spending programme should be adjusted to take account of changes in house building which may free up capacity to increase social housing, hospital, schools and other infrastructure requirements without causing inflation and to ensure that employment in construction holds up;

- Demography and changes in stock markets are leading to a crisis in occupational pensions' provision which needs to be addressed:

- Enterprise strategy requires Ireland to invest in skills upgrading of the workforce if we are to maintain economic progress. Likewise barriers to female participation in the labour force (caring responsibilities) require attention;

- Work related insurance benefits have remained static for many years and are becoming irrelevant to peoples' needs. There needs to be a closer linkage between benefits and employment needs. Paid parental leave is a case in point. Without payment parental leave is of little practical value to parents.

- Congress believes that there should be comprehensive funding arrangements covering health provision and caring. In our submission for Budget 2004 we suggested an investigation of an insurance based model. We reiterate that suggestion now.

CONTEXT

The economic background to this year's Budget is far better than had been forecast by most commentators. Economic growth rates for this year and next have been revised upwards. Revenue is pouring into the Exchequer coffers.

The ESRI recently upgraded its forecast of GDP and GNP growth to 5.2 per cent and 4.8 per cent respectively for this year. For 2005, it forecast of GDP and GNP growth of a higher 5.4 per cent and 5 per cent respectively in real terms. It also anticipates that the labour market will "remain tight" with unemployment set to average 4.3 per cent in 2005. Inflation will also be around 2.4 per cent.

There has been a major increase in revenue against the government's own projections – it's over 13 per cent up on the Budget projection. On the other side, public spending is over 4 per cent less than projected in the Budget. The budget had anticipated an Exchequer deficit for close to €3bn for the year, whereas it is likely to be not much more than €0.5bn. This is a dramatic and positive turnabout within the year. The second reduction by the Department of Finance in the borrowing requirement at end of third quarter figures to €1.8bn, down from €2.8bn in the Budget, is very positive.

The excellent state of the public finances is likely to continue next year with the strong growth in the economy. While the revenue from the offshore accounts will not be available again, decisive action by government against evasion and avoidance should bring in further taxes. The ESRI is forecasting a small general government surplus for 2005 against a projected major shortfall in the 2004 Budget.

Ireland's current spending has been much less than total revenue raised in taxes and from other sources. The country has been investing strongly under the NDP. This investment has been mainly in catching up because of under-investment in the past. Congress is of the view that borrowing for capital spending is very worthwhile as it repays for itself in a short time.

The benign economic situation means that the Budget should be neutral to somewhat expansionary. Therefore Congress is advocating that a generous re-distribution of incomes and wealth should be accompanied by the removal of all regressive tax loopholes and exemptions. It is time for a bold approach to taxation.

KEY OBJECTIVES OF CONGRESS' SUBMISSION

The objectives to be achieved in Budgets 2005 and 2006 are clearly set down in the commitments under *Sustaining Progress*. Recognising the range of timescales reflected in the Agreement Congress, is

- **presenting a number of key immediate demands which must be met in Budget 2005,**
- **signalling key priorities which must be addressed over the lifetime of *Sustaining Progress* and**
- **identifying major strategic issues which need to be addressed over the medium term and which have resource implications.**

Sustaining Progress outlines the approach to be adopted vis-a-vis **Public Expenditure** priorities as follows (Para 3.2, p 38.)

> "sustaining public infrastructural investment, both directly and in partnership with the private sector, at a significant level;
>
> the continued targeting of resources and prioritisation of commitments at those most in need, sustaining social protection and inclusion expenditure at a level that addresses the key social deficits by continuing to protect and enhance the living standards of the disadvantaged and improving the delivery of social cohesion objectives;"

In terms of the agreed approach to **Taxation** *Sustaining Progress* specifies:

> "To the extent that there is any scope for personal tax reductions, progress will continue to be made over the three budgets contained within the lifetime of this Agreement towards **removing those on the minimum wage from the tax net, moving towards the target where 80% of all earners pay tax at not more than the standard rate;**
> tax expenditures will be kept under review and will be amended or terminated if necessary in the light of changing economic and social priorities. Government is committed during the lifetime of this Agreement to **on-going review of the scope for widening the tax base**, subject to the key national economic, social and environmental principles identified.
>
> tax policy will take account of the need to promote **environmentally sustainable development**, subject to national economic, social and environmental objectives;
>
> **using the potential of the existing tax credit system to more effectively target changes** and to pursue further improvements in the tax regime over the lifetime of this Agreement, if economic circumstances permit;"

Congress believes it is time for a Budget which is focused on the less well-off in our society. The reappearance of high growth rates and strong employment growth means that most citizens will be protected by the buoyant labour market. Therefore the Budget has to seriously address the needs of those left behind in the 15 years of unprecedented growth.

Congress has expressed concern that due to the disappointing levels of progress achieved in respect of some of the welfare and pension targets or the lack of progress in undertaking new actions to deliver aspects of the commitments under the *Sustaining Progress* Special Initiatives, a significant gap has emerged between what has been achieved to date under *Sustaining Progress* and what remains to be done to achieve these commitments.

Budget 2005 presents an excellent opportunity to make a radical transformation of the circumstances of the less well-off with major tax changes aimed at those on low to middle incomes and in generous welfare increases.

Over the lifetime of *Sustaining Progress* and, looking to the future the Exchequer is in an excellent position to address the growing levels of inequality and to remove the threat of poverty for many. Congress is seeking the on-going commitment to measures to improve access to and the quality of Public Services, provide real increases in income levels of workers, the unemployed, pensioners and those with caring responsibilities. New and developmental initiatives are needed to provide opportunities for low paid workers to enhance skills and gain access to better jobs as well as encourage more effective combination of work-life balance by increasing income and other supports for working parents and relatives.

PART I : CONGRESS PRIORITIES IN BUDGET 2005

Taxation Measures

A guiding principle of taxation is that all income and capital gains from all sources should be treated equally, as far as is possible. Thus taxes on capital gains should be taxed as income, with adjustments. It is recognised that such an approach will take time.

Income Tax

All on the minimum wage and those on average incomes should, inline with the agreement under *Sustaining Progress*, be free of tax and taxed at the standard rate, respectively. No one on the minimum wage should be paying income tax and no one on average industrial earnings (€29,879 in Sept. 2004) should be paying at the top rate of tax.

There has been no indexation of tax bands and credits for 2 years. This has led to major fiscal drag at the expense of taxpayers and to the advantage of the Exchequer. Congress does not accept that the base of 2000/01 is the correct one to revert to, but seeks a generous increase on the existing tax credits and tax bands in the benign economic circumstances (current up to €28,000 @ 20 per cent and balance at 42 per cent). Any basis of indexation should be on movements of wages, not the CPI. An increase in the credit (and bands) which reflects the movement in wages over the past two years and into 2005 is of the order of 22 per cent. Such change should also be biased downwards for the benefit of the lower paid, which will also benefit all taxpayers (single person: €1,520).

While it is likely that the Government will offer a mixture of increases in tax credits and in widening the bands, we would like the emphasis to be on an increase in the PAYE tax credit. The publication of the huge list of tax defaulters, virtually all self-employed or corporates, indicates a need to at least partially compensate the compliant PAYE sector through an increase in this credit. (€1040). A rise in the tax credit of around €550 is needed, biased towards the PAYE credit to lift minimum wage earners out of the tax net.

There should be corresponding increases of the same order as the main personal credits in the other credits - age, widowed, DR etc. with smaller increases for credits which have been more recently revised.

The tax treatment of trade union dues should be further adjusted upwards.

The PRSI allowance has not been increased since 1998, and should now be raised from €127 to €198. And considering that no adjustments have been made since 2000 in the exemption thresholds of either the PRSI or health levies, these now need to be increased in line with earnings movements. No worker earning less that €386 per week should have any liability for the 4 per cent rate of PRSI contribution, and no worker earning less than €479 per week should be subject to the health levy. The estimated cost of health levy measurers is €0.9 million and the other measurers would cost less.

Tax Incentives

The many economic tax “incentives” should be eliminated for both personal and corporate taxpayers. The major tax exemptions appear to be tax breaks on investment on property.

Property Based Tax Avoidance Schemes

The former Minister for Finance indicated that he would terminate many of these schemes, but he changed his mind and extended them. In a prolonged property boom, it is extraordinary that the government continues to use taxpayers’ money to subsidise property investment. The main beneficiaries are mainly persons of “high net wealth” according to official sources. For example, it is extraordinary that the state subsidises wealthy investors in multi-story car parks when car parking in urban areas is now so difficult to find and when the state’s local authorities are ensuring they are filled to capacity with tough clamping enforcement.

These include tax breaks for investors in multi-storey car parks, park and ride schemes, urban renewal, rural renewal, investments for Third Level purposes, hotel holiday camps and cottages allowances, town renewal schemes, over the shop schemes etc. Property based tax shelters should be eliminated.

Artistic Exemption

Congress favours retaining this, with an upper limit. Without an upper limit, it is totally regressive. It should be retained to encourage artistic endeavour by low earning artists.

Bloodstock Industry

This is the year in which the new Minister for Finance should eliminate this iniquitous subsidy. This sector is no longer an infant industry, requiring state financial support in tax expenditures.

BES

The BES is essentially a tax shelter. It should be terminated forthwith. Its value in job creation is dubious.

SSIAs and Pensions

The major SSIA payouts in the next two years, in the order of 10 per cent of national income, requires some innovative action by the government to ensure that the economy is not overheated and its impact on inflation is minimised. Those who wish to increase their pension contributions may do so under existing legislation, where on the basis of age, various proportion of incomes may be invested in pensions, with as much as 30 per cent for those over 50 years of age. Government might consider special tax incentives which could be introduced from 2005 to encourage transfers from SSIAs not longer term savings for retirement ie pensions and PRSAs”. Those who exit SSIAs in 2005 will suffer a penalty and this could be mitigated in a way which encourages long-term savings, particularly with encouragement to joining pension schemes or using proceeds to enhance exiting contributions.

Money from the SSIAs presents an opportunity for enhancing pension coverage, which is low in Ireland. This opportunity could be a once-off inducement to pension provision, aimed especially at those who do not have a pension already, or have inadequate pensions. The possibility of the state also contributing to the individual pension contribution could be considered.

While it is recognised that there is significant support for pension investment, it is also true that the level of occupational/private pensions coverage and the quality of same falls far short of national targets and is a cause for serious concern. There is now good reason to doubt that PRSAs will achieve expectations without some further encouragement from government by way of tax assistance. There may also be a case for better targeting of the existing reliefs on the lower paid including, perhaps, a cap on the income ceiling, currently €254,000 for relief.

Corporation Tax - leading the race to the bottom

Ireland has attempted to lead the race to the bottom in Europe with its low rate of Corporation Tax, but has been beaten at its own game by Estonia with its zero Corporation Tax rate on reinvested profits. No sovereign nation can win this race to the bottom. Congress supports an effective rate of 20 per cent on corporate profits, the same as the standard income tax rate.

Congress is delighted that the government has joined the European Union group which is examine the corporate tax base. We believe that the new Minister for Finance should amend Ireland's stance against tax co-ordination in Europe. Tax co-ordination, where Member States cooperate on tax measures instead of competing in racing to the bottom is not the same as tax harmonisation. They may agree to a ranges for rates and on exemptions. Without tax co-ordination, the Union is in danger of being turned into a mere Market, losing its social and political dimensions.

In the absence of an effective rate of 20 per cent, the banks and companies operating in non-trading sectors with little competition and therefore which enjoy exceptional profit rates, should have a special sur-tax on these profits. Secondly, all tax loopholes and exemptions for the corporate sector, with the exception of legitimate capital allowances, should be terminated in this Budget. This would have the effect of bringing both the nominal and effective rates closer together. Preferably, the 12.5 per cent should become a minimum effective rate, with, in time a progressive increase in the nominal rate to 20 per cent.

In Summary:

- drop Ireland's stance against EU tax co-ordination.
- a sur-tax on exceptional profits of companies operating in areas of weak competition, like banking, some areas of distribution etc.
- all tax loopholes and exemptions for the corporate sector should be terminated forthwith.
- 12.5 per cent should become a minimum effective rate, with, in time, a progressive increase in the nominal rate to 20 per cent.

Capital Taxes

The government has stated that it seeks to encourage and reward work, effort and enterprise. But its taxation polices on unearned capital, unearned wealth, on speculation and unearned incomes contradict this stated policy. While the government talks of espousing an "enterprise" policy, its taxation policies reward inherited wealth, capital gains from speculation etc. with far lower rates than are imposed on work, effort and enterprise. The rates of taxation on capital are lower effective rates than those levied on average industrial workers on their hard earned incomes or on those earned by legitimate business people. For example, capital gains is levied at only 20 per cent while income tax is levied at 42 per cent for most earners.

The leaked report by private consultants to the IDA[1] which is seeking even more tax breaks on capital, on shares, stamp duties etc. for the IFSC should be rejected. If the IFSC is to grow and develop, it has to do so on the strength of the competences of the companies and individuals working there and not on additional artificial tax subsides. There are already 63 tax havens in the world. Ireland should not become the 64th.

Taxes on capital are very low in Ireland. The taxes on inheritances were pitched too low in the first place when they replaced Estate Duties, but they have been progressively reduced in many Budgets. Taxes on inheritances are nil until a very high threshold and then are taxed at a flat rate of only 20 per cent. This means the effective rate is far lower than the nominal. For example, a person can leave 4 children €2 million equally and the effective tax rate on each is a mere 1.7 per cent on this unearned capital.

The Capital Acquisitions Taxes should be raised to reasonable levels. Similar action should be taken on capital gains which had been as high as 60 per cent in 1990, albeit with lower rates for longer periods of ownership.

The Health levy of 2 per cent should be applied to all capital gains, inheritances and other capital transfers as a first step in treating them as similar to income.

Environmental Taxes

Congress is disappointed with the Government's decision on the manner of implementation of the Emissions Trading regime which allows large companies to avoid paying for their emissions, this is not positive for the environment.

Congress calls for a levy of €5,000 tax on the price of SUVs and other large capacity cars of over 2.4 ltrs. France, Sweden and other countries are considering the introduction of such taxes on SUV on environmental grounds and California is imposing high standards on them and other large vehicles. This could be focused on urban SUV owners and there should be tighter action against avoidance of VAT by owners of similar large vehicles posing as "commercial vehicles."

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[1] Irish Times, 20 September 2004.

Capital Expenditure

The government should begin to plan for a new National Development Plan. Much of the expenditure was merely catching up and Ireland is still far behind most European countries in our physical infrastructure. We believe that a priority should be the immediate upgrading of the M50. However, it is imperative that this by-pass of Dublin should be free and Congress is totally opposed to any funding mechanisms which will impose long-term costs on the Exchequer, whatever the apparent short term gain. This is not just a financial perspective but also a competitiveness one.

Capital funding should be provided in this Budget to allow the compulsory purchase (CPO) of the West Link bridge so that the bridge can be open toll-free. Ultimately this bridge will be the property of the people. It will revert to the state in a decade and this proposal simply brings the date forward and thereby boosts competitiveness by eliminating the delays on this important bottleneck. It is remarkable in a modern economy that the premier urban bypass should be tolled and especially that the toll should be largely privately appropriated when the vast bulk of the funding for the M50 was funded by the taxpayer. Congress is not against tolling of roads funded by the private sector, (which, again, the M50 is not) provided there are alternative routes. Congress is totally opposed to the proposal that the toll should be extended as a short-sighted and expensive way to fund the third lane on the M 50, which would compound the issue of the adverse economic impact of delays at the bridge, long into the future.

The new NDP should invest a major proportion of its budget in public transport, but the operators and investment should be overseen by a regulator. The Critical Infrastructure Bill, with a wide definition, must be urgently progressed to deal with infrastructural deficits. The governments emphasis on PPPs must be tempered by the vital issue of “value for money” especially over the longer term and PPPs should generally be <u>additional</u> to the traditional, less expensive state funding for capital projects.

It is noted that a recent report of the Comptroller and Auditor General identified that the cost of building and maintaining schools through a PPP mechanism was 13% more than if the traditional approach had been used.

A major part of the new NDP should focus on upgrading the skills of the workforce at all levels. Investment in education is lagging behind and it must be increased. A major focus should be on Life Long Learning and the virtual elimination of illiteracy. While the returns on educational investment have fallen in the second half of the 1990s “they still remain very substantial” according to the ESRI (Mid Term Evaluation of NDP, Oct, 2003) and the returns of investment are greater than previously estimated through raising participation rates, productivity etc. This report found that the infrastructural deficit required increased investment in the economic and social infrastructure programmes. Public spending on R&D should be vigorously appraised as there are views that spending on life long learning etc can be more beneficial to an economy.

Tax Administration

The administration of the tax system must be kept under constant review. It is the view of Congress that the extension of tax audits should be expanded as the system does uncover evasion and has a deterrent impact.

The revelation in the 2004 Auditor General's Report that 18 individuals had outstanding taxes of €88.9m on share options, demonstrates that the law on executive share options must be tightened up immediately. Several of them could not be located by the Revenue, supposedly "residing abroad" to avoid paying taxes to support the country. This avoidance of taxes by "foreign domicile and residency" must also be tightened up.

The number of defaulters listed by the Revenue is as long as ever, but the number of tax cases going to court, at a mere 6 out of 1,300,000 taxpayers is tiny. This contrasts to the tough treatment of social welfare fraud, which is of much smaller financial significance. The Auditor General's report that tax compliance by the self employed had dropped substantially is a cause for concern and action.

Transparency

Good policy must be informed for adequate information. It is vital that the cost of tax expenditures are fully costed so that their true financial costs can be weighed against any benefits. Congress holds that many tax exemptions are regressive and have little or no social nor economic value to the country. It is clear that the over time, several tax expenditures have runaway in costs to the taxpayer.

The Auditor General in his 2002 Report had advocated that all tax expenditures be fully costed and the cost should be published for analysis. He quoted a Department of Finance report that 28 major tax incentives cost more than €20m each every a year, with a total cost estimated at €7.3m. He listed 32 uncosted schemes in table 1.2 of his report and it urged that they are all costed, especially as the Government's Tax Strategy Group acknowledged the need for better information on these tax breaks.

Benefit In Kind

The interpretation of the Finance Act on the method of application of BIK on shop workers' discount appears to be narrow. This is unfair on these workers.

Taxation of Redundancy, Severance and Lump Sum Payments

The taxation of redundancy payments should be revised to ensure that it reflects the changes in the levels of payments, in earnings movements so is equitable and fair. The basic exemption levels have not been changed for some years and it particularly affects those without pensions.

Improvements to Social Insurance - Maternity Benefit

Maternity Benefit

In the context of the Review of *Sustaining Progress* (Part Two – Pay and the Workplace) Congress secured Government agreement to **restore the level of Maternity Benefit to 80% of 'reckonable' earnings from its current 70%.** However, many women workers will not fully benefit by this commitment as 'reckonable' earnings are currently capped at €332.00 per week or just 60% of the average industrial wage. Congress is seeking to up-date the cap on 'reckonable earnings' to €452 per week (80% of average industrial earnings), and the restoration of Maternity Benefit payment from 70% to 80% of average industrial earnings in Budget 2005.

Improvements to Childcare Supports

Sustaining Progress reflects the targets set down in the NAPS i.e. that Basic Child Income Support - Child Benefit and Child Dependent Allowances combined would be set at 33% - 35% of the minimum adult social welfare payment rate.

Child Benefit

Congress is seeking the implementation of the outstanding phase of improvements in Child Benefit rates in this budget, i.e. €150.00 per month for the first two children and €185 per month for the third and subsequent children. In addition, the principle of universality of the Child Benefit Scheme has been undermined. Congress is also seeking the payment of Child Benefit to children of asylum seekers and migrant workers.

New Childcare Support

The Government is committed to make childcare available to at least 90% of children between 3 years old and the mandatory school age and to at least 33% of children under 3 years of age. In order to achieve this, Congress is seeking the following commitments to tax relief measures designed to assist parents in meeting childcare costs in Budget 2005:

- a minimum tax credit of at least €20.00 per week
- tax relief of up to an initial €50.00 per week for parents using approved and receipted childcare.

Improvements for Pensioners, Carers and Unemployed People

Old Age Pension: Congress has sought in successive Budget Submissions the achievement of the NPPI target (i.e. uprating the (contributory) Pension to 34% of average earnings), and greater progress towards delivery of the Government commitment to improve the basic State Old Age Pension to €200 by 2007. The current Old Age (Contributory) pension stands at €167.30.
Congress is seeking increases of €21.00 in the Pension to €188.30 to achieve the NPPI pension target in Budget 2005.

Lowest Social Welfare Rates: The *Sustaining Progress* commitment is to reach the NAPS benchmark for the lowest social welfare payment of €150 by 2007 (in 2002 terms, as published in 2006). Progress will need to be accelerated in Budgets 2005/6 to ensure this commitment is achieved. In 2002, €150.00 represented 30% of average industrial earnings. The current lowest Social Welfare Rate stands at €134.80. The gap to be addressed is €42.00 over two Budgets. Congress is seeking increases of €21.00 to €155.80 in 2005 and €21.00 to €178.50 in 2006 to achieve the NAPS Benchmark.

Assisting Carers : The improvement of support to Carers is a critical aspect of any developments in this area. The case is widely acknowledged and supported. Congress should seek that the role of caring is formally recognised and that payment is made in respect of Carers of all persons requiring long-term full-time or part-time care.

Congress is seeking :

- the introduction of a non-means tested Continual Care Payment for all Carers in Budget 2005.
- Increases in the level and flexibility of payment of Carer's Benefit (payable to those who take time off work to "care" for others) and the adjustment of the Scheme to permit

Retention of Secondary Benefits : The gross household limit of €317/week has not increased since 1994 and should be adjusted in line with wages.

Improvements in Access to Services

Adequate Resourcing of the new Disabilities Legislation

In the context of the recent publication of the Disabilities Bill, 2004 and the well documented need for investment to improve the level of services, required by people with disabilities and older people, Congress is seeking the adoption of budgetary measures in Budget 2005 to establish the complex infrastructure requirements during 2005 to deliver needs assessments and improvements in services outlined in the Sectoral Plans over a reasonable timescale.

Implementation of the Health Strategy

Slow progress has been realised in implementing the Health Strategy. While funding has increased, on-going Government perception of the future economic uncertainty has inhibited the targeted, strategic investment outlined in that Strategy. In fact, economic factors have been more favourable for some time and Congress believes that increased impetus is now needed to accelerate progress towards the objectives of that Strategy *Quality and Fairness, a Health System for You,* and address the persistent bottlenecks experienced in many parts of the Healthcare service and particularly manifest periodically in A&E hospital care.

Resourcing Access to Healthcare Services

The erosion of the coverage of health costs through the medical card scheme is of growing concern to Congress. Medical card coverage is at an all time low at 29.5% of the population. The cost of healthcare is a heavy burden for many people dependent on social welfare and low and middle income families. Congress is seeking immediate increases in the income thresholds to access healthcare services. Increases should take account of the recommendations of the Medical Card Review Group and the specific needs of children, older people and people with disabilities. The current threshold is (€142.50 (single) and €206.50 (married)). Congress was involved in the Review and continues to support the recommendation that the Medical Card Income Guidelines be index linked and increased in line with the Medical Card Review (in 2002 terms) as follows:

- single person to be increased to not less than €178 per week;
- couple to be increased to €355.48 per week;
- children under 16 to be increased to €53.60 per week;
- other categories to be increased accordingly;

Improving Access to Education

Significant budgetary commitments are required to tackle educational disadvantage through a more co-ordinated and strategic approach. While Congress is aware of the on-going review of Education Programmes in this regard, the outcome is now overdue and the adoption of a package of measures to achieve progress towards tackling disadvantage must begin in Budget 2005. Among the priority issue to be addressed are:

- earlier interventions at primary level and more targeted intervention at secondary level.
- Increased resources to reduce class sizes to achieve the Government objective of average class sizes for children under 9 years to be below the international best practice of 20:1
- an immediate expansion of the numbers of teachers for pupils with special educational needs, in accordance with the implementation of the Education for Persons with Special Educational Needs Act, 2004.
- Access to funding for adults part-time learners to support their participation and achieve greater levels of progress towards the objective of lifelong learning.

PART 2 : **KEY ISSUES TO BE ADDRESSED OVER LIFETIME OF *SUSTAINING PROGRESS***

Housing

The proposal in *Sustaining Progress* that 10,000 additional social housing units should be built has not been delivered. The Review of *Sustaining Progress* lists six initiatives on this and none are inspiring. Only 163 affordable houses were built in 2003 (IT 3/9/04). Only 500 social and affordable houses will be built in 2004, 1000 in 2005 and 2000 in 2006 according to this report. Most builders were paying money in stead of building affordable homes and using stockpiles of planning permission predating the 20 per cent clause.

It is imperative that all steps be taken to speed up the process of the supply of social and affordable housing.

There are 48,000 people on the waiting lists for social housing and this should be a priority of the Capital Expenditure Programme.

Alleviating Costs of Childcare for Working Parents.

Introduction of New Childcare supports

To meet the childcare targets previously stated, Congress has proposed the introduction of initial tax relief measures in the Budget 2005. The work of the *Sustaining Progress* Working Group, established to develop a range of measures to examine ways of offsetting the escalating childcare costs of working parents, as well as address the supply and demand issues particular to working parents, must be accelerated. Congress has proposed a number of options for consideration which include :

- ***Exemption for Childcare Costs Scheme*** - This scheme would operate under the general tax treatment of what are known in the Revenue Commissioners as "salary sacrifice arrangements". This would operate on a similar basis to the existing exemption for monthly/ annual bus or train passes.

- ***Treatment of Benefit in Kind on childcare supports provided by employers -*** At this stage in the development of Childcare facilities and in view of the growing demand and cost for childcare places, childcare supports provided by employers should not be classified as Benefit in Kind for taxation and PRSI purposes.

- ***Tax Treatment of Individual Care Givers*** : In recognition that a substantial amount of childcare is provided on an individual basis and in the care givers own home Congress has recommended measures to encourage those childminders who provide childcare in their own homes to provide these facilities on a formal basis.

Congress is seeking the early completion of the work of this Group and Government response to their findings as a matter of urgency.

Sustaining Progress Special Initiative to address Child Poverty

The elimination of Child Poverty is one of the strategic issues highlighted by Congress and is identified as a key issue within the Ten *Sustaining Progress* Special Initiatives. Congress is signalling the need for achievement of the following commitments within the lifetime of *Sustaining Progress* :

Child Dependant Allowance & Family Income Supplement

Though there was some improvement in FIS in Budget 2003, Child Dependent Allowances have been frozen in recent years. Work has commenced by NESC on the study to merge CDAs and FIS into a single programme that would provide child income support to low income families, with a withdrawal rate at a low level to minimise disincentive effects.

Sustaining Progress Special Initiative - Care Infrastructure

Sustaining Progress also identifies a range of targets which would contribute to the development of a Special Initiative on Care in respect of People with Disabilities and the Elderly.

Tackling non-income, SERVICE-related Care Needs into the future.

The tackling of care needs of children, people with disabilities and the Elderly has been sought in successive Budgets Submissions by Congress and is the subject of the *Sustaining Progress* Care Initiative. Assessing the separate, though linked, agendas of care in respect of each of these groups of people is the central objective so that a planned, sustainable allocation of additional finance can be made over a suitable timescale.

Congress is seriously disappointed at the lack of progress on this Initiative. Though good work was completed in the Mercer Report in respect of elder care needs, more comprehensive and integrated requirements still needs to be assessed and planned for.

Congress is seeking to establish targets to:

- **Eliminate day care, respite and residential care outstanding need (waiting lists)**
- **Development Home Care, including health, occupational and social services**
- **Establish, resource and enforce better standards of Care, especially in day and residential care.**

Congress is seeking an **initial additional financial allocation** towards the achievement of these objectives in Budget 2005.
Following assessment of the cost implications of the Disabilities Bill, the work by the Department of Health on Standards of Care and the consideration of the Mercer Report Congress is seeking the compilation of an **Investment Blueprint** which indicates the likely resource needs and allocations towards the Care Infrastructure over the coming decade.

Improving income supports for People with Disabilities

The Interdepartmental Working Group established to examine the feasibility of the introduction of a Cost of Disability Payment to offset the extra costs associated with having or acquiring disability. The Working Group accepted the conclusions arising from a research Report by Indecon / NDA that :

> *"there are additional costs associated with having a disability in Ireland and that these costs can vary by disability type and by severity of disability. In addition, the Working Group considers that age and social circumstances can also have an impact on the costs of disability"….but "that a national system of individual needs assessment is a prerequisite for any Cost of Disability Payment system based on severity of disability".*

Based on the findings of the study and the proposed introduction of a National system of Needs assessment arising from the Disabilities Bill, 2004, Congress is seek the introduction during 2005 of measures to offset the extra costs associated with disability comprising of a package of adequate and appropriate secondary benefits, (e.g. equipment, transport/travel, fuel, food and clothing, telephone additional medical and care assistance). This package would then be individualised, enhanced in accordance with the findings of the individual needs assessment and tailored accordingly.

Sustaining Progress Special Initiative on Tackling Educational Disadvantage

Reaping the benefits of past investment in education has been widely acknowledged as a key contributor to the growth of the Irish Economy. Equally, future growth relies on continuing, focused and targeted investment.

Congress believes that while significant work has been undertaken / is underway to review structures and programmes, reform the curriculum, establish the infrastructure to progress the concept of Lifelong learning, further progress and the resolution of significant funding issues is urgently needed to ensure the capacity and potential of the diverse population of Ireland is developed, as in the past, to contribute to the future economic, social and cultural life of Irish Society.

We need to develop curricular and learning models which capture different forms of intelligence and diverse abilities of different pupils and to provide broader effective access to learning among disadvantaged students and students of diverse backgrounds.

In **Budgets 2005 and 2006**, Congress is seeking the adoption of a package of measures to achieve progress. Significant budgetary commitments are required to tackle educational disadvantage through a co-ordinated strategy. Specifically,

- Access to funding for adults part-time learners to support their participation and achieve greater levels of progress towards the objective of lifelong learning.
- earlier interventions at primary level and more targeted intervention at secondary level.
- Increased resources to reduce class sizes to achieve the Government objective of average class sizes for children under 9 years to be below the international best practice of 20:1
- an immediate expansion of the numbers of teachers for pupils with special educational needs, in accordance with the implementation of the Education for Persons with Special Educational Needs Act, 2004.
- The automatic retention by a child of Special Needs designation upon transfer from primary to post-primary. This will eliminate the lengthy hiatus that currently occurs while an application for designation is being processed
- Expansion of the School Completion Programme (or similar) as a vehicle for an integrated, targeted approach to tackling disadvantage
- Reversal of the cuts in and curtailment of the Second Level Support Service with particular reference to the Leaving Certificate Applied programme
- The provision of a dedicated fund to the Institutes of Technology, similar to that of the University sector, to enhance higher education access and completion by students from four target groups, socio-economically disadvantaged background, the traveler community, those with special needs and the international community.
- An increase in the budget for capital expenditure in primary and post-primary schools.

Sustaining Progress Special Initiative on Long-term Unemployment

Community Employment and Services

Congress has expressed concerns over the treatment of Community Employment in recent years. Community Employment has been and remains a a valuable Active Labour Market Intervention Programme. Many valuable services including health and social services once provided through Community Employment have now been lost and need to be replaced.

Congress is seeking continued and improved investment in Community Employment. While Congress endorses the need to establish clear progression routes for participants, such mechanisms, reflecting an outcome which provides for appropriate and effective supports has not yet been established.
In the meantime, Congress condemns the loss of this employment resource as well as the valuable services provided and is seeking :

- no further cuts and a reversal of current policy to provide investment in a Community Employment model which has a better focus on progression measures and addresses the question of appropriate supports and

- investment in replacement services, especially health and social services.

Overseas Development Assistance/Tobin Tax:

At this juncture it is the view of Congress that Ireland's ODA target of reaching 0.7 per cent of GNP by 2007 lacks credibility. The ODA/GNP ratio in fact fell back from 0.41per cent in 2002 to 0.40 per cent in 2003 and will show little or no improvement in 2004. In the context of GNP growth of about 5 per cent in 2004, 2005 and beyond the amount of money necessary to reach 0.7 per cent by 2007 would effectively require increases of €150m to €200m per year. Congress is asking that government recommit to achieving the 0.7 per cent target and to also commit to doing so by earmarking special increases to apply in each year until the target is reached.

In general it would appear that efforts to deal with indebtedness of poor countries and achieve the Millennium Development Goals are foundering. In this context the concept of a "Tobin Tax" on capital transaction should be revisited. There are now 63 tax havens in the world siphoning off at least $100 billion in tax revenue. This is morally intolerable in the face of such destitution in Africa and South Asia.

Emigrants:

Section 2.5 of *Sustaining Progress* commits government to implementing the recommendations of the Task Force on Emigrants Abroad. While some progress has been made it falls short of what is in the report. The money required (€17m-€20m over 3 years) is not significant relative to the total budgets and should be made available. The emigrant community most in need are now elderly and if we do not act soon it will be too late to make a difference.

PART 3 : STRATEGIC DEVELOPMENTAL ISSUES INTO THE FUTURE

Re-orientation of the Construction Sector

Construction is a vital part of the Irish economy accounting for 19 per cent of GDP and 11 per cent of employment. It is still an expanding sector with almost 15,000 new jobs created between the second quarters of 2003 and 2004. The most labour intensive part of the construction industry is house building with 80,000 new houses built this year.

It is not likely that this level of house building will continue against a demand estimated at 40,000 houses per year. At some stage in the next year or so it is likely that capacity will begin to become free in the sector.

Congress advocates that government should plan for this by increasing the Public Capital Programme to take advantage of the available capacity. This would allow Ireland to eliminate its deficits in social housing, hospitals, schools and other infrastructure without provoking an unacceptable increase in construction inflation. At the same time it would help to avoid a hard landing in the construction sector. In general, Congress advocates a more interventionist role for government in the whole area of land management and sustainable settlement and notes that NESC is shortly to publish a comprehensive report on this theme.

Skills Upgrading

It is clear from both the Wim Kok report on the Lisbon Strategy and the Enterprise Strategy Group report that skills upgrading and Life Long Learning are pivotal to industrial strategy. While there seems to be a broad political consensus on R&D investment there is less evidence of a willingness to put resources into skills enhancement. It is an area where we spend less than our EU neighbours. Yet research by the University of Ottawa suggests that investment in skills in the workplace brings higher productivity to an economy than increasing university graduates. The review of the NDP undertaken by ESRI also indicates a strong rate of return on investment in social capital.

Congress urges government to take a more proactive approach to this area and to introduce more rigorous evaluation of the returns to investment in R&D etc by comparison to upskilling.

Demography and Pensions

Ireland is fortunate in being in a better position than the rest of Europe as regards demography. We have come through a period of rapid economic expansion during which our dependency ratio improved significantly. However, as the population ages and life expectancy increases and fertility remains static, the dependency ratio will decline again – perhaps in 10 to 15 years. Budgetary policy should seek to plan for this and, indeed, the creation of the National Pensions Reserve Fund was an effort to do so. But the problem is more extensive than we have yet allowed for two reasons:

- That inadequate cover of occupational pension schemes and the huge erosion of value in existing schemes;
- The inadequacy of our care infrastructure to deal with a significant elderly population. The EU Commission estimates that in Europe generally ageing will add between 5 and 8 percentage points to public expenditure.

The issue of an infrastructure of caring is covered in a separate section of this report but urgent action is necessary on occupational pensions. This should address:

- The need to protect workers from pension fund insolvency;
- Employer power to change from Defined Benefit to Defined Contribution Schemes;
- Possible selling of annuities by NTMA to minimise administrative costs to individuals;
- Profiteering by pensions' industry in charging up to 20 per cent per annum to manage AVC's;
- A reorientation of support through the tax system from high worth individuals to low paid people on PRSA's, possibly through capping existing reliefs;
- The possibility of being able to "Top Up" state pensions;
- Targeting incentives for people to commit mature SSIA's to pensions.

Improvements in the value of Benefits in Social Insurance

Restoring PRSI Benefits – reduction in entitlement and linkage to income

Congress is increasingly concerned about the evident erosion of the role, operation and value of the Social Insurance System to workers.

In Budget 2004, the Minister for Social Welfare introduced changes to reduce entitlements of workers to Unemployment Benefit, Disability Benefit and Health and Safety Benefit without any prior consultation with Congress.

Carer's Leave qualifies for PRSI related benefits, but the level of benefit is not income related and is pitched so low the take up of the Scheme is very poor.

Maternity Benefit, which was established as an income related system has not kept pace with the growth in average industrial earnings and the 30% withdrawal rate in lieu of tax has not kept pace with the reduction in tax rates. The maximum rate of reckonable earnings (stipulated by Statutory Regulation) was 93% of gross average industrial earnings in 1991 and had fallen to 60% of GAIE over the following decade. Adoptive Leave benefit is paid at the same rate as Maternity Benefit

Congress is seeking a Review Process to examine the key issues associated with bringing PRSI Benefits back in line with some linkage to income.

Parental Leave

Parental Leave is now the only form of "caring leave" which is unpaid i.e. does not qualify for a PRSI related benefit in Ireland. Maternity, Adoptive and Carer's Leave all qualify for PRSI related benefit. The majority of EU Members States provide payment for parents taking parental Leave to care for their children i.e. Austria Belgium, Denmark, Finland, France, Germany, Italy, Luxembourg and Sweden. Gordon Brown has announced the intention in the UK to provide for paid Parental Leave for up to one year.

Research has shown that only 20% of eligible workers have taken Parental Leave since its introduction and 84% of that number are women. It is clear that the lack of payment is a serious barrier to uptake.

Congress is seeking the introduction of a PRSI related Parental Leave Benefit in the context of the forthcoming Parental Leave legislation.

Alternative Funding of Health Care System

While the considerable work in recent years set down a Health Strategy and outlined significant legislative and other infrastructural changes to deliver a Health Reform Programme, Congress believes the issue of appropriate and sustainable funding has yet to be tackled. An examination of the overall funding of the Health Services has not been undertaken since 1989. There have been dramatic changes since then and many theorists have referred to Health Spending as a 'black hole'.

A recent critique of this theory which explored "*how some of the black hole arguments are exaggerated and based on inappropriate comparisons*" was published in the **ESRI Quarterly Commentary (Autumn, 2004 by Maev Ann Wren).** The paper explores the uneven allocation and pace of expenditure which clearly presents difficulties for planners and administrators, concludes that "*despite Ireland's relatively low spending base, steep increases in current health spending over the period 1997-2002 could not deliver full value against a backdrop of capital deficiency*" and argues that "*current and capital spending on Health still need to increase to fund the 2001 Health Strategy but that this should be done in a planned and paced manner*" within the framework of the reform progamme.

Specifically, there is a clear and urgent necessity to provide the 3,000 beds outlined in the health strategy and to rescind the embargo on public sector employment.

Under *Sustaining Progress*, Congress recently made a submission on the Mercer Report which examined the case for a PRSI based funding system to support elder care into the future. Congress criticised the narrow parameters of Care model examined in the Report and put forward the case of a broader – based discussion / examination of the future funding of comprehensive Health and Social Care Services.

Congress is proposing a return to the question of financing care needs, and the ideas put forward in the Congress 2004 Pre-Budget Submission.

The idea of a funding the Irish health service under a Social/Health Insurance System is not a new idea and there are a number of ways in which such a system could be structured. Congress recognises that this is a complex issue and is not a matter that could be addressed in this Budget. However, Congress is again calling on Government to examine how such a system would (i) be structured and (ii) funded.

This examination should be carried out in tandem with the proposed developments following the consultation process with the Social Partners on the long term funding of elder care under *Sustaining Progress*.