National Competitiveness Council Bulletin
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National Competitiveness Council

CAPITAL INVESTMENT ESSENTIAL TO SUPPORT COMPETITIVENESS

- **Failure to increase investment in economic infrastructure will see Ireland fall further behind key competitors in terms of the stock and quality of infrastructure which is required to support sustainable economic growth**
- **The forthcoming Capital Investment Plan provides an opportunity to reverse recent cuts**
- **Public capital expenditure must be prioritised to support enterprise growth and competitiveness and should be done on a sound evidence-based approach made available for public scrutiny**
- **Private sector investment in essential infrastructure, including energy and waste management, is important**
- **Competitiveness priorities include investment in urban and inter-urban transport and high speed broadband**

INTRODUCTION

Ireland's economic growth and sustainable employment depends on the ability of businesses to trade successfully in increasingly competitive global markets. The availability of **competitively priced world-class infrastructure** (e.g., energy; telecoms; transport – road, public transport, airport, seaports; waste and water) and related services **is critical to support competitiveness**[1] which in turn determines the sustainability of living standards, employment, wage rates and the financing of public services.

CURRENT POLICY CONTEXT

There was a **significant reduction in public capital expenditure over the course of the economic downturn** from approximately €9bn in 2008 to €3.4bn in 2013, although weaker demand for infrastructural services (e.g. reduced road traffic, declines in energy demand), partially mitigated the impact of this reduction.

As the Government considers its **Capital Investment Plan** for the period 2016 to 2020[2] the Council believes that there is now **a need to increase public capital expenditure and that public investment in infrastructure is prioritised** and targeted at those areas that can have the greatest positive impact upon Ireland's competitiveness.

There is also a vital private sector dimension to consider as many economic infrastructure areas receive little if any Exchequer funding – including energy, telecoms, waste and air and sea ports infrastructure. Investment plans with a long-term focus are in place or at an advanced stage of development – key plans include:

- Energy: Grid 2025, which outlines the electricity network investment plans to 2025, is currently under review and it is important that investment to address key competitiveness gaps is prioritised and the investment is efficient. Eirgrid and its French transmission system equivalent (RTE) are currently undertaking a joint feasibility study to investigate the development of an interconnector between the south of Ireland and north-west France.
- Water: Irish Water's 25 year water services strategic plan which is to be approved shortly needs to prioritise investment at least cost to address current gaps for enterprise, and to secure future enterprise investment at key sites.
- Telecoms: Accelerated investment is required across the country to meet the needs of enterprise. The supporting public investment strategy for areas where the market will not deliver needs to be published quickly.

HOW IRELAND PERFORMS

Overall, Irish investment fell by more than 50% between peak levels in 2007 and 2013, coinciding with the global recession, although gross fixed capital formation began to recover in 2014 (Figure 1)[3].

Growth in investment resumed in 2014 and further growth is forecast for 2015, and is likely to be driven primarily by increases in private sector investment.

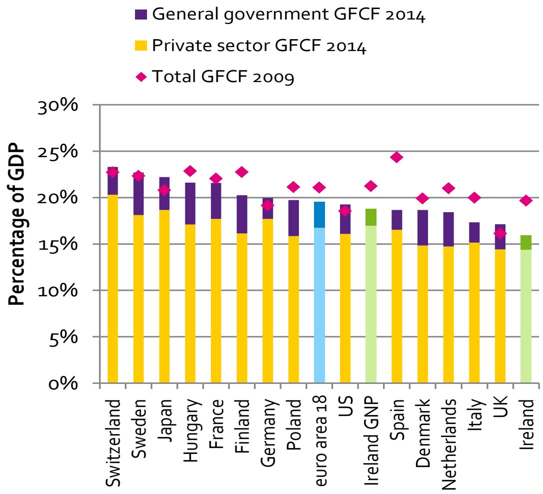
1 Capital expenditure is not just about physical infrastructure. The development of the new Science Strategy and the development of a new National Skills Strategy provide an important context for any consideration of capital investment levels and programmes. These issues, however, are beyond the scope of this Bulletin.

2 Land transport accounts for the bulk of publicly-funded economic infrastructure. A Strategic Framework for Investment in Land Transport is currently being developed: in August 2014, the Department of Transport, Tourism and Sport published a draft strategic framework for consultation.

3 Gross fixed capital formation (GFCF) measures the value of acquisitions of new or existing fixed assets by the business sector, governments and households less disposals of fixed assets. GFCF is a component of GDP, and illustrates how much of the new value added in the economy is invested rather than consumed.

In GNP terms, Irish private investment (17%) exceeds the euro area average (16.8%), while **public investment (1.8%) is significantly below average (2.8%)**.

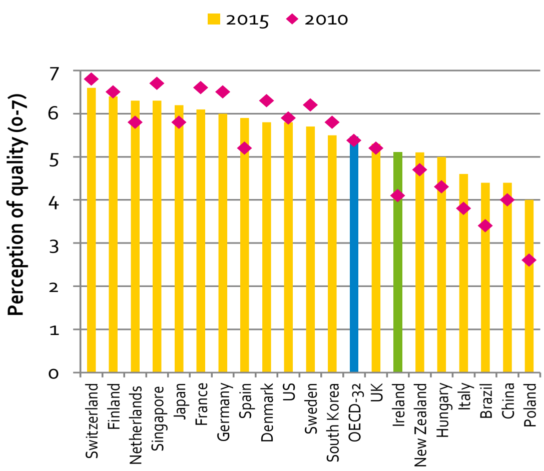
Figure 1: Gross fixed capital formation (GFCF), current prices (% GDP), 2014



Source: European Commission, AMECO Database

In terms of the impact of this investment, a range of international benchmarks, mostly qualitative in nature, are available comparing the stock and quality of infrastructure in Ireland against our key competitors[4]. The WEF's Executive Opinion Survey assesses perceptions about the quality of Ireland's infrastructure vis-à-vis perceptions in other countries (Figure 2).

Figure 2: Perception of the quality of overall infrastructure, 2015



Source: World Economic Forum

Ireland's score has improved (from 4.1 to 5.1) since 2010, but perceptions of quality in Ireland still lag the OECD average (5.5) and are well behind leading performers. In the IMD's World Competitiveness Yearbook 2015, Ireland's infrastructure ranking dropped 4 places to 24th.

THE POLICY CHALLENGES

Increasing investment

As the economy returns to strong growth, the Council believes that it is time to reverse some of the cuts to the capital expenditure budget imposed over recent years. Capital investment (as a percentage of GDP) should at least mirror levels in competitor countries that are at a similar stage of infrastructural development.

Boosting investment would help address competitiveness bottlenecks, and would increase potential growth in the medium term, while also increasing aggregate demand in the short term. Investment can also contribute towards unlocking the potential of the regions to grow.

Government must also be ambitious in availing of external sources to fund infrastructure (e.g. the European Investment Bank, and institutional lenders such as pension funds etc.).

Leveraging private sector investment

The State has a critically important role to play in promoting private-service providers to improve infrastructure capacity and deliver more cost-effective, higher-quality services to business users.

We need to ensure the right policy framework is put in place to stimulate investor confidence in long-term projects (e.g. regulatory and planning certainty), and ensure the supply chain has the certainty and tools to deliver effectively.

Evaluating, prioritising and targeting investment

Well-targeted capital investment can influence economic growth performance by boosting long run potential output; and improving productivity and competitiveness, through efficiency gains and reduced average production costs.

Investment must be prioritised to maximise impact - while the short-term stimulus effect of capital spending is welcome, it is critical that the current review prioritises investment based on long-term competitiveness gains.

There must be **clarity regarding the evaluation process** for prioritising capital spending. This must be **evidence-based**, using a **sound methodology** based on benefit-cost principles. The **methodology, evaluation and results should be available for public scrutiny**.

Targeted investment should anticipate future demands to the greatest extent possible. The development of a new national spatial strategy should also support prioritisation. The range of infrastructures to support competitiveness includes:

- *Urban Transport:* An efficient and integrated national transport system with adequate capacity and service

4 Perception-based indicators do not necessarily reflect the progress made in recent years, or take relativities between countries into account.

levels is vital to move goods and people quickly, effectively and in environmentally sustainable ways. We need to **enhance urban mobility in Dublin**[5] **and the other city regions** by ensuring existing resources are focused on providing public transport services that best meet changing customer needs and provide high quality access to, from and within the main cities.

- *Inter-urban Transport:* A number of **bottlenecks in the road network should be addressed** to capture the full benefits of the previous investments in road and other infrastructures, including: improving access between and around the main regional urban centres (in particular the completion of the Cork and Galway ring roads, the N20 Croom-Mallow and the N28 Ringaskiddy-Cork upgrades and the N21 Ballyvourney-Macroom bypass); enhancing connectivity to the north west gateways of Sligo and Letterkenny; and enhancing access to the south west which is critical to support the tourism sector.
- *Intelligent infrastructure*: The delivery of **intelligent infrastructure** offers significant competitiveness benefits for the economy in terms of increased productivity, reduced costs and sub-supply opportunities[6]. This public capital programme review should explicitly outline the potential for intelligent infrastructures to maximise the value of existing infrastructure and its potential to enhance the value of future investments.
- *Telecommunications:* Enhancing Ireland's international and national connectivity is critically important to support the future needs of existing and new companies in ICT, digital media and other data intensive sectors. We must prioritise the investment required to deliver the Government's commitment to provide fibre based broadband services to all parts of the country. In particular, we need to **accelerate through market reform and where necessary State investment the availability of competitively priced, advanced broadband services** that offer significant upload capability (including widespread availability of symmetric services for enterprise), low latency and low contention ratios in all urban centres where they are not or will not be available in the short term. Mandatory sharing of specified infrastructures (e.g. mobile phone masts) should be considered.
- *Water services:* A strategic medium to long-term approach to investment planning is required that **balances the need for quality water services with the need for cost competitiveness**. In the short term, it is vital that the current water services constraints in Dublin are addressed urgently to ensure that the region has sufficient supply to meet future demand. To support regional development, Ireland needs to deliver sufficient capacity to support expansion plans and new developments, especially in the large regional urban centres. In particular, providing the required water services capacity and quality levels in enterprise agency strategic sites and business parks and strategic development zones should be prioritised. There needs to be a strong focus on reducing leakage nationally[7].
- *Housing:* In the context of rapidly increasing rents and residential property prices, **an expansion in the supply of housing is urgently required**, particularly in Dublin. This will help to alleviate pressures elsewhere in the housing market. Innovative approaches to funding (including off-balance sheet funding) should be developed, and mechanisms to harness private institutional and charitable investment in social housing should be considered, in addition to enhanced direct provision. The establishment of the Housing Supply Coordination Task Force for Dublin (outlined in *Construction 2020*), with an immediate focus on addressing supply issues represents a key milestone in addressing the housing challenge.

While energy and waste infrastructure is not funded directly from public capital expenditure budgets, public policy has a critical role to play in ensuring that the private sector invests in a timely manner to ensure the current and future needs of enterprise are met.

- *Energy:* Investment is required to ensure adequate regional/local spare **network capacity**, especially in the main urban centres. Greater **interconnection** is also a priority.
- *Waste management:* A range of **integrated and diversified waste treatment options** are required along the waste hierarchy.

Further Reading: The policy positions summarised herein are drawn largely from the *Competitiveness Challenge 2014*. See **www.competitiveness.ie**. The NCC reports to the Taoiseach on key competitiveness issues facing the Irish economy. This Bulletin has been issued by the Chair and Secretariat.

5 Within Dublin, delivery of the actions outlined in the National Transport Authority's investment plan for the Greater Dublin Area should be prioritised to fully capture the benefits of existing infrastructure (e.g. Luas Cross City and the re-opening of the Phoenix Park Tunnel).

6 "Intelligent infrastructure" is the application of technology to deliver a more effective and efficient infrastructure service. See Forfás, Intelligent Infrastructure: Delivering the Competitiveness Benefits & Enterprise Opportunities, October 2011

7 Water will be privately funded in the medium term when Irish Water becomes self-funding.